



## Audit and Governance Committee

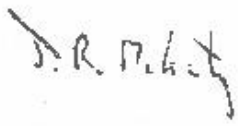
**Meeting: Monday, 12th March 2018 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP**

<b>Membership:</b>	Cllrs. Gravells (Chair), Melvin (Vice-Chair), Stephens, Morgan, Wilson, H. Norman and Smith
<b>Contact:</b>	Democratic and Electoral Services 01452 396126 <a href="mailto:democratic.services@gloucester.gov.uk">democratic.services@gloucester.gov.uk</a>

## AGENDA

<b>1.</b>	<b>APOLOGIES</b>  To receive any apologies for absence.
<b>2.</b>	<b>DECLARATIONS OF INTEREST</b>  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.
<b>3.</b>	<b>MINUTES</b> (Pages 7 - 14)  To approve as a correct record the minutes of the meeting held on 22nd January 2018.
<b>4.</b>	<b>PUBLIC QUESTION TIME (15 MINUTES)</b>  To receive any questions from members of the public provided that a question does not relate to: <ul style="list-style-type: none"> <li>• Matters which are the subject of current or pending legal proceedings, or</li> <li>• Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers</li> </ul>
<b>5.</b>	<b>PETITIONS AND DEPUTATIONS (15 MINUTES)</b>  To receive any petitions and deputations provided that no such petition or deputation is in relation to: <ul style="list-style-type: none"> <li>• Matters relating to individual Council Officers, or</li> <li>• Matters relating to current or pending legal proceedings</li> </ul>
<b>6.</b>	<b>AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN</b> (Pages 15 - 20)  To consider the Action Plan.
<b>7.</b>	<b>MANAGEMENT UPDATE AS TO ACTIONS TAKEN IN RESPECT OF THE RECOMMENDATIONS MADE WITHIN THE PROJECT SOLACE LIMITED</b>

	<p><b>ASSURANCE REVIEW</b> (Pages 21 - 26)</p> <p>To receive an update from the management team on the recommendations made within the Project Solace Limited Assurance review.</p>				
8.	<p><b>TREASURY MANAGEMENT STRATEGY</b> (Pages 27 - 60)</p> <p>To consider the report of the Head of Policy and Resources in relation to the Treasury Management Strategy.</p>				
9.	<p><b>ANNUAL RISK MANAGEMENT REPORT 2017/18</b> (Pages 61 - 82)</p> <p>To consider the report of the Head of Audit Risk Assurance providing Members with an update on the Council's risk management activities from 2017/18.</p>				
10.	<p><b>INTERNAL AUDIT ACTIVITY 2017/18 - PROGRESS REPORT.</b> (Pages 83 - 100)</p> <p>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 2017/18.</p>				
11.	<p><b>INTERNAL AUDIT PLAN 2018/19</b> (Pages 101 - 124)</p> <p>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.</p>				
12.	<p><b>ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE (CHAIR'S REPORT)</b> (Pages 125 - 138)</p> <p>To consider the Chair's Annual Report.</p>				
13.	<p><b>AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME</b> (Pages 139 - 140)</p> <p>To consider the Work Programme.</p>				
14.	<p><b>EXCLUSION OF THE PRESS AND PUBLIC</b></p> <p><b>To resolve:-</b></p> <p>"That the press and public be excluded from the meeting during the following item of business on the grounds that it is likely, in view of the nature of business to be transacted or the nature of the proceedings, that if members of the press and public are present during consideration of this item there will be disclosure to them of exempt information as defined in Schedule 12A of the Local Government Act 1972 as amended".</p> <table border="0"> <tr> <td><b>Agenda Item No.</b></td><td><b>Description of Exempt Information</b></td></tr> <tr> <td>15</td><td>Paragraph 3: Information relating to the financial or business affairs of any particular person (including the Authority holding that information).</td></tr> </table>	<b>Agenda Item No.</b>	<b>Description of Exempt Information</b>	15	Paragraph 3: Information relating to the financial or business affairs of any particular person (including the Authority holding that information).
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15.	<p><b>AMEY KPIS AND PENALTIES PROVISIONS</b> (Pages 141 - 144)</p> <p>To consider an update from the Corporate Director on KPIs and Penalty Provisions agreed with AMEY.</p>				
16.	<p><b>DATE OF NEXT MEETING</b></p> <p>Monday 23<sup>rd</sup> July 2018 at 6.30pm in the Civic Suite, North Warehouse.</p>				

A handwritten signature in dark ink, appearing to read 'J. R. McGinty', is positioned above the printed name.

**Jon McGinty**  
**Managing Director**

**Date of Publication: Friday, 2 March 2018**

## 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 –

<u>Interest</u>	<u>Prescribed description</u>
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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### **Recording of meetings**

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Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

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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.

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## **AUDIT AND GOVERNANCE COMMITTEE**

**MEETING** : Monday, 22nd January 2018

**PRESENT** : Cllrs. Gravells (Chair), Melvin (Vice-Chair), Stephens, Morgan, Wilson, H. Norman and Smith

### **Others in Attendance**

Jonathan Lund, Corporate Director  
Theresa Mortimer, Head of Audit Risk Assurance  
Bob O'Brien, Customer Service Transformation Manager  
Jon Topping, Head of Policy and Resources  
Simon Byrne, Democratic and Electoral Services Team Leader

**APOLOGIES** : Cllr. D. Norman MBE

### **45. DECLARATIONS OF INTEREST**

45. There were no declarations of interest.

### **46. MINUTES**

46.1 The minutes of the meeting held on 20 November 2017 were approved and signed as a correct record save for correcting minute 35.2 to state Councillor Wilson rather than Councillor Morgan.

### **47. PUBLIC QUESTION TIME (15 MINUTES)**

47.2 There were no public questions.

### **48. PETITIONS AND DEPUTATIONS (15 MINUTES)**

48.2 There were no petitions or deputations.

### **49. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN**

49.1 The Committee considered the Action Plan and comment was invited.

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- 49.2 Jonathan Lund (Corporate Director) advised that a briefing note on how external bodies' accounts were dealt with by the Council following a financial contribution had not yet been provided due to its potentially complex nature. He advised that there were Service Level Agreements with organisations where there was a regular contribution as well as a large number of ad hoc contributions such as grants, subsidised leases etc. He further advised that a comprehensive briefing could be very lengthy and invited the Committee to rescope their request.
- 49.3 Councillor Stephens commented that the intention was to examine bodies in receipt of significant contributions and suggested a £50k starting point.
- 49.4 **RESOLVED –**
- (1) That the Action Plan be noted, and
  - (2) That a briefing note on external bodies who receive a contribution from the Council of at least £50k be provided prior to the next Committee meeting.

**50. KPMG ANNUAL GRANTS AUDIT REPORT**

- 50.1 The Chair welcomed Darren Gilbert (KPMG) who presented the Annual Grants Audit Report. He highlighted an issue around Housing Benefit subsidy claims in that the Council's benefit section had misclassified some overpayments. This had been brought to KPMG's attention when sample testing had highlighted some errors. He outlined the methodology of testing and that the analysis was reported to the Department for Work and Pensions.
- 50.2 Mr Gilbert noted that it was prudent to treat the error rate with a degree of caution a very small sample was used and it was common to encounter errors in local government. Upon a query from Councillor Morgan, Mr Gilbert confirmed that the error rate was related to the value of claims (rather than the number of claims) based on the previously discussed small sample size. He recommended training at internal quality assurance level in order to feed back to staff.
- 50.3 Jon Topping (Head of Policy and Resources) advised that training had been given to benefits staff and 10% of all claims were checked as part of a mandatory process.
- 50.4 In response to Councillor Stephens querying what this would mean in terms of the subsidy itself and lost income, Mr Gilbert advised that the DWP had not yet examined it and may extrapolate from the error rate or not. The Head of Policy and Resources stated that any loss would be reported to the Committee and that it was possible an error could be reported as such through lack of evidence. This would then be rectified.
- 50.4 The Chair questioned whether a larger sample size would be of benefit. Mr Gilbert advised that the methodology conducted by KPMG was mandated by the DWP and could not be altered. He suggested that one method by which

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to examine it in greater detail would be to look at team performance. In response to a query from Councillor Melvin, Mr Gilbert confirmed that the error rate was a matter of incorrectly classifying an error rather than a benefit being incorrectly claimed.

**50.5 RESOLVED –**

- (1) That the KPMG Annual Grants Audit Report be noted, and
- (2) That the Committee be provided with an update on benefit error sampling.

**51. KPMG TECHNICAL UPDATE**

51.1 The Committee considered KPMG's Technical Update and comment was invited.

51.2 The Chair proposed that, in future, time be put aside at the beginning of the meeting to consider the technical aspects of the Committee's work.

51.3 Councillor Stephens stated that the Committee required detailed advice on the Property Investment Fund. Jon Topping (Head of Policy and Resources) advised that the finance team awaited the relevant government report and that matters would have to be put to Council. Councillor Stephens sought assurance that no monies from the Property Investment Fund be expended prior to the outcome of the government's consultation. The Head of Policy and Resources stated that any investment decisions would be in line with current legislation.

51.3 In response to a question from the Chair as to whether there was any indication of a time frame for knowing what Central Government intended, the Head of Policy and Resources advised that this would be at the end of January or early February and that, following this, the Committee could examine the implications for the strategy. The Chair suggested that this be considered by the Committee in March.

**51.4 RESOLVED –**

- (1) That the Audit and Governance Committee note the Technical Update from KPMG, and
- (2) That the Property Investment Strategy be considered at the next meeting of the Committee.

**52. KPMG EXTERNAL AUDIT PLAN**

52.1 Darren Gilbert of KPMG provided an overview of the external audit plan and highlighted key areas of focus. He advised that KPMG's responsibilities would be unchanged

52.2 Mr Gilbert stated that there were significant audit risks, particular with regard to the valuation of property and pensions. He did, however, advise that these were commonly looked at by external auditors in any event.

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- 52.3 He informed the Committee that a new 'faster close' process had been introduced and draft accounts would be prepared for the end of May with full accounts available from the end of July. He also advised that the external audit plan had provided for an examination of the new performance management system.
- 52.4 Councillor Wilson enquired as to whether there was a significant risk in relation to 'faster close' and whether there was any material the Committee was required to examine prior to the publication of accounts. Mr Gilbert confirmed that this was not necessary and that there were no concerns with regards to a faster close.
- 52.5 Jon Toppping (Head of Policy and Resources) advised that the accounts would be consider at the Committee's July meeting and that preparatory work and valuations had been completed earlier.

**52.6 RESOLVED –**

That the Audit and Governance Committee note the KPMG External Audit Plan.

**53. INTERNAL AUDIT ACTIVITY 2017/18 - PROGRESS REPORT**

- 53.1 The Committee considered the report which updated members of the Internal Audit activity progress in relation to the approved Internal Audit Plan 2017/18. Theresa Mortimer (Head of Audit Risk Assurance) informed the Committee that the Audit team was on target to complete the Internal Audit Plan in accordance with the service's KPI's. She advised that limited assurance had been provided with regard to Project Solace as a result of it being in the process of transformation. She further advised that Solace's governance arrangements were to be redefined. In light of this, it was recommended that the relevant Cabinet Member and senior manager attend the next Committee meeting to provide an update on progress made with the implementation of the agreed recommendations.
- 53.2 Councillor Stephens shared his view that whenever the Council entered partnership arrangements, that they had rarely included performance management measures. He stated his belief that KPIs should be at the forefront of any such arrangement.

**53.3 RESOLVED –**

That the Audit and Governance Committee note the Internal Audit Activity Progress report and requested that the relevant Cabinet Member and senior manager attend the next Committee meeting to provide an update on progress made with the implementation of the agreed recommendations in relation to Project Solace.

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**54. STREETCARE CONTRACT MANAGEMENT 12 MONTHLY MANAGEMENT UPDATE**

- 54.1 The Committee considered the report on Streetcare Contract Management: 12 monthly management update, presented by Jonathan Lund (Corporate Director).
- 54.2 The Corporate Director advised that the one outstanding item at the last Committee meeting was the confirmation of KPIs. He confirmed that these were now in place as well as financial penalties. He further stated that these financial penalties would increase with every occasion of failure.
- 54.3 Councillor Richard Cook (Cabinet Member for Environment) shared the view that it was extremely positive that Officers had succeeded in achieving the inclusion of penalties in the contract some ten years after its inception.
- 54.4 Councillor Stephens commented that it was positive that this had been achieved while the Chair asked that the agreed KPIs and penalties be circulated.
- 54.5 **RESOLVED –**
- (1) That the Audit and Governance Committee note the report, and  
(2) That the agreed KPIs and penalties be circulated among the Committee.

**55. UPDATE ON LOCAL GOVERNMENT ASSOCIATION PEER REVIEW**

- 55.1 Jonathan Lund (Corporate Director) provided a verbal update on the recent Local Government Association Peer Review. He informed the Committee that the initial feedback provided to Officers did appear on the agenda for a recent Overview and Scrutiny Committee meeting.
- 55.2 The Corporate Director stated that in comparison to the previous Peer Review, the feedback had been broadly positive. A draft had been produced and the final report was being drawn up. He advised that the Overview and Scrutiny Committee had deferred the item until the final report had been produced with detailed recommendations.
- 55.3 **RESOLVED –**
- (1) That the Audit and Governance Committee note the update, and  
(2) That the Local Government Association Peer Review be considered upon publication of the final report.

**56. ANNUAL MONITORING REPORT**

- 56.1 The Committee consider the Annual Monitoring Report, presented by Jonathan Lund (Corporate Director). He drew to the Committee's attention the fact that complaints related to planning had been omitted and that there had been 18 complaints over the course of the year placing it in seventh

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position. He further noted that a significant number of complaints had been about waste yet formed approximately 0.04% of all collections.

- 56.2 The Corporate Director advised that some which appeared as complaints were not as some were requests for action. He stated that this was anticipated to improve following the introduction of the new performance management system.
- 56.3 With regard to complaints about waste, the Corporate Director advised that Officers were in discussions with Amey about the possibility of Amey handling complaints which would assist the Council's contact centre.
- 56.4 In response to a question from Councillor Morgan, the Corporate Director advised that a written answer would be provided in order to clarify what is provided by the Streetscene team and Neighbourhood Services.
- 56.5 Councillor Morgan asked if it was possible to compare complaints from previous years. The Corporate Director advised that complaints had not necessarily been collected consistently over previous years. Bob O'Brien (Customer Service Transformation Manager) noted that there may have been double counting previously. He advised that his team were undertaking a review of the Council's complaints policy including reviewing the categorisation of complaints.
- 56.6 Councillor Stephens shared his view that, whilst data had been provided, it did not reveal anything particularly substantive. He queried whether there were trends that were highlighted and what had service areas put in place to rectify these. He further stated that it would be helpful to receive a breakdown of complaints in the three areas which had received most complaints and any action taken.
- 56.7 The Customer Service Transformation Manager, in response to a query from the Chair, advised that he would provide an update on what will be done for comparison.
- 56.8 Whilst noting the volume of complaints in some areas, Councillor Norman asked how many contacts there had been between the public and the contact centre in order to examine the ratio of contacts to complaints. The Corporate Director confirmed that this information would be provided.
- 56.9 In relation to Amey handling complaints related to them, Councillor Wilson noted that the waste contract was between the Council and residents. He stated that residents may not want their details given to Amey and sought assurance that details would not be passed on. The Corporate Director advised that there would be a need to negotiate an arrangement for this possibility. The Chair queried how the Council could monitor complaints if Amey was dealing with them. The Corporate Director responded that no decision had been made and that, were this arrangement to be put in place, the contract variation would have to reflect solving these concerns.

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- 56.10 Councillor Norman suggested that it may be preferable to have Amey deal with service requests initially so as to provide for a smoother implementation. Councillor Stephens expressed his concern with regard to the cost of a contract variation and that he wanted detail. The Corporate Director confirmed that a variation would incur additional costs but that this could be negotiated. He also advised that if an updated report to Cabinet could be accelerated, it would be.
- 56.11 With regards to complaints that were referred to the Ombudsman, Councillor Wilson highlighted that, in previous years, complaints were rarely upheld. The Corporate Director advised that twelve referrals was not particularly unusual but that four being upheld was. He stated that this showed the Council may have been taking too rigid an approach at the second stage of dealing with complaints.
- 56.12 The Chair suggested that compliments and good feedback could be recorded. The Customer Services Transformation Manager advised that this would be possible.
- 56.13 With regard to two complaints related to Members, the Corporate Director advised that sections of the Code of Conduct were in a variety of locations and it was intended that this would be simplified. He further advised that there would be a briefing on the Code of Conduct in the near future.

56.14 **RESOLVED –**

That the Audit and Governance Committee note the Annual Monitoring Report.

**57. ANNUAL GOVERNANCE STATEMENT IMPROVEMENT PLAN 2016/2017**

- 57.1 The Committee considered the Annual Governance Statement Improvement Plan. Theresa Mortimer (Head of Audit Risk Assurance) advised that relevant governance matters and actions taken to date to address them were outlined in the position statement. She stated that all identified matters and progress will be further reviewed as part of the forthcoming annual review of governance arrangements operating within the council 2017/2018 and where appropriate, these issues will be carried forward into the Annual Governance Statement Improvement Plan 2017/2018.

57.2 **RESOLVED –**

That the Audit and Governance Committee note the progress made with addressing the improvement actions within the Annual Governance Statement Improvement Plan 2016/2017.

**58. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME**

- 58.1 The Committee considered the Work Programme.

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**58.2 RESOLVED –**

That the Audit and Governance Committee note the Work Programme.

**59. DATE OF NEXT MEETING**

12<sup>th</sup> March 2018 in the Civic Suite, North Warehouse at 6.30pm

**Time of commencement: 6.30 pm hours**

**Time of conclusion: 7.55 pm hours**

**Chair**

# AUDIT AND GOVERNANCE COMMITTEE – 4 March 2018

## ACTION PLAN

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
<b><u>Actions arising from meeting held on 20 November 2017:</u></b>					
35	Provide a briefing note on how external bodies' accounts are dealt with by the Council following a contribution from the Council.	See attached.	G	March 2018 Committee Meeting	JL
<b><u>Actions arising from meeting held on 22 January 2018:</u></b>					
50	The Committee to be provided with an update on benefit error sampling in relation to the Grants Audit Report	Head of Policy and Resources to provide a verbal update.	A	March 2018 Committee Meeting	JT
51	Following Central Government's consultation on property investment, provide an examination of the consultation's implications for the Council's Property Investment Strategy.	Central Government has completed its consultation process and will require the Strategy to be revised through the Committee cycle. The Head of Policy Resources will provide a verbal update.	A	Update at March 2018 Committee Meeting.	JT
54	KPIs and financial penalties agreed with AMEY to be circulated to the Committee.	Complete. See agenda item 15.	G	Prior to March 2018 Committee Meeting	JL
56	Confirm how many contacts there had been between the public and the contact centre in order to examine the ratio of contacts to complaints.	In progress.	A	March 2018 Committee Meeting	BO
56	Provide a written answer in order to clarify complaints related to the Streetscene team and Neighbourhood Services	See attached	G	March 2018 Committee Meeting.	JL.

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**Briefing note on how external bodies' accounts are dealt with by the Council following a contribution from the Council from the Corporate Director**

The Council provides financial support and assistance in a variety of ways and in differing degrees and amounts. The control and audit regimes will vary and every effort is made to make the arrangements proportionate. As a consequence small grants will attract fewer formal control mechanisms. The more significant grant or financial contributions will usually be the subject of reports to Cabinet and will often be governed by a funding agreement of some sort. The Council's ownership of Marketing Gloucester Ltd and its share in the ownership of Gloucestershire Airport are governed by company law and formal Memoranda and Articles of Association, Member's Agreements etc. The Council's two-year commitment to the Gloucester Culture Trust was detailed in a formal report to Cabinet and Council and the Trust makes an Annual Report to the Council (the next is due in June 2018). Formal Service Level Agreements govern arrangements for a number of other agencies providing support, advice and advocacy services. Partnership agreements are in place for the delivery of other services

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### **Complaints related to the Streetscene team and Neighbourhood Services**

'NMS NEIGHBOURHOODS' is an old category based on the previous Council organisation structure. The Customer Service Transformation Manager states that it aligns most closely to services now delivered by the City Improvement & Environment team in the Place service. 'Street Scene' isn't a specific complaint category, but the same applies.

NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	CNCLPOL	COUNCIL POLICY	234	e.g. Unhappy at grass cutting schedule or trial
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	FAILSERV	FAILURE TO PROVIDE SERVICE	27	e.g. Didn't liaise with Amey over fixing street sign?
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	GENERAL	GENERAL COMPLAINT	26	e.g. Any other NMS Neighbourhoods complaint (No
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	INACTN	INACTION BY THE COUNCIL	12	e.g. Grass cutting not completed
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	FAILENT	FAILURE TO PROVIDE SERV - AMEY	6	e.g. Grass cutting not completed
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	ACTTKN	ACTION TAKEN BY THE COUNCIL	4	e.g. website info not updated over Christmas collec
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	STDSERE	STANDARD OF SERVICE - AMEY	3	e.g. Spillages of recycling left after collections
NMS NEIGHBOURHOODS	COMPLAINT	COMPLAINT	STDSEROT	STANDARD OF SERVICE OTHER	2	e.g. lack of grass cutting/ maintenance

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## **Report to Audit and Governance Committee 12<sup>th</sup> March 2018 on actions taken in relation to key recommendations made in the audit report relating to the audit of Project Solace**

**Lead Officer: Anne Brinkhoff – Corporate Director**

### **Presenting officers:**

- **Ruth Saunders – Community and Wellbeing Manager.**
- **Lloyd Griffiths – Head of Communities.**

### **Summary of Audit Area**

Anti-Social Behaviour (ASB) covers a wide range of activity that can have a significant negative impact on people's lives on a daily basis, affecting them as an individual, their community or their environment. It is widely recognised that single agencies cannot tackle ASB alone and there is a need to work in partnership to address these issues.

In Gloucester, Project Solace, a multi-agency team between Gloucester City Council (GCC) and Gloucestershire Constabulary brings agencies together to deal with ASB involving homeowners, private landlords and tenants, and ASB in public places. Project Solace is currently in a process of transition, as GCC took over the operational day-to-day running of Project Solace (from Gloucester City Homes) in 2016. Cheltenham Borough Council (CBC) is due to join the partnership from January 2018 and structural and staffing changes have taken place within the team to accommodate a wider partnership, called Urban Solace.

### **Summary Terms of Reference of the Audit**

This audit reviewed the Council's role within the Project Solace partnership to provide assurance that:

- The partnership's financial governance and reporting arrangements are in place and effective; and
- ASB is being handled appropriately in line with the Project Solace objectives and service level agreement.

Areas for improvement and development will be considered in the transition to the new and extended partnership model.

### **Risks**

- ASB is not dealt with effectively between agencies causing distress to individuals affected by ASB and reputational damage to the Council.

## Key Findings

- The Project Solace partnership (GCC, GCH and Gloucestershire Constabulary) was formed in April 2010, with existing ASB teams co-locating under the management of GCH. However, in 2016 the involvement of GCH ceased and the management of Project Solace moved to GCC, with staff co-locating within the council offices.
- Referrals to Project Solace can be made through a variety of channels (e.g. from the Police, individual reports via the Council's Customer Service Contact Centre, or from other Council departments).
- Project Solace also delivers Street Aware (operational aspect of Gloucester's Safe and Attractive Street Policy, relating to tackling begging in Gloucester city centre).
- Key staff are aware of and refer to Project Solace; however there may be opportunities to expand engagement activity to ensure appropriate links with other schemes designed to tackle ASB, street begging and homelessness are in place.
- In April 2017 Cheltenham Borough Council (CBC) Cabinet approved a proposal for Cheltenham to become a member of the partnership. At the point of Cheltenham joining the partnership it will become known as Urban Solace.
- This expansion receives support from the Police and Crime Commissioner (PCC) in the form of £22,500 per annum for a period of four years. This forms 50% of the costs of a Senior ASB Officer / Solace Team Leader who will be responsible for the management of Solace teams at both GCC and CBC. The additional sum is being funded equally by each Council (£11,250).
- Ongoing delays have been experienced regarding the implementation of Solace and it is now anticipated that the extended Solace partnership will be in place early in the New Year (January / February 2018) although definitive timescales are still to be confirmed. Consequently there is less line management performance oversight currently available for the existing arrangement due to staffing structural changes.
- There is no Governance Board in place for the current Project Solace arrangement; however the new arrangements will see a Governance Board with clear terms of reference and membership to commence in spring 2018.
- A Solace Decision Making Forum meets at regular intervals and is attended by representatives of all partners. This meeting focuses on

the development of Solace, and whilst progress has been made towards Solace implementation, there remain key actions outstanding including:

- The Senior ASB Officer / Solace Team Leader commencing in post;
  - The completion and approval of the Service Level Agreement and key information including funding, governance, role and commitment of each partner, performance monitoring / review arrangements, security and confidentiality, budget and billing, communications, business continuity and complaints;
  - The Information Sharing Agreement being agreed and signed by all partners; and
  - The development of the Solace ASB, Hate Crime and Incident Policy and key staff guidance documents.
- 
- Quality assurance sampling is not carried out to ensure cases are being dealt with appropriately and areas for improvement or areas of best practice identified.
  - Performance reporting is not generally carried out on Project Solace activity or presented to management, the exception being the 'Street Aware' aspect which was reported to Overview and Scrutiny Committee 6 months following implementation.
  - Key performance indicators and other measurable outcomes to be reported on are still to be agreed between partners. Updates to the PCC are a condition of funding.
  - Future funding arrangements enabling the continuation of Solace (post the PCC grant funding contribution) are unknown at this stage and will need to be discussed and agreed by all partners.

## **Action taken as at 05.03.2018 or proposed**

### **Recommendation 1**

The Solace Team Leader to identify and liaise with other schemes working to reduce ASB to ensure knowledge and information is shared and appropriate cases are referred to Solace.

### **Management response**

The incoming Solace Team Leader plans to visit other Local Authorities delivering partnership projects around ASB to increase learning and the effectiveness of Solace for Gloucester and Cheltenham.

The Solace Officers are currently working with the police to trial a 'queuing system' which will help officers to prioritise and for the Force Control Room to refer appropriate cases to us.

Reviewing best practice and processes will be an ongoing task for the Team Leader when she is in her full time role.

### **Update: 05.03.2018**

The Solace Manager commenced in post at the beginning of February 2018 but benefitted from a period of handover stretching back to Autumn 2017. Through membership of RESOLVE and being linked in to the Christine Graham organisation Solace staff will receive up to date guidance and best practice from across the Country. The Solace Team Leader represents the team at several key multi agency partnership meetings including Street Aware Gloucester, Restorative Gloucestershire, Gloucester Stronger & Safer Partnership and the Aston Project/Great Expectations. In addition members of Solace including the Team Leader would form part of multi-agency case specific meetings. It is through this wide range of forums that the work of Solace is publicised and in turn we can understand how other organisations operate so that synergies can be identified.

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### **Recommendation 2**

A Governance Board should be formed as soon as possible. Attendees from each partner organisation should be of a similar managerial level and be suitably removed from the day to day operational Solace activity in order to provide independent review, scrutiny and partnership decision making.

### **Management response**

Once Solace goes live as a project across Gloucester and Cheltenham (planned for the end of January), the current 'Decision Making Forum' members will become the Governance Board. Membership will be Ruth Saunders, Community Wellbeing in Gloucester, Sarah Clark, Public and Environmental Health Team Leader for Cheltenham and Tim Wood, Inspector for Gloucestershire Constabulary.

Update: 05.03.2018

A Governance Board is now in place and met on 23<sup>rd</sup> February for the first time. An information sharing agreement was signed off at this meeting and final changes are being made to a Service Level Agreement and which it is aimed to sign off at the next Governance Board meeting. Structure charts will be provided on the evening for further information.

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**Recommendation 3**

The Solace Team Leader should undertake quality assurance sampling to ensure cases are being dealt with appropriately, any areas for improvement, and areas of best practice identified. Key themes could be reported periodically to the Governance Board (when in place).

**Management response**

This had happened previously but due to the project not having a full time Team Leader this was not possible. Regular sampling and quality assurance will be carried out by the incoming Team Leader as part of their role.

Update: 05.03.2018

The Solace Team Leader holds regular performance meetings with their staff at which a selection of cases are discussed and reviewed in order to support officers but also to ensure consistency across the team. In addition all cases are reviewed by the Team Leader before they are closed down and where enforcement action is proposed.

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**Recommendation 4**

A performance reporting regime agreed upon by all partners should be introduced and performance information should be reported the Governance Board (once formed).

**Management response**

Training has been arranged with staff from the company who provide the information management service (HUB) used by Solace. HUB are in the process of setting up standard performance reports at the click of a button and in-depth reporting is being developed with Solace team leaders. A piece of work is being undertaken throughout January to improve the use and data input/analysis of HUB, so that more accurate reporting can take place. Performance will also be recorded through management of the Solace Team Leader by Gloucester City Council and their Covalent system. The SLA specifies that performance reporting will take place at each governance board meeting; this will be part of the Solace team leader role once in post.

Update: 05.03.2018

A suite of KPIs are currently being developed for sign off at the next Governance Board meeting with all partners aligned in respect of their thinking.

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**Recommendation 5**

A partnership risk register is developed / reviewed at future Governance Board meetings.

**Management response**

A risk register will be developed by and be overseen by the Governance Board, with input from the Solace team leader.

Update: 05.03.2018

Risk is a standard item on the Governance Board agenda and initially discussion has been around data sharing and business continuity. A partnership risk register is currently being developed and will be taken to the next Governance Board meeting for discussion and sign off.



<b>Meeting:</b>	<b>Cabinet Briefing</b>	<b>Date:</b>	<b>14<sup>th</sup> February 2018</b>
	<b>Cabinet</b>		<b>7<sup>th</sup> March 2018</b>
	<b>Audit &amp; Governance Committee</b>		<b>12<sup>th</sup> March 2018</b>
	<b>Council</b>		<b>22<sup>nd</sup> March 2018</b>
<b>Subject:</b>	<b>Treasury Management Strategy 2018/19</b>		
<b>Report Of:</b>	<b>Cabinet Member for Performance and Resources</b>		
<b>Wards Affected:</b>	<b>All</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>Yes</b>
<b>Contact Officer:</b>	<b>Jon Topping, Head of Policy and Resources</b>		
	<b>Email: jon.topping@gloucester.gov.uk</b>	<b>Tel:</b>	<b>396242</b>
<b>Appendices:</b>	<b>1. Treasury Management Strategy 2018/19</b>		

## 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) 2018/19 £120m
  - b) 2019/20 £180m
  - c) 2020/21 £180m
- (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-year as a result of the property deal at Kings Walk. The Council entered into a long term lease arrangement which has resulted in a liability on the balance sheet. In doing so it now

receives rental income which more than matches the charge on the lease liability. Significant cash sums were also received to be held in reserve for future expenditure. These have resulted in an increase in the level of money available for Council investment purposes.

- 3.2 A portion of reserves have been invested in a property fund managed by CCLA Investment Management Ltd. CCLA is compliant with FSA and other Financial Regulations. This is a new form of investment for the City Council, made possible by the cash inflow, and generates a competitive rate of return within the Council's accepted risk parameters.
- 3.3 Following the introduction of the European Regulations MIFID 11, from January 3<sup>rd</sup> all local authorities have to elect up to professional status in order to continue to have access to the stock market and a variety of investment instruments. This involved undertaking rigorous financial testing in order to be granted Professional status. Had the council not taken the decision to opt up, a reduction to 'Client' status would have curtailed our investment opportunities. The following Counterparties have agreed the council's decision to opt up to 'professional' status from the 3<sup>rd</sup> January:-
  - TP ICAP Plc Brokers
  - BGG Brokers LP (RP Martin)
  - Tradition Brokers
  - Skipton Building Society
  - CCLA Investment Management Ltd

For all other counterparties that the council deals with, MIFID 11 was not a Requirement because of the types of investments held.
- 3.4 The 2018/19 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.
- 3.5 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.
- 3.6 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.

- 3.7 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.
- 3.8 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.
- 3.9 Central Government has recently introduced new guidance on investments. The guidance includes a statement that “Strategies presented to Council or equivalent before 1 April 2018 but relating to 2018-19 and future financial years do not need to include all of the additional disclosures required by this edition of the guidance should it not prove practical or cost effective to do so. If a local authority chooses not to include the new disclosures in its 2018-19 strategy, it must include the disclosures in full in the first Strategy presented to full Council after 1 April 2018”. In line with this requirement no significant changes have been made to this strategy but the disclosures will be introduced in full for the 2019/20 strategy.
- 3.10 The recently revised Prudential Guide introduces the concept of Proportionality which is to be implemented in full. This is defined as “Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organization and the organization should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions”. This concept has implications for the Property Investment Strategy and will decisions relating to the strategy will be taken in this context. The affordable borrowing limits to be set include the £80m agreed for the Property Investment

#### **4.0 Alternative Options Considered**

- 4.1 The following option has been considered:

There is the potential to “lock in” borrowing for capital purposes on longer term rather than the current short term approach. This remains an option as long term borrowing rates are at historically low levels. However, the difference between the cost of the cost of short term loans should interest rates change but at the moment short terms rates are approximately 0.30% whereas long term rates are approximately 1.9% (25 years plus).

#### **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 under borrowed 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 Asset Based Community Development (ABCD) Considerations**

- 8.1 This report notes the Treasury Strategy of the Council. There are no ABCD 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 2018/19

#### 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.

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.”*

#### 1.2 Reporting requirements

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.

### **Capital Strategy**

In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. From 2019/20 local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level 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 report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

The Authority will work throughout the 2018/19 financial year on the production of a Capital Strategy which will be presented to Members for discussion and approval in line with the budget setting timetable for the 2019/20 financial year.

## **1.3 Treasury Management Strategy for 2018/19**

The strategy for 2018/19 covers two main areas:

### **Capital issues**

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

### **Treasury management issues**

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- 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 2018/19

The training needs of treasury management officers are periodically reviewed and staff have attended training and seminars during 2017/18 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.

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.

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

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 £20m added in 2018/19 and £60m added in 2019/20 to reflect the impact of the Property Investment Strategy including the Kings Quarter project.

<b>Capital expenditure £m</b>	<b>2016/17 Actual</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
Policy & Resources	0.933	0.674	1.102	0.150	0.150
Place	6.565	5.862	23.755	60.160	0.160
Communities	0.308	1.001	1.082	0.529	0.529
Culture & Trading	0.070	0.000	0.045	0.000	0.045
<b>Total</b>	<b>7.876</b>	<b>7.537</b>	<b>25.984</b>	<b>60.839</b>	<b>0.884</b>

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.

<b>Financing of capital expenditure £m</b>	<b>2016/17 Actual</b>	<b>2017/18 Estimate</b>	<b>2018/19 Estimate</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>
Capital receipts	2.655	1.029	1.586	0.265	0.310
Capital grants	0.560	6.508	1.426	0.574	0.574
Capital reserves	0.000	0.00	0.00	0.00	0.00
Revenue	0.000	0.00	0.00	0.00	0.00
<b>Net borrowing need for the year</b>	<b>4.661</b>	<b>0.00</b>	<b>22.972</b>	<b>60.00</b>	<b>0.00</b>

The above financing need excludes other long term liabilities, such as leasing arrangements which already include borrowing instruments. This 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 £61.841m of CFR relating to the King's Walk lease.

The Council is asked to approve the CFR projections below:

£m	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>Capital Financing Requirement</b>					
<b>Total CFR</b>	<b>25.671</b>	<b>86.703</b>	<b>108.645</b>	<b>167.099</b>	<b>164.504</b>
<b>Movement in CFR</b>	<b>4.190</b>	<b>61.032</b>	<b>21.942</b>	<b>(1.215)</b>	<b>(1.264)</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	4.651	0.00	22.972	60.00	0.00
Kings Walk Lease Liability	0	61,841	(0.190)	(0.222)	(0.256)
Less MRP/VRP and other financing movements	(0.461)	(0.809)	(0.840)	(1.324)	(2.339)
<b>Movement in CFR</b>	<b>4.190</b>	<b>61.032</b>	<b>21.942</b>	<b>58.454</b>	<b>(2.595)</b>

### 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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Fund balances / reserves	5.922	23.701	19.291	17.554	17.579
Capital receipts	1.920	1.506	1.755	4.340	4.030
Provisions	1.544	1.500	1.500	1.500	1.500
Other (Grants)	6.585	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>
<b>Total core funds</b>	<b>15.971</b>	<b>28.707</b>	<b>24.546</b>	<b>25.394</b>	<b>25.109</b>
Working capital*	(7.156)	(7.000)	(7.000)	(7.000)	(7.000)
Under/over borrowing**	(5.907)	(9.442)	(8.574)	(7.250)	(5.911)
<b>Expected investments</b>	<b>2.908</b>	<b>12.265</b>	<b>8.972</b>	<b>11.144</b>	<b>12.198</b>

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

### 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 2017, 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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>External Debt</b>					
Debt at 1 April	15.287	19.764	15.420	38.420	98.420
Expected change in Debt	4.477	(4.344)	23.000	60.000	(1.000)
Other long-term liabilities (OLTL)	0	61.841	61.841	61.651	61.429
Expected change in OLTL	0	0	(0.190)	(0.222)	(0.256)
Actual gross debt at 31 March	<b>19.764</b>	<b>77.261</b>	<b>100.071</b>	<b>159.849</b>	<b>158.593</b>
The Capital Financing Requirement	<b>25.671</b>	<b>86.703</b>	<b>108.645</b>	<b>167.099</b>	<b>164.504</b>
Under / (over) borrowing	<b>5.907</b>	<b>9.442</b>	<b>8.574</b>	<b>7.250</b>	<b>5.911</b>

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 2018/19 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	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	35	45	105	105
Other long term liabilities	65	65	65	65
Total	100	110	170	170

**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	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Debt	40	50	110	110
Other long term liabilities	70	70	70	70
Total	110	120	180	180

### 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													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to

equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

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 and emerging market developments. Such volatility could occur at any time during the forecast period.

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

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- The Bank of England takes action too quickly 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.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4

March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.

- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

### **Investment and borrowing rates**

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

### 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 2018/19 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

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

The reasons for any rescheduling to take place will include:

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

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

All rescheduling will be reported to Cabinet at the earliest meeting following its action. The Council only has one long term loan outstanding at the current time and there is no current rescheduling planned.

### **3.7 Municipal Bond Agency**

It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLb). This Authority may make use of this new source of borrowing as and when appropriate.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy

The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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.

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.

Investment instruments identified for use in the financial year are listed in appendix 5.4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

### 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:

- 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.

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	£5m	5yrs		
Banks				purple	£5m	2 yrs		
Banks				orange	£5m	1 yr		
Banks – part nationalised				blue	£5m	1 yr		
Banks				red	£5m	6 mths		
Banks				green	£5m	100 days		

<b>Banks</b>	<b>No colour</b>	<b>Not to be used</b>	
<b>Limit 3 category – Council's banker (where "No Colour")</b>	<b>Barclays Bank</b>	<b>£100 %</b>	<b>1 day</b>
<b>Other institutions limit</b>	<b>A-</b>	<b>£5m</b>	<b>6 months</b>
<b>DMADF</b>	<b>UK sovereign rating</b>	<b>unlimited</b>	<b>6 months</b>
<b>Local authorities</b>	<b>n/a</b>	<b>£100%</b>	<b>1yrs</b>
<b>Property Funds</b>	<b>n/a</b>	<b>£10m</b>	
<b>Gloucestershire Airport</b>	<b>n/a</b>	<b>£1.75m</b>	<b>X</b>
	<b>Fund rating</b>	<b>Money and/or % Limit</b>	<b>Time Limit</b>
<b>Money Market Funds CNAV</b>	<b>AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Money Market Funds LVNAV</b>	<b>AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Money Market Funds VNAV</b>	<b>AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	<b>Dark pink / AAA</b>	<b>£5m</b>	<b>liquid</b>
<b>Ultra-Short Dated Bond Funds with a credit score of 1.50</b>	<b>Light pink / AAA</b>	<b>£5m</b>	<b>liquid</b>

### 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. 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).

#### Investment returns expectations.

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

- 2017/18 0.50%
- 2018/19 0.75%
- 2019/20 1.00%
- 2020/21 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:

	<b>Now</b>
2017/18	0.40%
2018/19	0.60%
2019/20	0.90%
2020/21	1.25%
2021/22	1.50%
2022/23	1.75%
2023/24	2.00%
Later years	2.75%

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

**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 treasury indicator and limit:

<b>Maximum principal sums invested over 365 days</b>			
<b>£m</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
Principal sums invested over 365 days	£2m	£2m	£2m

#### 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
<b>Maximum</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>

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 2018/19 – 2020/21 AND MRP STATEMENT

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	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Policy & Resources	0.933	0.674	1.102	0.150	0.150
Place	6.565	5.862	23.755	60.160	0.160
Communities	0.308	1.001	1.082	0.529	0.529
Culture & Trading	0.070	0.000	0.045	0.000	0.045
<b>Total</b>	<b>7.876</b>	<b>7.537</b>	<b>25.984</b>	<b>60.839</b>	<b>0.884</b>

### 5.1.2 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 are applied as MRP.

MHCLG issued revised guidelines around MRP on February 2<sup>nd</sup> 2018. They take effect from 1<sup>st</sup> April 2019 and so will be referenced in the next MRP policy statement. There is not expected to be a material change in the MRP requirement for the Council as a result of the change.

### 5.1.3 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.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	3.18%	11.94%	11.27%	16.98%	25.88%

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

The increase in 2017/18 is a result of two factors. Firstly, the cost of borrowing relating to the purchase of the vehicles for the new recycling fleet. This is offset by savings in the contract cost for Amey. Secondly 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 in 2019/20 and 2020/21 are related to sums borrowed for the Investment Strategy and Kings Quarter

#### 5.1.4 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:

<b>Maturity structure of fixed and variable interest rate borrowing 2018/19</b>		
	<b>Lower</b>	<b>Upper</b>
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 2017 – 2020

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
<b>Bank Rate</b>													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
<b>5yr PWLB Rate</b>													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
<b>10yr PWLB Rate</b>													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
<b>25yr PWLB Rate</b>													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
<b>50yr PWLB Rate</b>													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

PWLB forecasts are based on PWLB certainty rates.

## 6.2 ECONOMIC BACKGROUND

**GLOBAL OUTLOOK.** **World growth** looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.

In addition, **inflation prospects are generally muted** and it is particularly notable that **wage inflation** has been subdued despite unemployment falling to historically very low levels in the UK and US. This has led to many comments by economists that there appears to have been a fundamental shift downwards in the Phillips curve (this plots the correlation between levels of unemployment and inflation e.g. if the former is low the latter tends to be high). In turn, this raises the question of what has caused this? The likely answers probably lay in a combination of a shift towards flexible working, self-employment, falling union membership and a consequent reduction in union power and influence in the economy, and increasing globalisation and specialisation of individual countries, which has meant that labour in one country is in competition with labour in other countries which may be offering lower wage rates, increased productivity or a combination of the two. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation, robots and artificial intelligence, leading to many repetitive tasks being taken over by machines or computers. Indeed, this is now being labelled as being the start of the **fourth industrial revolution**.

### **KEY RISKS - central bank monetary policy measures**

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

The key issue now is that that period of stimulating economic recovery and warding off the threat of deflation is coming towards its close and a new period has already started in the US, and more recently in the UK, on reversing those measures i.e. by raising central rates and (for the US) reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks get their timing right and do not cause shocks to market expectations that could destabilise financial markets. In particular, a key risk is that because QE-driven purchases of bonds drove up the price of government debt, and therefore caused a sharp drop in income yields, this then also encouraged investors into a search for yield and into investing in riskier assets such as equities. This resulted in bond markets and equity market prices both rising to historically high valuation levels simultaneously. This, therefore, makes both asset categories vulnerable to a sharp correction. It is important, therefore, that central banks only gradually unwind their holdings of bonds in order to prevent destabilising the financial markets. It is also likely that the timeframe for central banks unwinding their holdings of QE debt purchases will be over several years. They need to balance their timing to neither squash economic recovery by taking too rapid and too strong action, or, alternatively, let inflation run away by taking action that was too slow and/or too weak. **The potential for central banks to get this timing and strength of action wrong are now key risks.**

There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE. In the UK, a key vulnerability is the **low level of productivity growth**, which may be the main driver for increases in wages; and **decreasing**

**consumer disposable income**, which is important in the context of consumer expenditure primarily underpinning UK GDP growth.

A further question that has come to the fore is whether **an inflation target for central banks of 2%**, is now realistic given the shift down in inflation pressures from internally generated inflation, (i.e. wage inflation feeding through into the national economy), given the above mentioned shift down in the Phillips curve.

- Some economists favour a shift to a **lower inflation target of 1%** to emphasise the need to keep the lid on inflation. Alternatively, it is possible that a central bank could simply 'look through' tepid wage inflation, (i.e. ignore the overall 2% inflation target), in order to take action in raising rates sooner than might otherwise be expected.
- However, other economists would argue for a **shift UP in the inflation target to 3%** in order to ensure that central banks place the emphasis on maintaining economic growth through adopting a slower pace of withdrawal of stimulus.
- In addition, there is a strong argument that central banks should **target financial market stability**. As mentioned previously, bond markets and equity markets could be vulnerable to a sharp correction. There has been much commentary, that since 2008, QE has caused massive distortions, imbalances and bubbles in asset prices, both financial and non-financial. Consequently, there are widespread concerns at the potential for such bubbles to be burst by exuberant central bank action. On the other hand, too slow or weak action would allow these imbalances and distortions to continue or to even inflate them further.
- Consumer debt levels are also at historically high levels due to the prolonged period of low cost of borrowing since the financial crash. In turn, this cheap borrowing has meant that **other non-financial asset prices**, particularly house prices, have been driven up to very high levels, especially compared to income levels. Any sharp downturn in the availability of credit, or increase in the cost of credit, could potentially destabilise the housing market and generate a sharp downturn in house prices. This could then have a destabilising effect on consumer confidence, consumer expenditure and GDP growth. However, no central bank would accept that it ought to have responsibility for specifically targeting house prices.

**UK.** After the UK surprised on the upside with strong economic growth in 2016, **growth in 2017 has confounded pessimistic forecasts of weak growth by coming in at 1.8%, only marginally down on the 1.9% rate for 2016.** In 2017, quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 +0.3% (+1.5% y/y), quarter 3 +0.4% (+1.5% y/y) and Q4 was +0.5% (+1.5% y/y). The outstanding performance came from the manufacturing sector which showed a 1.3% increase in Q4 and +3.1% y/y helped by an increase in exports due to the lower value of sterling over the last year and robust economic growth in our main trade partners, the EU and US. It is also notable that there has been a progressive acceleration in total GDP growth during the year which gives ground for optimism looking forward into 2018.

While the Bank of England is expected to give forward guidance to prepare financial markets for gradual changes in policy, the **Monetary Policy Committee, (MPC), meeting of 14 September 2017** managed to shock financial markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon. The Bank of England Inflation Reports during 2017 have clearly flagged up that it expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time. The Bank revised its forecast for the peak to just over 3% at the 14 September meeting. (Inflation actually came in at 3.1% in November so that may prove now to be the peak. Inflation fell to 3.0% in December.) This marginal revision in the Bank's forecast can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that **the amount of spare capacity in the economy was significantly diminishing** towards a point at which they now needed to take

action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a *decrease* in such globalisation pressures in the UK, and so this would cause additional inflationary pressure over the next few years.

At its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

It is also worth noting the **contradiction within the Bank of England** between action in 2016 and in 2017 **by two of its committees**. After the shock result of the EU referendum, the **Monetary Policy Committee (MPC)** voted in August 2016 for emergency action to cut Bank Rate from 0.50% to 0.25%, restarting £70bn of QE purchases, and also providing UK banks with £100bn of cheap financing. The aim of this was to lower borrowing costs, stimulate demand for borrowing and thereby increase expenditure and demand in the economy. The MPC felt this was necessary in order to ward off their expectation that there would be a sharp slowdown in economic growth. Instead, the economy grew robustly, although the Governor of the Bank of England strongly maintained that this was *because* the MPC took that action. However, other commentators regard this emergency action by the MPC as being proven by events to be a mistake. Then in 2017, we had the **Financial Policy Committee (FPC)** of the Bank of England taking action in June and September over its concerns that cheap borrowing rates, and easy availability of consumer credit, had resulted in too rapid a rate of growth in consumer borrowing and in the size of total borrowing, especially of unsecured borrowing. It, therefore, took punitive action to clamp down on the ability of the main banks to extend such credit! Indeed, a PWC report in October 2017 warned that credit card, car and personal loans and student debt will hit the equivalent of an average of £12,500 per household by 2020. However, averages belie wide variations in levels of debt with much higher exposure being biased towards younger people, especially the 25 -34 year old band, reflecting their lower levels of real income and asset ownership.

One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that **some consumers may have over extended their borrowing** and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

**EZ.** Economic growth in the eurozone (EZ), (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and has now gathered substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and +0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in December inflation was 1.4%. It is therefore unlikely to start on an upswing in rates until possibly 2019. It has, however, announced that it will slow down its monthly QE purchases of debt from €60bn to €30bn from January 2018 and continue to at least September 2018.

**USA.** Growth in the American economy was notably erratic and volatile in 2015 and 2016. 2017 started erratically with quarter 1 coming in at an annualised rate of only 1.2%, quarter 2 at 3.1%, quarter 3 3.2% and Q4 2.6%. This gave an overall figure for annual growth in 2017 of 2.6%, an acceleration from 1.5% in 2016. Unemployment in the US has also fallen to the lowest level for seventeen years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with five increases in all and four increases since December 2016; the latest rise was in December 2017 and lifted the central rate to 1.25 – 1.50%. There could then be another four increases in 2018. At its September meeting, the Fed said it would start in October to gradually unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

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

**JAPAN.** GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling 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.

### **Brexit timetable and process**

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

### 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
<b>DMADF – UK Government</b>	N/A	<b>100%</b>	<b>6 months</b>
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	£1.75m	
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m £5m £5m £5m £0	12 months 12 months 6 months 100 days Not for use

CDs or corporate bonds with banks and building societies	Blue	£1m	12 months
	Orange	£1m	12 months
	Red	£1m	6 months
	Green	£1m	100 days
	No Colour	£0	Not for use
Gilt funds	UK sovereign rating	Nil	
Property 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
- Hong Kong
- U.S.A.

##### AA

- Abu Dhabi (UAE)
- 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.
- budget consideration and approval

### (ii) Audit and Governance Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;;
- 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.

## 5.2 APPENDIX: Interest Rate Forecasts 2017 – 2020

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

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate													
Link Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate													
Link Asset Services	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate													
Link Asset Services	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate													
Link Asset Services	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate													
Link Asset Services	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>12<sup>th</sup> March 2018</b>
<b>Subject:</b>	<b>Annual Risk Management Report 2017/18</b>		
<b>Report Of:</b>	<b>Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
<b>Wards Affected:</b>	<b>Not applicable</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer - Head of Audit Risk Assurance</b>		
	<b>Email:</b> <a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		<b>Tel: 01452 396338</b>
<b>Appendices:</b>	<b>1: Strategic Risk Register as at 13<sup>th</sup> February 2018</b>		

## 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 2017/18 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;
    - The proposals for future development of risk management; and
    - The strategic risk register (**Appendix 1**).
  - (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 2017.

#### **4.0 Risk Management Process and Activity 2017/18**

##### **4.1 Risk Management Policy Statement, Strategy and Framework**

The Risk Management Policy Statement and Strategy sets out the risk management framework, principles and approach in operation within the Council. The Policy Statement and Strategy relevant to 2017-2020 was updated and approved by Members in February 2017 (Cabinet approval following recommendation by Audit and Governance Committee).

The Policy Statement and Strategy is supported by the Council's Constitution 2017/18 and the standardised Committee report template, which requires all Committee reports to include 'risk and opportunity management implications' for consideration as part of the Council's decision making process.

##### **4.2 Strategic risk management**

The 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 (promises) within the Council Plan. This includes both strategic risks and emerging strategic risks.

For 2017/18, the strategic risk register has been formally reviewed by Senior Management Team (SMT) on a regular basis 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.

The strategic risk register was last reviewed and updated by SMT on 13<sup>th</sup> February 2018. See **Appendix 1**.

Member review of the strategic risk register within 2017/18 has been completed in November 2017 by Audit and Governance Committee and in December 2017 by Cabinet. **Appendix 1** is the second presentation of the strategic risk register to Members within 2017/18.

#### 4.3 Operational risk management

Heads of Service and Service Managers are responsible for completing a service risk register containing risks relevant to their service objectives (detailed within the service plan). Risk registers should also be completed for significant partnerships and projects (e.g. the Kings Quarter regeneration project and Together Gloucester).

Operational risk registers should be completed in line with the Council's risk register template (including application of the Council approved risk scoring matrix).

Identified high scoring operational risk themes should be reported to the relevant Director and considered by SMT within the strategic risk register review process – report section 4.2.

It is noted that new service planning processes are being implemented by the Council (as reflected within the strategic risk register at **Appendix 1**) to ensure that all aspects of the Council Plan are reflected in service plans. The new processes maintain consideration of the service risk register and key service risks within the service plan template.

#### 4.4 Promotion, communication and training

The Member Risk Management Champion role is to support and promote the Council's risk management framework and approach. The position is currently held by the Chair of the Audit and Governance Committee.

The 2016/17 Member induction programme included a risk management session for both newly appointed Members and those completing a refresh on the topic. The session was well attended, with 17 Members participating and contributing to the risk management discussions. Further risk management training opportunities will be considered for the 2018/19 Member development programme.

#### 4.5 Review of risk management arrangements

The Annual Governance Statement 2016/17 Improvement Plan included the following action to support the further development of performance management and risk management within the Council: 'The review and subsequent implementation of the Council's corporate performance / risk management approach will ensure that they reflect the needs and the structure of the organisation.'

At the timing of this report, the review is in progress and near to conclusion. Final update on position will be completed through the Annual Governance Statement 2017/18 which is due to be presented to Audit and Governance Committee in July 2018.

#### 4.6 Risk management links to Internal Audit

The Council's Internal Audit service (provided by the Audit Risk Assurance shared service between Gloucester City Council, Stroud District Council and Gloucestershire County Council) follows a Risk Based Internal Audit approach. The audit approach is delivered in line with the requirements of the Public Sector

Internal Audit Standards 2017 and is reported to the Audit and Governance Committee, supporting the Committee's function to monitor the operation of risk management.

Relevant reports submitted to Audit and Governance Committee include (but are not exclusive to):

- The Annual Risk Based Internal Audit Plan;
- Internal Audit monitoring reports - confirming the level of assurance for each completed audit and highlighting development/risk areas; and
- The Chief Internal Auditor's annual opinion on the overall adequacy and effectiveness of the Council's control environment (comprising risk management, internal control and governance), which supports the Annual Governance Statement.

## **5.0 Asset Based Community Development (ABCD) Considerations**

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

## **6.0 Alternative Options Considered**

6.1 No other options have been considered.

## **7.0 Reasons for Recommendations**

7.1 A risk management annual report is required to support the Audit and Governance Committee function to 'monitor the adequacy and effectiveness of the Council's governance arrangements'. The Council's Risk Management Policy Statement and Strategy requires receipt and review of the report by Audit and Governance Committee.

## **8.0 Future Work and Conclusions**

8.1 A Risk Management Action Plan is being developed for 2018/19 and will be considered by SMT in March 2018. The goal of the Action Plan will be to support implementation and embedding of the 2016/17 Annual Governance Statement action (see report section 4.5) regards the Council's refreshed corporate performance and risk management approach.

8.2 The Risk Management Action Plan will be delivered within 2018/19.

## **9.0 Financial Implications**

9.1 There are no direct financial implications arising from the report recommendations.

(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):**

- 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 Other Corporate Implications**

### Community Safety

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

### Sustainability

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

### Staffing and Trade Union

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

**Background Documents:** Accounts and Audit Regulations 2015  
CIPFA/SOLACE Delivering Good Governance in Local Government: Framework 2016 Edition  
ISO 31000: Risk Management Principles and Guidelines  
Council's Constitution  
Council's Risk Management Policy Statement and Strategy 2017-2020  
Public Sector Internal Audit Standards 2017

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# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
1.	Non achievement of the Money Plan – including the annual savings / income targets and the result of a balanced budget.	4	4	16	<p>*Budget setting process – including consultation; management/leadership input into savings targets; and Overview &amp; Scrutiny and Council involvement.</p> <p>*Forecasting Money Plan for medium term.</p> <p>*Allocation of individual savings/income targets to an SMT sponsor, Cabinet Member and leading manager.</p> <p>*Rigorous monthly monitoring of the Council's financial position - monthly income / budget monitoring at budget holder level (Finance led) and by SMT.</p> <p>* Financial Services staff professionally qualified in accountancy-related disciplines.</p> <p>*Assurance reviews by Internal Audit to ensure compliance with approved policies and procedures.</p> <p>*Service Plans aligned with resources and subject to regular review.</p>	4	3	12	<p>*Monthly monitoring of 2017/18 budget savings programme lines to confirm details of savings delivery and whether the savings target will be achieved (co-ordinated by Financial Services with detail from savings line owner).</p> <p>*Savings line owner (service manager/head of service) to report to SMT where savings non achievement is expected.</p> <p>*Monthly formal reporting to SMT on savings position and a fortnightly verbal update.</p>	Monthly within 2017/18	4	2	8	SMT with named managers responsible for individual savings

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
2.	Adverse public and media relations.	3	3	9	<p>*Dedicated communications and marketing resource with defined service scope – service delivery by County Council (SLA).</p> <p>*Regular monitoring of press coverage.</p> <p>*Formal route for media press contact (controlled approach).</p> <p>*Standardised FOI approach with FOI Champions.</p> <p>*Dedicated support for key consultations.</p> <p>*Communication Strategy on key campaigns, including performance measures.</p> <p>*Internal Communications Channel Plan.</p> <p>*Complaints policy / monitoring.</p> <p>*Digital communications team in place – including objectives, policies and procedures.</p>	3	2	6	<p>*Review and update of the Council's information policies (including IT policies, records management and social media) – to include approval by Cabinet and roll out to officers and Members#</p> <p>#FMA also relevant to risk 8</p> <p>*Completion of media training for Members and key officers.</p> <p>*SMT to approve campaigns plan.</p> <p>*Ensure political sign off of campaigns materials.</p>	<p>Ongoing</p> <p>March 2018</p> <p>March 2018</p> <p>March 2018</p>	2	2	4	<p>A Brinkhoff - comms actions</p> <p>J Topping – IT actions</p>

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
3.	Lack of competence, staff engagement, probity and professionalism within the authority leading to diminished performance, inappropriate behaviour, and failure to comply with governance arrangements.	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 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 2017/18. *Development Plan and Learning & Training Plan in place.	3	2	6	*LGA Corporate Peer Challenge provided robust assurance on the council's competence, probity and professionalism. CPC action plan being developed, linking to the OD plan. Action plan to be tabled to SMT.	March 2018	3	1	3	SMT

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
4.	Failure to effectively manage contracts and SLAs with key partners / other significant bodies, including: Amey, Civica, Marketing Gloucester, Aspire, Gloucestershire Airport, VCS organisations, Gloucestershire County Council (e.g. Audit shared service) and district councils.	3	3	9	<p>*Central list held of all contracts and SLAs with named responsible officers and Members.</p> <p>*In set up of the partnerships:</p> <ul style="list-style-type: none"> <li>-Corporate procurement strategy and procedures;</li> <li>-Contract Standing Orders;</li> <li>-Constitution requirements; and</li> <li>-Availability of advice from legal, finance &amp; procurement.</li> <li>-Documentation on the Council contracts register.</li> <li>*Partnership specific controls required (for each partner):</li> <li>-Documented signed SLA.</li> <li>-Lead contact officers assigned to each partner.</li> <li>-Regular performance management meetings, with reporting to SMT/Committee.</li> <li>-SLAs incorporate contingency business plan approach to mitigate loss of service.</li> <li>-Partnership risk registers – either individually or within the service risk register.</li> <li>-Governance arrangements identifying where decisions are taken.</li> <li>-Agreement of SLA KPIs, performance standards and payments (within contract).</li> </ul>	3	2	6	<p>*Negotiation with partners to review current contract contents, define and agree penalties and/or service credits for non-achievement of contract performance standards.</p> <p>*Scope and review need for Commercial Training for relevant managers as part of OD Strategy.</p>	<p>Ongoing review within 2017/18</p> <p>March 2018</p>	2	2	4	SMT - each contract and partnership has a specific risk owner within SMT (listing held separately to SRR)

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
5.	Failure to support and enable business growth within the city.	3	3	9	<p>*Support local businesses both start up and new (e.g. grants and business advice) – via Place service.</p> <p>*Partnership support for skills/jobs and attraction of inward investment.</p> <p>*Council's promotion of city through links with GFirst LEP; Marketing Gloucester; and with adjacent authorities (e.g. JCS).</p> <p>*Cultural Strategy – including 6 monthly review and update.</p> <p>*Liaison with Business Improvement District (including consideration of uncertainties arising from the UK leaving the EU).</p>	3	2	6	<p>*Review of the Regeneration and Economic Development Strategy (including alignment of objectives to the Council Plan and ensuring an appropriate delivery mechanism is in place).</p> <p>*Bidding for regeneration funding &amp; continued focus on regeneration sites.</p> <p>*Strengthening of partner relations.</p> <p>*Effective promotion of the city and the council regards business support and being a friendly city.</p> <p>*City Plan and JCS aiding delivery of planned growth and housing numbers.</p>	<p>March 2018</p> <p>At least monthly review</p> <p>At least monthly review</p>	2	2	4	I Edwards

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
6.	Loss of finance, resource and reputation due to fraudulent activity.	4	3	12	<p>*The following are approved policies available to officers:</p> <ul style="list-style-type: none"> <li>○ Anti-fraud and corruption strategy (including Anti-bribery policy and Anti-money laundering policy).</li> <li>○ Whistle blowing policy.</li> <li>○ Fraud response plan.</li> </ul> <p>*Financial regulations (including standing orders).</p> <p>*Existing internal control framework.</p> <p>*Internal Audit inc. Audit &amp; Governance Committee and annual risk based internal audit plan (deterrent).</p> <p>*External audit presence (deterrent).</p> <p>*Benefit case referral to the Single Fraud Investigation Service – DWP.</p> <p>*Brilliant Basics modules (fraud awareness, project management and influencing skills) available to management team.</p> <p>*SLA with ARA (County hosted) for drawdown of days from Glos. Counter Fraud Unit for targeted anti-fraud work – Council position reviewed monthly by S151 Officer and Chief Internal Auditor.</p>	4	1	4	*Not applicable – current controls mitigate the strategic risk to an appropriate level.		4	1	4	J Topping

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
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 (fraud awareness, 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).	3	2	6	*Head of Place to lead: -Re-assessment of projects at appropriate points to review objectives and deliverables. -Maintenance and review of project risk registers for each regeneration project. -Review by Regeneration Programme Advisory Board. -Financial scrutiny of regeneration projects.	Quarterly review (or as appropriate dependent on project profile)	2	2	4	I Edwards
8.	Failure to manage information in accordance with legislation.	4	4	16	*IT Security: -Civica ITO contract includes 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	4	2	8	*Review and update of the Council's information policies (including IT policies, records management and social media) – to include approval by Cabinet and roll out to officers and Members#  #FMA also relevant to risk 2  *IT Security further mitigating	Ongoing	4	1	4	J Topping

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
					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. *SIRO role allocated. *Information Security Board				actions are considered at risk 10.					

**Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018**

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
					set up, scope agreed & quarterly meetings held. *NETconsent policy management system.									

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
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	<p>*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.</p> <p>*Regular review and updating of Emergency Response Plan and other plans.</p> <p>*Allocated Emergency Team Leaders within the Council e.g. District Emergency Controller and Gold Officer roles.</p> <p>*Business continuity plans in place for each Service.</p> <p>*Bad weather policy and communications.</p> <p>*Climate change strategy supported by Local Resilience Forums.</p> <p>*Emergency Contacts list updated every quarter.</p> <p>*Defined Mutual Aid Agreement including all Gloucestershire local authorities.</p> <p>*Continued testing of Emergency Plan arrangements; bi annual exercises &amp; live events (e.g. Christmas call out exercise); and use of Mutual Aid agreement.</p>	4	2	8	<p>*Review and refresh of all service Business Continuity Plans to ensure up to date and appropriate content.</p> <p>*Undertake &amp; share learning from recent major events and build in to existing plan set so that officers and members can put this into action.</p> <p>*IT relevant further mitigating actions are considered at risk 10.</p>	Ongoing review within 2017/18	3	2	6	SMT / L Griffiths (DEPLO)

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
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	<p>*Up to date IT asset register.</p> <p>*Appropriate secure physical location of the servers.</p> <p>*Medium term IT infrastructure investment needs identified and capital budget agreed and delivered within 2016/17 – including on site server refresh and upgrade to Windows 7.</p> <p>*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.</p> <p>*PSN Compliance Certificate achieved 22<sup>nd</sup> March 2017.</p> <p>*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).</p>	4	3	12	<p>*IT internal audit to be completed to support ICT action plan.</p> <p>*Council IT Strategy review and approval.</p>	<p>Agreed ICT internal audits 2017/18 to be delivered in March 2018</p> <p>March 2018</p>	4	2	8	J Lund

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
11.	Inability of the Council to identify viable plans to achieve savings.  (Wider Money Plan achievement considered at risk 1)	4	4	16	*Budget setting process – including consultation; management/leadership input into savings targets; and Overview & Scrutiny and 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.	4	3	12	*Engagement with GMT to ensure corporate ownership of financial challenges and need for active identification of efficiency & income opportunities for the Council.	Ongoing within 2017/18	4	2	8	SMT
12.	Inability of the Council to progress with the ongoing organisational transformation begun by the Together Gloucester review and, as a consequence an inability to realise the full benefits of the change process.	4	3	12	*All Managers and Staff encouraged to question existing service delivery models and explore new ways of working.	4	3	12	*Financial benefits of the review designed to be achieved during 2017/18 financial year. *New Service Planning processes introduced to foster further service development, business transformation, ICT development and ABCD. *New Performance	March 2018  March 2018	4	2	8	SMT

Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
									<p>Management framework introduced to manage progress and capture and report performance.</p> <p>*New appraisal/personal performance planning processes introduced to link personal objectives and development needs to the needs of the organisation, talent development and personal well-being.</p> <p>*Talent Assessment, management and development processes introduced to encourage and enable talent and succession planning within the organisation.</p> <p>*External expertise engaged to help assess the organisation's capacity for transformation, to help map/redesign service processes and deliver a transformation implementation plan and associated ICT delivery plan.</p> <p>*LGA Peer review delivered. Resulting action plan to be tabled to SMT.</p>	<p>April 2018</p> <p>March 2018</p> <p>March 2018</p> <p>February to April 2018</p> <p>March 2018</p>				

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
13.	Inability of the Council to deliver the Corporate Plan to 2020.	4	4	16	<p>*Corporate Plan developed jointly by Cabinet and Senior Management Team, scrutinised and endorsed by the wider Council membership.</p> <p>*Corporate Plan approval completed.</p> <p>*Budget Strategy and Money Plan designed to appropriately resource the delivery of the Corporate Plan.</p>	4	3	12	<p>*New Service Planning processes introduced to ensure that all aspects of the Corporate Plan are reflected in Service Plans.</p> <p>*New Performance Management framework introduced to manage progress and capture and report performance on the delivery of Corporate Plan objectives.</p> <p>*New appraisal/personal performance planning processes introduced to link personal objectives and development needs to the needs of the organisation, talent development and personal well-being.</p> <p>*LGA Peer review delivered. Resulting action plan to be tabled to SMT.</p>	<p>March 2018</p> <p>April 2018</p> <p>March 2018</p> <p>March 2018</p>	4	2	8	SMT

# Gloucester City Council Strategic Risk Register, 13<sup>th</sup> February 2018

No.	Risk	Original score			Current controls	Current score			Further mitigating action	Timescale	Mitigated score			Risk owner
		Impact	Likelihood	Score		Impact	Likelihood	Score			Impact	Likelihood	Score	
14.	Negative financial implications (including inability to repay the cost of borrowing and impact of capital depreciation) due to inappropriate delivery and management of the Property Investment Strategy; and a risk of political priorities diluting commercial considerations around hedging, which could both impact the Council's ability to meet the annual savings targets and wider Money Plan requirements.	4	4	16	<p>*Property Investment Strategy (including risk management considerations) endorsed by Cabinet and approved by Council.</p> <p>*Property Investment Board set up with a defined Terms of Reference to oversee the investment of the £80m fund.</p> <p>*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.</p>	4	3	12	<p>*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.</p> <p>*Property Investment Board to monitor fund position (including cost of borrowing) and the management of the estate, with outcomes to be reported to senior officers and Members.</p> <p>*Legal implications ongoing review to ensure relevant local authority powers remain in place to support the Property Investment Strategy.</p>	Monthly review of position per mitigating action to be completed by the risk owner	4	2	8	J Topping

**POTENTIALLY EMERGING STRATEGIC RISKS:** DISCUSSED AND REVIEWED BY SMT: N/A as at 13/02/2018

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Meeting:	Audit and Governance Committee	Date:	12 <sup>th</sup> March 2018
Subject:	Internal Audit Activity Progress Report 2017/18		
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:	Tel: 01452 396338	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
Appendices:	A: Internal Audit Activity Progress Report 2017/18		

## 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 2017/18.

### 2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE** to:
- (1) Accept the progress against the Internal Audit Plan 2017/18; and
  - (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.

### 3.0 Background and Key Issues

- 3.1 Members approved the Internal Audit Plan 2017/18 at 13<sup>th</sup> March 2017 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 2017/18 at **Appendix A** summarises:
- The progress against the 2017/18 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 2018 to February 2018; and
  - Special investigations/counter fraud activity.
- 3.3 The report is the fifth progress report in relation to the Internal Audit Plan 2017/18.

## **4.0 Asset Based Community Development (ABCD) Considerations**

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

## **5.0 Alternative Options Considered**

- 5.1 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's Constitution (see report section 6.2 and 6.3).

## **6.0 Reasons for Recommendations**

- 6.1 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.
- 6.2 The PSIAS state 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.
- 6.3 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's Constitution).

## **7.0 Future Work and Conclusions**

- 7.1 In accordance with the PSIAS, and reflected within the Audit and Governance Committee work programme, Internal Audit activity progress reports against the approved Internal Audit Plan 2017/18 are scheduled to be presented to the Audit and Governance Committee at the June 2018 meeting.

## **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 Nothing specific arising from the report recommendations.
- (One Legal have been consulted in the preparation this report).

## **10.0 Risk and Opportunity Management Implications**

- 10.1 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.

## **11.0 People Impact Assessment (PIA):**

- 11.1 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.
- 11.2 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:** Internal Audit Plan 2017/18  
PSIAS  
CIPFA Local Government Application Note for the UK PSIAS

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# Internal Audit Activity Progress Report

2017-2018



## **(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 undertakes 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 2017/18 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 2018 to February 2018; and
- Special investigations/counter fraud activity.

#### (4) Progress against the 2017/18 Internal Audit Plan, including the assurance opinions on risk and control

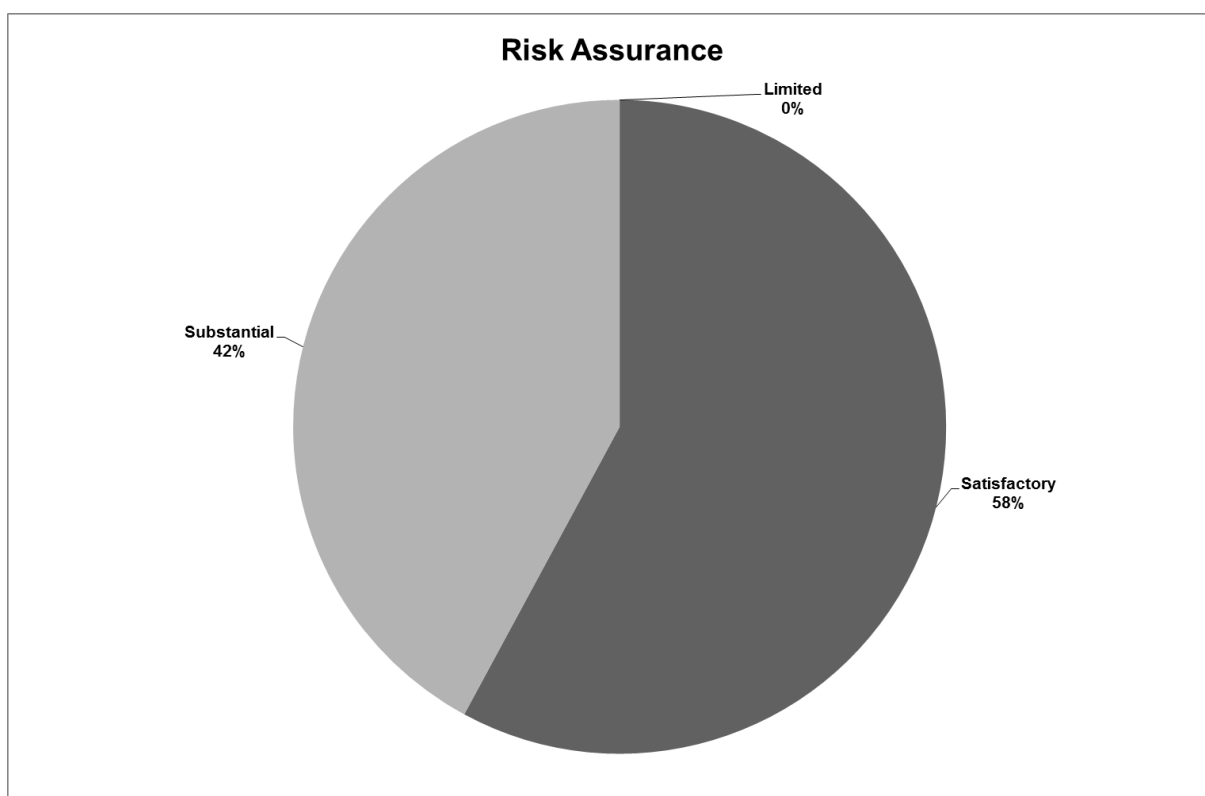
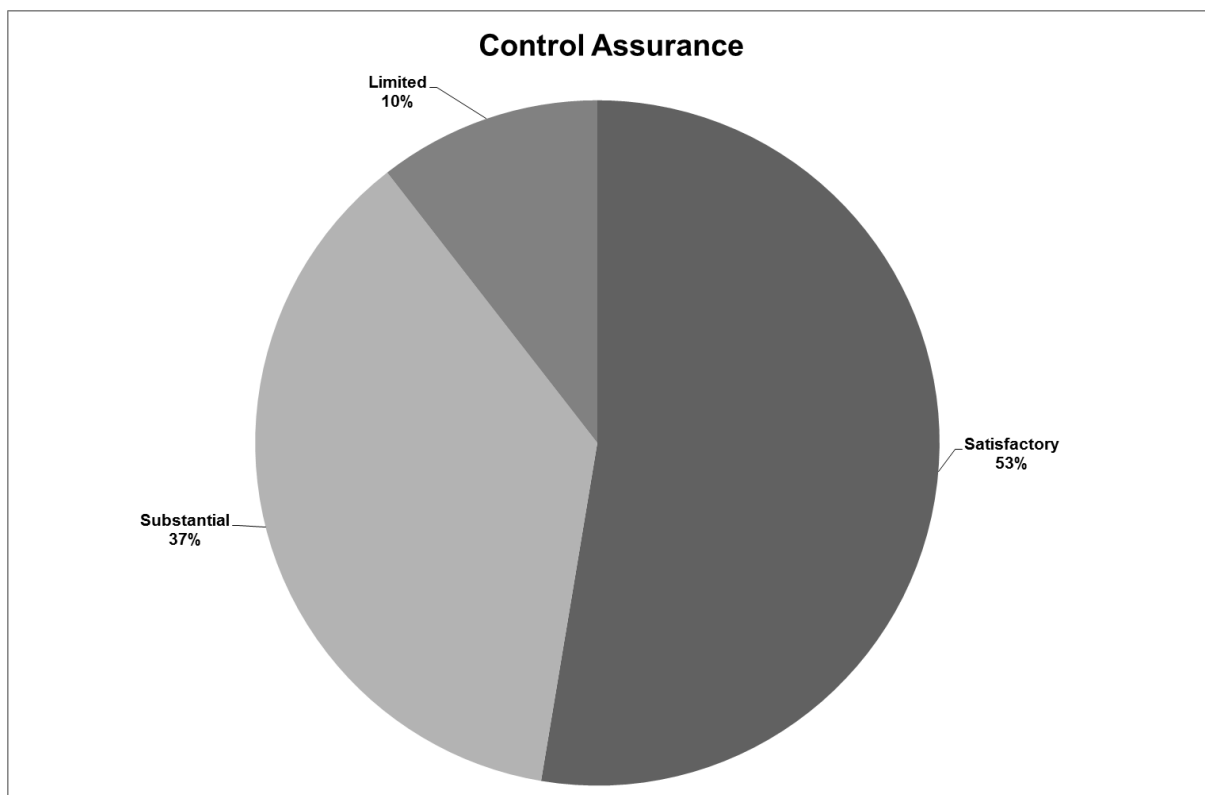
The schedule provided at **Attachment 1** provides the summary of 2017/18 audits which have not previously been reported to the Audit and Governance Committee. **Attachment 1** also includes the summary of special investigations/counter fraud activity to date.

The schedule provided at **Attachment 2** contains a list of all of the audit activity undertaken during 2017/2018, 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 below.

Assurance Levels	Risk Identification Maturity	Control Environment
<b>Substantial</b>	<b>Risk Managed</b> 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.	<ul style="list-style-type: none"> <li>System Adequacy – Robust framework of controls ensures that there is a high likelihood of objectives being achieved</li> <li>Control Application – Controls are applied continuously or with minor lapses</li> </ul>
<b>Satisfactory</b>	<b>Risk Aware</b> 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.	<ul style="list-style-type: none"> <li>System Adequacy – Sufficient framework of key controls for objectives to be achieved but, control framework could be stronger</li> <li>Control Application – Controls are applied but with some lapses</li> </ul>
<b>Limited</b>	<b>Risk Naïve</b> 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 a satisfactory awareness of the risks relating to the area under review and the impact that these may have on service delivery, other service areas, finance, reputation, legal, the environment, client/customer/partners and staff.	<ul style="list-style-type: none"> <li>System Adequacy – Risk of objectives not being achieved due to the absence of key internal controls</li> <li>Control Application – Significant breakdown in the application of control</li> </ul>

#### (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 2017/18 audit activity undertaken up to February 2018.



#### **(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 2018 to February 2018, no limited assurance opinions on control have been provided on completed audits from the 2017/18 Internal Audit Plan.

#### **(4d) Satisfactory Control Assurance Opinions**

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

#### **(4e) Internal Audit Recommendations**

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

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

#### **(4f) Risk Assurance Opinions**

During the period January 2018 to February 2018, it is pleasing to report that no limited assurance opinions on risk have been provided on completed audits from the 2017/18 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 2018 to February 2018**

### **Summary of Satisfactory Assurance Opinions on Control**

#### **Service Area: Policy and Resources**

#### **Audit Activity: Discretionary Housing Payments**

##### **Background**

A Discretionary Housing Payment (DHP) is a payment to help people, in receipt of Housing benefit or the housing element of Universal Credit, meet their housing costs; these costs include help towards rent, tenancy start up and moving costs. DHPs must operate in line with the Discretionary Financial Assistance Regulations 2001 (DFAR) and the guidance issued by the Government's Department for Work and Pensions (DWP) in its DHPs Guidance Manual; however they are made at the discretion of Local Authorities (LAs) and the DFAR do not specify a clear set of allocation rules. LAs can use their own funds to top up their Government contribution by an additional 150%. Any unspent DHP funding from the Government contribution is returned to the Department at the end of the financial year.

##### **Scope**

This review was specifically requested by the Audit and Governance Committee to provide assurance that there is an effective control framework in place for the award of DHPs, in compliance with internal procedure and external regulations.

##### **Risk Assurance – Satisfactory**

##### **Control Assurance – Satisfactory**

##### **Key Findings**

- In 2016/17 the Council awarded £149,463 of the government contribution of £232,100.
- The government contribution for 2017/18 is £345,285. As at 31st January 2018 £170,551 has been awarded.
- The Council does not have a formal DHP Policy however there is a DHP procedure. The introduction of a DHP Policy, with support from Members, may lead to greater funding usage as discretionary parameters could be formally agreed that would then support and underpin the decision making process.
- DHPs are administered by the Civic Revenue and Benefits Service. All DHP decisions are reviewed by the Council's Intelligent Client Officer who makes the final decision on whether the DHP should be approved or declined.

- The Council's website informs the public that "Discretionary Housing Payments help people who need extra help when their Housing benefit does not meet the amount of their rent", however the DWP also specify that the payment can be used for rent in advance, deposits and other lump sum costs associated with a housing need such as removal costs. Of the 612 awarded claims only one had been documented for a reason other than rent payment (it was for removal costs).
- The website and application form do not state that an application can be accepted from someone acting on behalf of the claimant; this would support claimants where English may not be their first language, they have poor literacy skills or may have mental health issues.
- In September 2017, a 'Temporary and Homeless Accommodation Benefit Officer' was internally recruited and part of their role is to support the public with the take-up of DHPs. However, to date this officer has been unable to take up this role due to competing pressures elsewhere.
- Internal Audit sampled 25 DHP claims that had been declined, for the period 1st April 2016 to 31st March 2017, to verify that the decision was fair, reasonable and consistent. Internal Audit agreed with the decisions to decline 24 of the 25 claims; however the claim decision that IA would have expected to have been approved was approved upon appeal.

**Conclusion**

Internal Audit is able to conclude that a control framework is in place for the award of DHPs, in compliance with internal procedure and external regulations; however the framework could be further enhanced by:

- The introduction of a Council approved policy for DHP;
- Updating web page for DHPs to inform residents that DHPs can also be used for help with rent in advance, deposits and other lump sum costs associated with a housing need, and that applications can be made by persons acting on behalf of the claimant; and
- Reviewing the application form to ensure it is not a barrier to residents with poor literacy skills.

**Management Actions**

Management have responded positively to the two medium recommendations made.

**Service Area: Policy and Resources****Audit Activity: Gloucester Lottery****Background**

The Gloucester Lottery was introduced in 2017 by Gloucester City Council to support projects in the local area and operates on the principle of raising money within the community for the community. A ticket for the Gloucester Lottery costs £1 with 60p of every ticket going to supporting a cause within a local community.

**Scope**

The scope of this audit was to:

- Review the contract arrangements in place between the External Lottery Manager and Gloucester City Council; and
- Ensure that income generated via the Gloucester Lottery is accounted for and allocated to agreed causes in accordance with Council expectations.

**Risk Assurance – Satisfactory****Control Assurance – Satisfactory****Key Findings**

- The Council has entered into an agreement with Gatherwell Ltd (the designated External Lottery Manager) to provide Lottery administration services. It was confirmed that both parties have appropriate and active licences to operate a remote society lottery for a local authority.
- The Gloucester Lottery exceeds the minimum requirements of 20% of proceeds going to good causes with 60% of all proceeds going to registered and pre-approved good causes.
- The provider has confirmed that all the funds raised by the Gloucester Lottery, minus the fees due to them are held in a separate client account as required. Whilst Internal Audit was given verbal assurance of this, the bank statements, albeit requested, have not been provided for the client account or the value of the accumulated prize fund obtained.
- The provider operates the Gloucester Lottery via a cloud based system with a third party company providing the storage space for associated data. Therefore, the information for which the Council is the data owner is held by a company to whom the Council does not have any contractual arrangements with and has not had any involvement in selecting.

- Internal Audit reviewed six months of payments made to Council and found that it has received funding circa £9k from this lottery. This will need to be allocated in due course to its own selected good causes. Positive confirmation was also received from three registered independent good causes that they had received payments due to them from the provider relating to the ticket sales where customers had selected their specific good cause to receive 50p of the £1 ticket sale price.

### **Conclusion**

The Council has a contract in place with Gatherwell Ltd to operate a lottery with appropriate arrangements in place to meet the requirements of a local authority lottery.

From a risk perspective it is important to recognise that the data surrounding the lottery is owned by the Council and as such is ultimately responsible for ensuring that this data is appropriately managed and maintained. As a third party contractor, selected by Gatherwell Ltd as the holder of this data, Internal Audit was unable to gain appropriate assurance that this is happening. Whilst this risk is intended to be mitigated through the contractual arrangements between the two parties the fallout from a data breach will ultimately remain with the Council.

Details of the unallocated prize fund are not currently provided by Gatherwell Ltd and it is recommended that as part of the ongoing contract management arrangements this information is obtained.

### **Management Actions**

Management have responded positively to the Internal Audit findings. The Head of Policy and Resources contacted Gatherwell Ltd and has subsequently received assurance that a security audit of their Remote Technical Standards was completed in May 2017. This is an annual requirement of their Remote External Lottery Management licence issued by the Gambling Commission. In addition Gatherwell have agreed to provide details of the unallocated prize fund as soon as possible through enhancement of the lottery website dashboard.

## Summary of Substantial Assurance Opinions on Control

### Service Area: Place

### Audit Activity: Kings Quarter Development

#### Background

The regeneration at Kings Quarter remains a high priority for the Council which will include the redevelopment of Kings Square, the Bus Station, Market Parade, Spread Eagle Road and the immediate surrounding area. Phase 1 circa £9.4m is the redevelopment of the Bus Station which is in progress and will in part be funded through a grant of £6.4m from the Gloucestershire Local Enterprise Partnership under the Gloucestershire Growth deal.

#### Scope

The objectives of this audit were to:

- Review the project management, financial, reporting and governance arrangements established by the Council for the regeneration of King's Quarter; and
- Ascertain which contractors and consultants have been commissioned to deliver this project and provide assurance that the selection process was in accordance with the Council's Contract Standing Orders and procurement legislation.

#### Risk Assurance – Substantial

#### Control Assurance – Substantial

#### Key Findings

- The project has received full support from Cabinet and members are actively involved in the key decision making process.
- A project board has been established (comprising of senior directors and the Lead Cabinet Member for Regeneration and Economy) which provides appropriate corporate oversight. The board is supported by experienced officers including the Head of Place, an experienced Project Manager and an external consultant.
- The project is moving forward in a controlled and effective manner under the management of an experienced and qualified Project Manager.
- Phase 1: The construction of the new bus station is ongoing having successfully completed the final design stage and the completion of the required highways works.
- Comprehensive records are maintained by the Project Manager to support the engagement of external consultants and contractors together with any subsequent payments made for work delivered.

- The Board has identified a need for a risk register to cover the wider project and this is currently being developed.

**Conclusion**

Appropriate governance arrangements are in place for the Kings Quarter development and these arrangements are operating effectively.

Considerable reliance is placed on the knowledge and experience of the Project Manager (external consultant) to provide guidance to officers and members and when appropriate challenge the appointed contractors. Whilst this long standing arrangement works well, it is also fully acknowledged that a lack of resilience in the City resources (should this individual be unable to continue in this role) would present a risk should this occur. From a governance perspective, this key risk should continue to be monitored alongside the ongoing review of the risk register (by the Board) together with any other risks that may be identified.

The review identified a number of external consultants / contractors engaged by the Council to support the delivery of this project. The use of these consultants and contractors is appropriate and Internal Audit also concludes that these were commissioned in an open and transparent manner and in substantial compliance with the Councils' Standing Orders and legislation.

**Management Actions**

N/A

**Summary of Special Investigations/Counter Fraud Activities****Current Status**

Four referrals have been received by Internal Audit for investigation during 2017/18 to date. Three of these cases have been closed, all of which have previously been reported to the Audit and Governance Committee. The fourth case is still under investigation, although an interim report has been provided to management.

The outcome of the fourth case will be provided to the Audit and Governance Committee once concluded.

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 data collections were collected throughout October 2016 and reports have now been received for further investigation. 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. Many of the recommended matches have now been reviewed but there are still further recommended matches under investigation.

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

We have previously reported an adjustment to the Council tax base of **£155,448** in respect of SPD matches. Further work on those households failing to return forms or giving incorrect information is ongoing.

In addition, it was also reported that as a result of the SPD review ten potential fraud cases which also include Housing Benefit have been referred to the Department for Work and Pensions (DWP) and the Single Fraud Investigation Service (SFIS). It is unlikely that the DWP will feedback to the Council unless additional information is required.

## Progress Report including Assurance Opinions

Department	Activity Name	Priority	Activity Status	Risk Opinion	Control Opinion	Reported to Audit and Governance Committee	Comments
Council Wide	Staff Appraisal System	Medium	Cancelled				Brought Forward from 2016/17 plan. To be considered in 2019/20 plan
Council Wide	IT Disaster Recovery and Business Continuity	High	Cancelled				Cancelled based on Information Governance Board decision to prevent duplication of assurance. Management led review in progress.
Council Wide	Officers' Code of Conduct	High	Final Report Issued	Satisfactory	Limited	18/09/2017	
Council Wide	Complaints Handling	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2017	
Council Wide	Scheme of Delegation	High	Planned				
Council Wide	Together Gloucester	High	Planned				
Council Wide	Network Access Controls	High	Audit in Progress				
Council Wide	Communications Service	High	Audit in Progress				
Council Wide	Cyber Security (Ransomware)	High	Planned				New activity
Council Wide	ICT Assurance Mapping (including policy review)	High	Audit in Progress				New activity (consultancy)
Communities	Choice Based Lettings	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2017	
Communities	Project Solace	High	Final Report Issued	Satisfactory	Limited	22/01/2018	
Communities	Homelessness	High	Deferred				Brought Forward from 2016/17 plan. To be considered in 2018/19 plan
Cultural and Trading	Cemetery and Crematorium Services	High	Final Report Issued	Substantial	Substantial	20/11/2017	
Cultural and Trading	Marketing Gloucester Ltd (MGL) follow up review	High	Final Report Issued	Satisfactory	Satisfactory	18/09/2017	
Cultural and Trading	Marketing Gloucester Ltd (MGL) Value for Money review	High	Final Report Issued	Not Applicable	Not Applicable	18/09/2017	
Cultural and Trading	Museums	Medium	Cancelled				Reprioritised to be considered for 2019/20 plan
Cultural and Trading	Box office ticketing and shop-café-bar System	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2017	
Cultural and Trading	Online Lottery	Medium	Final Report Issued	Satisfactory	Satisfactory	12/03/2018	
Place	CCTV	Medium	Cancelled	Not Applicable	Not Applicable		Reprioritised to be considered for 2018/19 plan
Place	Kings Quarter Development	High	Final Report Issued	Substantial	Substantial	12/03/2018	
Place	Licensing (Business Licenses)	Medium	Cancelled				Management led review to be completed. Area to be considered as part of 2018/19 plan.
Place	Planning - Processing and Performance	High	Deferred				Deferred to 2018/19 plan, due to requested prioritisation of the planning appeal review (new activity)
Place	Planning Appeal	High	Final Report Issued	Not Applicable	Not Applicable	20/11/2017	New activity
Place	Amey - Streetcare contract follow up	High	Final Report Issued	Not Applicable	Not Applicable	20/11/2017	
Policy and Resources	Accounts Payable	High	Audit in Progress				
Policy and Resources	Accounts Receivable	High	Deferred				To be considered in 2018/19 plan
Policy and Resources	Benefits Uprating	High	Final Report Issued	Substantial	Substantial	18/09/2017	
Policy and Resources	Benefits - Key Controls 2017/18	High	Final Report Issued	Satisfactory	Satisfactory	22/01/2018	
Policy and Resources	Blackfriars Priory Turnover Certification	High	Final Report Issued	Not Applicable	Not Applicable	18/09/2017	
Policy and Resources	Capital Accounting	High	Deferred				To be considered in 2018/19 plan
Policy and Resources	Cash and Bank	High	Draft Report Issued				
Policy and Resources	Council Tax - Setting the Base 2017/18	High	Final Report Issued	Substantial	Substantial	18/09/2017	
Policy and Resources	Local Taxation - Key Financial Controls 2017/18	High	Final Report Issued	Substantial	Substantial	22/01/2018	Council Tax and National Non-Domestic Rates (NNDR) combined internal audit
Policy and Resources	Councillors' Community Fund	Medium	Final Report Issued	Substantial	Satisfactory	20/11/2017	
Policy and Resources	Electoral Service	Medium	Cancelled				GDPR project to review security of data within the Council (original requested audit scope)
Policy and Resources	New Financial Management System	High	Final Report Issued	Satisfactory	Satisfactory	18/09/2017	Brought Forward from 2016/17 plan
Policy and Resources	Main Accounting System (General Ledger) 2017/18	High	Final Report Issued	Substantial	Substantial	22/01/2018	
Policy and Resources	National Non Domestic Rates (NNDR) Multipliers 2017/18	High	Final Report Issued	Substantial	Substantial	18/09/2017	
Policy and Resources	Procurement	High	Audit in Progress				
Policy and Resources	Payroll	High	Planned				
Policy and Resources	Housing Discretionary Payments	High	Final Report Issued	Satisfactory	Satisfactory	12/03/2018	New activity requested by Audit and Governance Committee
	Exempt report	High	Final Report Issued	Satisfactory	Satisfactory	20/11/2017	Brought Forward from 2016/17 plan

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<b>Meeting:</b>	<b>Audit and Governance Committee</b>	<b>Date:</b>	<b>12<sup>th</sup> March 2018</b>
<b>Subject:</b>	<b>Internal Audit Plan 2018/2019</b>		
<b>Report Of:</b>	<b>Theresa Mortimer – Head of Audit Risk Assurance</b>		
<b>Wards Affected:</b>	<b>N/A</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor)</b>		
	<b>Email: <a href="mailto:theresa.mortimer@gloucester.gov.uk">theresa.mortimer@gloucester.gov.uk</a> Tel:01452 396338</b>		
<b>Appendices:</b>	<b>1. Proposed Internal Audit Plan 2018/19</b>		

## 1.0 Purpose of Report

- 1.1 To provide 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.

## 2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RESOLVE** that Members:
- Agree that the Internal Audit Plan for 2018/2019 reflects the risk profile of the Council; and
  - Approve the Internal Audit Plan 2018/2019 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, 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 Asset Based Community Development (ABCD) Considerations**

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

#### **5.0 Alternative Options Considered**

- 5.1 None

#### **6.0 Reasons for Recommendations**

- 6.1 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.

## **7.0 Future Work and Conclusions**

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

## **8.0 Financial Implications**

- 8.1 There are no direct financial implications as a result of this report.  
(Financial Services have been consulted in the preparation this report).

## **9.0 Legal Implications**

- 9.1 None specific arising from the report recommendations.  
(One Legal have been consulted in the preparation this report).

## **10.0 Risk and Opportunity Management Implications**

- 10.1 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.

## **11.0 People Impact Assessment (PIA):**

- 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 specific Community Safety implications identified.

### Sustainability

- 12.2 There are no specific Sustainability implications identified.

### Staffing & Trade Union

- 12.3 There are no specific Staffing and Trade Union implications identified.

**Background Documents:** Accounts and Audit Regulations 2015  
Public Sector Internal Audit Standards 2017

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# Internal Audit Plan

2018-2019

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## 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 2018/2019 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 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**

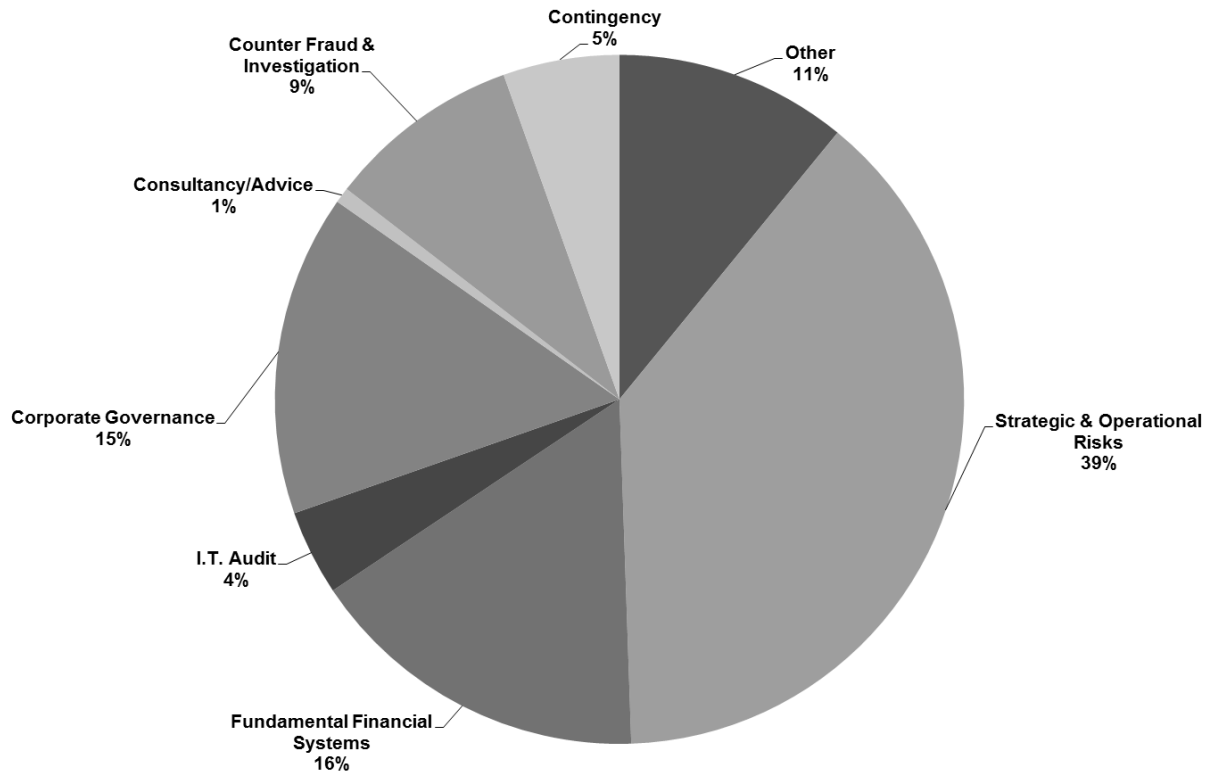
The audit plan is stated in terms of estimated days input to the Council of **550** audit days which is comparable to last year. By continuing to apply RBIAP principles, this level of input, with the ability to commission internal audit resources from current audit framework agreements as required, is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

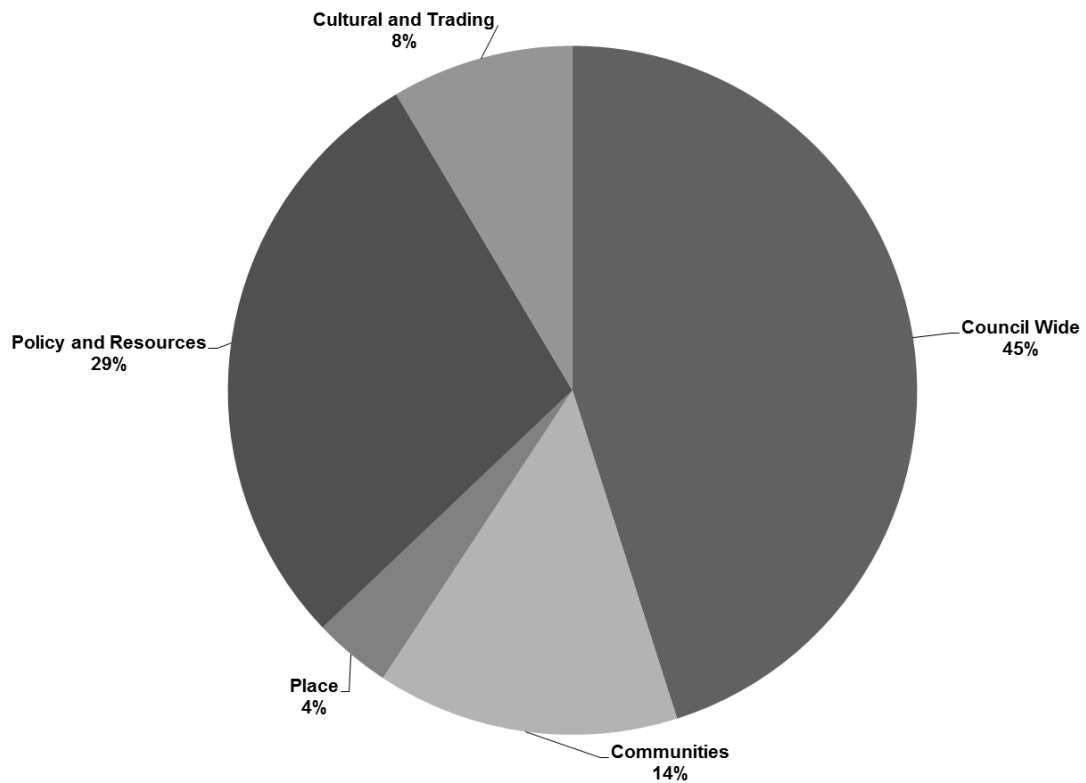
In order to provide a high level overview of the proposed Risk and Control Assurance Programme the pie charts below highlight the allocation of audit resources per:

- Category of review; and
- Functional service area.

**Percentage of audit days per category of review**



**Percentage of audit days per functional service area**



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, key financial systems and strategic risks due to the significant organisational change agenda;
- Continued emphasis on procurement and contract management and monitoring arrangements; 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. The aim is to focus on priority 1 audits, 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
Business Continuity Planning	Identified as part of Risk Based Internal Audit Planning (RBIAP)  Strategic Risk Register (SRR) 9	The Civil Contingencies Act 2004 requires all local authorities to have Business Continuity Management (BCM) arrangements in place, designed to ensure that as far as possible it can continue to operate the critical elements of the service in the event of disruption such as power loss, flooded premises or high staff absence.  This audit will evaluate the effectiveness of the arrangements including a review of generic and departmental plans to ensure that they are appropriate, realistic and up to date.	Priority 1
Code of Conduct for Employees – Follow-Up	Identified as part of RBIAP  Strategic Risk Register (SRR) 3  Limited Assurance Review	The purpose of this Code is to give all employees guidance on how the City Council and the public in general expect them to behave. If the Code is followed then staff should not find themselves in a situation where their conduct could create an impression of conflict of interest or corruption in the minds of the public. The 2017/18 audit reviewed the adequacy of the guidance and frameworks in place, related methodologies to manage and monitor ethical performance and review the effectiveness of compliance. Internal audit identified an absence of key controls and processes with only limited assurance being obtained that the risks relating this key governance area were being managed effectively.  This follow-up review will confirm that the subsequent actions agreed with management have been implemented.	Priority 1

## Internal Audit Plan 2018/19

Audit	Reason for Audit	Outline Scope	Priority
General Data Protection Regulations (GDPR)	Identified as part of RBIAP  Strategic Risk Register (SRR) 8	<p>The General Data Protection Regulation (GDPR) becomes enforceable from 25th May 2018 and is intended to strengthen and unify data protection for individuals within the European Union (EU) and to address the export of data outside the EU. Whilst many of the GDPR's main concepts and principles are much the same as those in the current Data Protection Act there are a number of new elements and significant enhancements. There is also the potential for hefty fines (up to £20m) to be imposed in the event that the Council is found to have broken the law.</p> <p>This audit will review the arrangements put in place by the Council to fulfil its obligations under this Regulation.</p>	Priority 1
Health and Safety	Identified as part of RBIAP  Strategic Risk Register (SRR) 3	<p>Gloucester City Council is fully committed to achieving high standards of health and safety to protect the well being of employees, residents and anyone else who may be affected by the council's activities.</p> <p>This audit will review the governance control framework and procedures established by the Council to meet its commitment and fulfil legal requirements and to assess the level of understanding of and compliance with the council's published Health and Safety policy.</p>	Priority 1
Leavers Processes	Identified as part of RBIAP  Strategic Risk Register (SRR) 8	<p>When an individual leaves the organisation, records for a number of systems require updating, including those for payroll, ICT and facilities. If this operation is fragmented the security of assets within the Council and associated data is decreased (particularly where an individual is not a direct employee) exposing the council to significant financial and reputational risk in the event misuse by the leaver.</p> <p>This audit will review the effectiveness of the controls in place to recover any physical assets allocated to the individual and prompt removal of access rights to Council's IT systems.</p>	Priority 2

## Internal Audit Plan 2018/19

Audit	Reason for Audit	Outline Scope	Priority
Purchasing: Low and Intermediate Value Transactions	Identified as part of RBIAP  Strategic Risk Register (SRR) 6	The Council undertakes a variety of purchasing activities to help deliver services and to meet its key aims and objectives. Failure to operate a transparent process for the procurement activity (coupled with any non-compliance with the requirements of the Public Contracts Regulations 2015) exposes the Council, Officers and Members to significant risks in the event that the contract award is subject to challenge or does not provide value for money.  This audit will review lower to intermediate value purchases (i.e. up to £50k) made by the Council in order to evaluate the level of compliance with legislation and the Council's Constitution.	Priority 2

### Communities

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Audit	Reason for Audit	Outline Scope	Priority
Houses in Multiple Occupation (HMOs) – Licensing and Enforcement	Identified as part of RBIAP  Strategic Risk Register (SRR) 2	The Housing Act 2004 introduced licensing for houses in multiple occupation (HMOs). The Act provides a detailed definition of HMOs and sets out standards of management for this type of property and licensing is mandatory for all HMOs which have three or more storeys and are occupied by five or more persons forming two or more households. Also, where a council considers that a significant proportion of these HMOs are being managed ineffectively (so as to give rise to one or more particular problems, either for the occupants of the HMOs or for members of the public) the council can impose a licence on other categories of HMOs in its area which are not subject to mandatory licensing.  This audit will review the processes in place to (1) administer the licensing process and ensure compliance with Housing Act requirements / best practice, (2) identify unlicensed properties, and (3) inspect properties and enforce expected standards.	Priority 1

## Internal Audit Plan 2018/19

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Audit	Reason for Audit	Outline Scope	Priority
Homelessness	Identified as part of RBIAP  Strategic Risk Register (SRR) 2	<p>The homelessness legislation places a general duty on housing authorities to ensure that advice and information about homelessness, and preventing homelessness, is available to everyone in their district free of charge. The legislation also requires authorities to assist individuals and families who are homeless or threatened with homelessness.</p> <p>This audit will review the effectiveness of the systems in operation for processing applications and monitoring homelessness cases and select a sample of cases to review the application process, to ensure compliance with the guidance, and to establish the level of monitoring undertaken once the decision to accept a homeless case has been made.</p>	Priority 1
Licensing	Identified as part of RBIAP  Strategic Risk Register (SRR) 3	<p>The Licensing Service 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.</p> <p>This audit shall review the fee-setting arrangements, administration and monitoring of licences relating to taxis and assess compliance with legislative requirements.</p>	Priority 1

## Internal Audit Plan 2018/19

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Audit	Reason for Audit	Outline Scope	Priority
Urban Solace (formally known as Project Solace) – Follow-Up	Identified as part of RBIAP  Strategic Risk Register (SRR) 4  Limited Assurance Review	<p>Anti-Social Behaviour (ASB) covers a wide range of activity that can have a significant negative impact on people's lives on a daily basis, affecting them as an individual, their community or their environment. In Gloucester, a multi-agency team between Gloucester City Council (GCC) and Gloucestershire Constabulary brings agencies together to deal with ASB involving homeowners, private landlords and tenants, and in public places. Project Solace has been through a period of transition with GCC taking over (from Gloucester City Homes) the operational day-to-day running in 2016 and also from January 2018 it was extended when Cheltenham Borough Council (CBC) came on board. The 2017/18 audit concluded that whilst enhancement of the control environment is planned the ongoing delays and absence of corporate oversight and performance monitoring resulted in only a limited assurance opinion that the risks considered to be material to the achievement of the services objectives for this area under review are adequately managed and controlled.</p> <p>This follow-up review will confirm that the subsequent actions agreed with management have been implemented.</p>	Priority 1
Disabled Facilities Grants	Identified as part of RBIAP  Strategic Risk Register (SRR) 2	<p>The Disabled Facilities Grant is for the provision of adaptations to disabled people's homes to help them to live independently in their own homes for longer. This funding is part of the Better Care Fund, allocated to County Councils (by the DCLG) to be further distributed to District Councils as the local housing authorities. In 2016/17 the Council awarded grants to the value of £304,553.12.</p> <p>This audit will review the effectiveness of the administration of these grants and provide assurance that the grants awarded are in accordance with the grant conditions.</p>	Priority 2

# Internal Audit Plan 2018/19

## Cultural and Trading

Audit	Reason for Audit	Outline Scope	Priority
Great Place Funding	Identified as part of RBIAP  Strategic Risk Register (SRR) 5	Gloucester City Council has been awarded £1.5m from the Great Place Scheme to support a three-year project entitled "Gloucester – a proud past: Culture at the heart of an ambitious future". Matched funding of £1.6m will also be available with Gloucester Cultural Trust being responsible for the management of the project.  This audit will review the controls established by the Council to fulfil its role as the accountable body to ensure that the expenditure claims submitted from the Trust is appropriate.	Priority 1
Markets	Identified as part of RBIAP  Strategic Risk Register (SRR) 1	A range of markets exist within the City: Eastgate Indoor Market, Farmers Market, Hempsted Meadow Market, and Kings Square Market. The Council directly manages the Eastgate Indoor Market and Kings Square markets and in addition any car boot sale or occasional market held within 6.1 miles of Gloucester Cross requires permission.  This audit will review arrangements in place to ensure that income due is collected and accounted for in an effective and timely manner.	Priority 2

# Internal Audit Plan 2018/19

## Place

Audit	Reason for Audit	Outline Scope	Priority
Planning – Processing and Performance	Identified as part of RBIAP  Strategic Risk Register (SRR) 3	The Council is the area's local planning authority, responsible for determining whether development in the local environment (constructing or altering buildings, or use of land) is suitable and in accordance with local and national policy.  This audit will consider the arrangements in accepting, validating, publicising and determining planning applications. National government is keen to ensure continuing improvement in the planning system, and measures the Council's performance on the speed and quality of decisions on applications for major development. The Council's activities in monitoring and securing good performance shall also be reviewed.	Priority 1

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## Policy and Resources

Audit	Reason for Audit	Outline Scope	Priority
Accounts Receivable	Identified as part of RBIAP  Strategic Risk Register (SRR) 1	In January 2017, the Council implemented a new Financial Management System (Civica Financials) which incorporated the replacement of the old debtors system. Accounts Receivable is identified as a key financial system and this audit will review the key high level controls to provide assurance that they continue to operate effectively in the new system.	Priority 1

## Internal Audit Plan 2018/19

Audit	Reason for Audit	Outline Scope	Priority
Blackfriars Priory Turnover Certificate	A condition of the lease.	<p>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.</p> <p>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.</p>	Priority 1
Capital Accounting	<p>Identified as part of RBIAP</p> <p>Strategic Risk Register (SRR) 1</p>	The Forecast Capital Programme identifies £7.5 million projected capital expenditure in 2017/18 across thirteen areas. Capital Accounting is identified as being a key financial system subject to regular review and this audit will assess the arrangements in place to monitor, vire and account for expenditure on capital projects within the Council.	Priority 1
Cash to Bank – Follow-Up	<p>Identified as part of RBIAP</p> <p>Strategic Risk Register (SRR) 6</p>	<p>Cash to Bank is identified as being a key financial system which is subject to regular review by Internal Audit. In December 2017, Internal Audit reviewed the arrangements in place for banking and to secure and account for income (including: bank reconciliations, cash feeder systems, cash suspense, cash security and bank access/authorisation). Whilst overall (due to the wide scope of the review) a satisfactory assurance level for control was obtained, a number of concerns were also identified where further action was required to strengthen the control environment for some aspects of this high risk activity.</p> <p>This audit will ascertain whether the action agreed with management has been completed and has been effective.</p>	Priority 1

## Internal Audit Plan 2018/19

Audit	Reason for Audit	Outline Scope	Priority
Gloucestershire Airport Limited	Identified as part of RBIAP  Strategic Risk Register (SRR) 4	Gloucestershire Airport Limited is a wholly owned airport company which was established during 1992/93 by Gloucester City Council / Cheltenham Borough Council (using powers available under the Airports Act 1986) replacing the previous joint committee arrangements. Each authority owns 50% of the shares and this is classified within the Council's individual accounts as a long-term investment.  This audit will review the effectiveness of the governance arrangements established to protect the Council's investments in this joint venture.	Priority 1
Local Taxation	Identified as part of RBIAP  Strategic Risk Register (SRR) 1	Gloucester City Council (GCC) collects Council Tax on behalf of public sector bodies that issue a precept e.g. Gloucestershire County Council and Gloucestershire Police and Crime Commissioner. In addition National Non-Domestic Rates (NNDR), also known as Business Rates, are charged to non-domestic properties as a contribution towards local services. The calculation is based on the combination of a property's rateable value and a nationally-set multiplier. The service was outsourced to Civica Ltd in October 2011 with an initial contract term of seven years, which has recently been extended to October 2021. Due to timing, the detailed scope is still to be agreed with the service lead and this allocation is to enable Internal Audit to review the effectiveness of the controls in one or more of the following key functions delivered by this provider on behalf of the Council: <ul style="list-style-type: none"> <li>• Valuation.</li> <li>• Liability.</li> <li>• Billing.</li> <li>• Collection and Refunds.</li> <li>• Recovery and enforcement.</li> </ul>	Priority 1

## Internal Audit Plan 2018/19

Audit	Reason for Audit	Outline Scope	Priority
Service Planning and Performance Reporting	Identified as part of RBIAP  Strategic Risk Register (SRR) 14	A new service planning, performance management and reporting framework is being implemented to help manage performance across the Council and better ensure delivery against the Council's priorities and objectives.  This audit will review the service planning process and how this feeds into the delivery of the Corporate Plan together with how key performance indicators are agreed, monitored and then subsequently reported.	Priority 1
Treasury Management	Identified as part of RBIAP  Strategic Risk Register (SRR) 1	Treasury Management is defined as the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.  This audit will review internal controls in operation for the day to day management of the function to ensure the Council's compliance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.	Priority 1
Civil Parking Enforcement	Identified as part of RBIAP  Strategic Risk Register (SRR) 4	The Council owns and operates a number of pay and display car parks and collects fee income from members of the public using these facilities. The car parks are patrolled by Civil Enforcement Officers (employed by APCOA Ltd under contract to the Council) who will confirm that a valid ticket is clearly displayed on the vehicle. In the absence of a valid ticket being displayed a Penalty Charge Notice (PCN) will be issued requiring the vehicle's owner to pay the discounted amount due of £25 or £35 within 28 days. Failure to do so will result in an escalation process to effect recovery of the PCN.  This audit will review the contract arrangements with the provider and to ensure that the payments due under the enforcement action are received by the Council.	Priority 2

## Internal Audit Plan 2018/19

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Audit	Reason for Audit	Outline Scope	Priority
Members Allowances and Expenses	Identified as part of RBIAP  Strategic Risk Register (SRR) 3	Gloucester City Council has 39 elected members representing constituents across 18 wards. Each member receives an annual basic allowance and when appropriate, an additional special responsibility allowance. The amount paid to members during 2016/17 was £327k.  This audit will provide assurance that the payments made to individual members are in line with the approved members allowances and expenses scheme.	Priority 2

## Internal Audit Plan 2018/19

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### ICT to include audits provided by ICT external auditors

Audit	Reason for Audit	Outline Scope	Priority
ICT	Identified as part of RBIAP  Strategic Risk Register (SRR) 11	The ICT audits will be identified following the ICT audit needs assessment. The assessment will be compiled by the Internal Audit Service ICT audit specialists and will consider input from both Council and Civica officers.	Priority 1

## Internal Audit Plan 2018/19

### 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
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 produce the 2018/19 AGS.	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) 2016. This allocation is to undertake an annual self assessment and when required, commission and deliver an external quality assessment, against the new standards.	Priority 1
External Working Groups	Activity to support the audit opinion	Attendance / work in relation to the Counties Chief Auditor 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

## Internal Audit Plan 2018/19

Activity	Reason for Activity	Outline Scope	Priority
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 2017/2018 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



Meeting:	Audit and Governance Committee	Date:	12 <sup>th</sup> March 2018
Subject:	Audit and Governance Committee Annual Report 2017/18		
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:	Tel: 01452 396338	
	<a href="mailto:Theresa.Mortimer@gloucester.gov.uk">Theresa.Mortimer@gloucester.gov.uk</a>		
Appendices:	A: Audit and Governance Committee Annual Report 2017/18		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 The Annual Report summarises the activities of the Audit and Governance Committee during 2017/18 and sets out its plans for the next twelve months.
- 1.2 This report provides the Council with an 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 2017/18; and
  - b) **RECOMMEND** to Council the Annual report is 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 2017/18 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 recommendation 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 Nothing specific arising from the report recommendations.

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

## **10.0 Risk and 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):**

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 2017/2018](#)

[Constitution: Audit and Governance Committee Terms of Reference](#)

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# Audit and Governance Committee Annual Report

2017-2018



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## Statement from the Chairman 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 established an Audit and Governance Committee in line with CIPFA's guidance '*Audit Committees – Practical Guidance for Local Authorities and Police - 2013 Edition*'. 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 Chairman, 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 scrutiny of 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 Andrew Gravells**  
**Chairman 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<sup>1</sup>. 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.

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<sup>1</sup> CIPFA – Practical Guidance for Local Authorities and Police, 2013

## Membership and Meetings

The Committee has enjoyed the benefit of a reasonably settled membership over the last two years. 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 eight Members of the Audit and Governance Committee namely:

- Councillor Andrew Gravells (Chair)
- Councillor Dawn Melvin (Vice-Chair)
- Councillor Kevin Stephens
- Councillor Steve Morgan
- Councillor Declan Wilson
- Councillor Hannah Norman
- Councillor Deborah Smith
- Councillor David Norman MBE (ex-Officio)

During the 2017/18 Civic Year, the Audit and Governance Committee has met on five occasions, in accordance with its Programme of Work:

- 19th June 2017
- 18th September 2017
- 20th November 2017
- 22nd January 2018
- 12th March 2018

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 (KPMG).

## 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 (KPMG).

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 2017/2018 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 2017/18, specifically requesting an audit of the Streetcare contract management arrangements. 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;
- 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 i.e. Marketing Gloucester Ltd, Officers Code of Conduct, Project Solace and the Streetcare contract 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;
- 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; 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 2017/18. These reports set the Council's prudential indicators for 2017/18 – 2019/20 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

The External Audit service is provided by KPMG. The Committee has monitored the work of the Council's external auditors and has:

- considered and approved the External Audit Plan 2016/17 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 2016/2017 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 unqualified opinion on the financial statements and VFM conclusion;
- considered and approved the Statement of Accounts for 2016/17 of the Council and received KPMG's audit opinion. The S151 Officer together with the Chairman of the Committee signed a letter of representation on behalf of the Committee and Council to KPMG, to enable the 'unqualified' opinion to be issued;
- considered and accepted the Annual Audit Letter 2016/17. This letter summarises the outcome from audit work at the Council during this period;
- received and considered the Annual Report on grant claims and returns 2016/17. This report summarises the results of the work undertaken on the Council's 2016/2017 grant claims and returns; and
- received and considered regular external audit progress reports.

## Risk Management Activity

During the year the Committee has:

- 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:

- considered and approved the Council's 2016/2017 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 2016/17 Annual Governance Statement Improvement Plan;
- Considered the report of the Head of Policy and Resources concerning the annual review of the Council's Regulation of Investigatory Powers Act (2000) (RIPA) Procedural Guide; and

- considered the standards issues during 2017/2018 relating to the Members Code of Conduct, Local Government Ombudsman decisions and the complaints procedures.

## Other

In addition, the Committee considered:

- an update following the decision of the Information Commissioner's Office to issue the City Council with a Monetary Penalty Notice;
- the report of the Cabinet Member for Performance and Resources outlining the additional Discretionary Rate Relief Scheme;
- the report by the Head of Policy and Resources on the City Council's preparedness for the Introduction of Universal Credit;
- the verbal update by the Head of Policy and Resources on the governance arrangements on the property investment strategy; and
- the update provided on the review on the accuracy rate of Housing Benefit and Council Tax Support assessments and the impact upon customers.

## Training

The following training was made available to Members of the Audit and Governance Committee in 2017/18 to support the Committee in discharging its responsibilities:

- Chair and Vice Chair attendance at a TIAA (The Internal Audit Association) client event named 'Audit Committee Chairs Conference' covering Cyber Security, Whistleblowing, Effective Governance and Risk Management, on 8th February 2018;
- Code of Conduct refresher training for all Councillors scheduled for 29th March 2018, which will be of relevance in respect of the Committee's role in relation to ethics and behaviours; and
- 121 Officer briefings to Chair and Vice Chair of the Audit and Governance Committee as required throughout 2017/2018.

## Future Work

During 2018/19, 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 2017/2018, 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 2017-2018**  
**(Updated 20 February 2018)**

Item	Format	Committees	Lead Officer	Comments
<b>12 March 2018</b>				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee
2. Treasury Management Strategy	Written Report	Audit and Gov Cabinet Council	Head of Policy and Resources	Part of the Committee's annual work programme
3. Annual Risk Management Report 2017/18	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Internal Audit Activity 2017/18 – progress report.	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
5. Internal Audit Plan 2018/19	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
6. Annual Report of the Audit and Governance Committee (Chair's Report)	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
7. Management update as to actions taken in respect of the recommendations made within the Project Solace Limited Assurance review	Written Report	Audit and Gov	Head of IA&RM Shared Service	Requested by the Committee
8. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item
9. AMEY Performance KPIs and Penalty Provisions	Verbal	Audit and Gov	Corporate Director	Requested by the Committee
<b>23 July 2018</b>				
1. Audit and Governance Committee Action Plan	Timetable	-----	-----	Standing agenda item requested by the Committee

2. Position Statement on Statement of Accounts	Verbal report	Audit and Gov	Head of Policy and Resources	Part of the Committee's annual work programme
3. The Annual Report on Internal Audit Activity 2017/2018	Written Report	Audit and Gov	Head of IA&RM Shared Service	Part of the Committee's annual work programme
4. Treasury Management Six Monthly Update 2017/18	Written Report	Audit and Gov	Head of Policy and Resources/Accountancy Manager	Part of the Committee's annual work programme
5. Audit and Governance Committee Work Programme	Timetable	-----	-----	Standing Agenda Item

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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