

Borough Council of  
**King's Lynn &  
West Norfolk**



# **Audit and Risk Committee**

## **Agenda**

Tuesday, 23rd February, 2016  
at 5.30 pm

in the

**Committee Suite  
King's Court  
Chapel Street  
King's Lynn  
PE30 1EX**



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**King's Court, Chapel Street, King's Lynn, Norfolk, PE30 1EX**  
**Telephone: 01553 616200**  
**Fax: 01553 691663**

15 February 2016

Dear Member

**Audit and Risk Committee**

You are invited to attend a meeting of the above-mentioned Committee which will be held on **Tuesday, 23rd February, 2016 at 5.30 pm** in the **Committee Suite, King's Court, Chapel Street, King's Lynn** to discuss the business shown below.

Yours sincerely

Chief Executive

**AGENDA**

**1. Apologies**

To receive any apologies for absence.

**2. Minutes**

To approve the minutes from the Audit and Risk Committee held on 24 November 2015 (previously circulated).

**3. Declarations of Interest**

Please indicate if there are any interests which should be declared. A declaration of an interest should indicate the nature of the interest (if not already declared on the Register of Interests) and the agenda item to which it relates. If a disclosable pecuniary interest is declared, the Member should withdraw from the room whilst the matter is discussed.

These declarations apply to all Members present, whether the Member is part of the meeting, attending to speak as a local Member on any item or simply observing the meeting from the public seating area.

**4. Urgent Business Under Standing Order 7**

To consider any business which, by reason of special circumstances, the Chairman proposed to accept as urgent under Section 100(b)(4)(b) of the Local Government Act 1972.

**5. Members Present Pursuant to Standing Order 34**

Members wishing to speak pursuant to Standing Order 34 should inform the Chairman of their intention to do so and on what items they wish to be heard before the meeting commences. Any Member attending the meeting under Standing Order 34 will only be permitted to speak on those items which have been previously notified to the Chairman

**6. Chairman's Correspondence (if any)**

**7. Matters referred to the Committee from other Council Bodies and Responses made to previous Committee Recommendations/Requests**

To receive comments and recommendations from other Council bodies, and any responses subsequent to recommendations, which the Committee had previously made. (NB some of the relevant Council bodies may meet after dispatch of the agenda).

**8. Risk Assessment Briefing/Training**

All Members have been invited to attend for this item. The training will be delivered by the Internal Audit Team.

**9. Annual Certification of Claims and Returns (Pages 6 - 14)**

Ernst & Young, the Council's External Auditors will present the report.

**10. External Audit Plan (Pages 15 - 32)**

Ernst and Young, the Council's External Auditors will present the Audit Plan.

**11. Local Government Audit Committee Briefing (Pages 33 - 44)**

Ernst and Young, the Council's External Auditors will present the report.

**12. Strategic Internal Audit Plan (Pages 45 - 58)**

The Audit Manager will present the Plan.

**13. Members Training**

Members are invited to discuss any future training opportunities that they might find useful.

**14. Cabinet Report: Treasury Management Strategy 2016/2017  
(Pages 59 - 90)**

The Committee are invited to consider the report and make any appropriate recommendations to Cabinet.

**15. Cabinet Report: Risk Management Policy and Strategy Review**

(Pages 91 - 105)

The Committee are invited to consider the report and make any appropriate recommendations to Cabinet.

**16. Committee Work Programme 2015/2016 and Forward Decisions List**  
(Pages 106 - 109)

To note the Committee's Work Programme for 2015/2016 and Forward Decisions List.

**17. Date of Next Meeting**

The date of the next meeting will be scheduled once the Calendar of Meetings 2016/2017 has been agreed by Cabinet.

To:

**Audit and Risk Committee:** B Anota, J Collop, P Colvin, I Devereux, I Gourlay, G Hipperson (Vice-Chairman), P Hodson, H Humphrey (Chairman), G Middleton, A Morrison, D Tyler and G Wareham

**Portfolio Holder:**

Councillor N Daubney, Leader and Portfolio Holder for Resources

**Management Team Representatives:**

Ray Harding, Chief Executive  
Lorraine Gore, Assistant Director

**Appropriate Officers:** The following officers are invited to attend in respect of the Agenda item shown against their name

Item 8: Gordon Adam, Auditor  
Item 12: Kate Littlewood, Audit Manager  
Item 14: Toby Cowper, Group Accountant

**REPORT TO AUDIT AND RISK PANEL**

<b>Open</b>		<b>Would any decisions proposed :</b>		
<b>Any especially affected Wards None</b>	Mandatory	(a) Be entirely within Cabinet's powers to decide	YES	
		(b) Need to be recommendations to Council	NO	
		(c) Be partly for recommendations to Council and partly within Cabinets powers –	NO	
Lead Member: Councillor Nick Daubney E-mail: cllr.nick.daubney@west-norfolk.gov.uk		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: Lorraine Gore E-mail: lorraine.gore@west-norfolk.gov.uk Direct Dial: 01553 616432		Other Officers consulted: None		
Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl NO	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 23 February 2016

**Ernst & Young LLP - Certification of claims and returns annual report 2014-15**

**Summary**

The Council is required to receive and note the auditors (Ernst & Young LLP) annual report 2014-15 - Certification of claims and returns.

**Recommendations**

**The Audit and Risk Panel are asked to note the contents of this Audit report.**

# Certification of claims and returns annual report 2014-15

Borough Council of King's Lynn and West Norfolk

8 January 2016

Ernst & Young LLP



**EY**

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working world

The Members of the Audit and Risk Committee  
Borough Council of King's Lynn and West Norfolk  
King's Court  
Chapel Street  
King's Lynn  
Norfolk  
PE30 1EX

8 January 2016  
Ref: BCKLWN/RM/14-15

Direct line: 01223 394485  
Email: [rmurray@uk.ey.com](mailto:rmurray@uk.ey.com)

Dear Members

## **Certification of claims and returns annual report 2014-15 Borough Council of King's Lynn and West Norfolk**

We are pleased to report on our certification work. This report summarises the results of our work on Borough Council of King's Lynn and West Norfolk's 2014-15 claims.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2014-15 financial year. These arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### **Statement of responsibilities**

The Audit Commission's 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities) applied to this work. It serves as the formal terms of engagement between ourselves as your appointed auditor and the Council as audited body.

This report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the Council. As appointed auditor we take no responsibility to any third party.

### **Summary**

Section 1 of this report outlines the results of our 2014-15 certification work and highlights the issues arising.

We checked and certified the housing benefits subsidy claim with a total value of £40.4m; meeting the submission deadline. We issued a qualification letter for the housing benefit claim and details of the qualification matters are included in section 1. The Council has improved arrangements from the previous year and this is evidence by the lower levels of errors detected.





Fees for certification work are summarised in section 2. The fees for 2014-15 were published by the Audit Commission on 27 March 2014 and are now available on the Public Sector Audit Appointments Ltd (PSAA's) website ([www.psaa.co.uk](http://www.psaa.co.uk))

We welcome the opportunity to discuss the contents of this report with you at the Audit and Risk Committee on 23 February 2016.

Yours faithfully

**Rob Murray**  
Executive Director  
Ernst & Young LLP  
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## Contents

<b>1. Housing benefits subsidy claim.....</b>	<b>1</b>
<b>2. 2014-15 certification fees.....</b>	<b>2</b>
<b>3. Looking forward.....</b>	<b>3</b>

## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£40,439,950
Amended/Not amended	Amended
Qualification letter	Yes
Fee – 2014-15	£31,280
Fee – 2013-14	£29,353

Recommendations from 2013-14	Findings in 2014-15
None	

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims. We found errors and carried out extended testing in 3 areas.

Our initial testing identified errors which the council amended in regards to non-housing revenue account expenditure due to the council applying the incorrect rent and also errors were identified in the recording of expenditure split between cells 12 and 13. 100% testing was undertaken on all cases categorised as non-housing revenue account and amendments to the claim were made as they were discrete and quantifiable. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

These are the main issues we reported:

- ▶ Rent allowance - 2 cases where the claimant's income had been incorrectly calculated, resulting in an over payment of income; 2 cases where benefit had been underpaid due to the Council applying the incorrect income figures. Adjustment of £11,648;
- ▶ Eligible overpayments - 2 cases where overpaid benefit had been misclassified due to system applying the incorrect dates. The classification of benefit overpayments impacts the amount of subsidy that the council receives from the DWP; 2 cases where benefit was misclassified and should have been classified as overpaid benefit due to the Council applying incorrect amounts of underlying entitlement. Adjustment of £1,000; and
- ▶ Local Authority Overpayments - 3 cases where overpaid benefit had been misclassified due to the Council applying the incorrect dates. Adjustment of (£8,373).

The net impact of the extrapolated errors identified above and other minor amendments made to the claim form was to increase the level of Local Authority error and administrative delay overpayments, by a few thousand pounds. The regulations allow for a permitted Local Authority error rate being exceeded, however this increase resulted in that permitted Local Authority error rate being exceeded, resulting in a potential reduction of subsidy of £109,624. Housing subsidy regulations result in this disproportionate impact of the errors noted on the level of subsidy that can be claimed. The potential reduction of subsidy can't be confirmed until the DWP confirm what action it will take as a result of our qualification letter.

## 2. 2014-15 certification fees

The Audit Commission determined a scale fee each year for the audit of claims and returns. For 2014-15, these scale fees were published by the Audit Commission on 27 March 2014 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2013-14	2014-15	2014-15
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	29,353	31,280	31,280*
<b>Total</b>			

\*Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

### 3. Looking forward

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2015-16 is £19,602. This was prescribed by PSAA in April 2015, based on no changes to the work programme for 2015-16 and no changes to the level of testing from 2013-14. PSAA reduced scale audit fees and indicative certification fee hourly rates for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

Details of individual indicative fees are available at the following web address:  
<http://www.psa.co.uk/audit-and-certification-fees/201516-work-programme-and-scales-of-fees/individual-fees-for-local-government-bodies>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Assistant Director before seeking any such variation.

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# **Borough Council of King's Lynn and West Norfolk**

Year ending 31 March 2016

Audit Plan

10 February 2016

Ernst & Young LLP



Building a better  
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Audit and Risk Committee  
Borough Council of King's Lynn & West Norfolk  
King's Court  
Chapel Street  
King's Lynn  
Norfolk  
PE36 1EX

10 February 2016

Dear Committee Members

## **Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2015/16 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks

We welcome the opportunity to discuss this Audit Plan with you on 23 February 2016 and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

Executive Director  
*For and behalf of Ernst & Young LLP*  
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## Contents

<b>1. Overview .....</b>	<b>1</b>
<b>2. Financial statement risks .....</b>	<b>2</b>
<b>3. Value for money risks .....</b>	<b>4</b>
<b>4. Our audit process and strategy.....</b>	<b>5</b>
<b>5. Independence.....</b>	<b>9</b>
<b>Appendix A Fees.....</b>	<b>11</b>
<b>Appendix B UK required communications with those charged with governance ....</b>	<b>12</b>
<b>Appendix C Detailed scopes .....</b>	<b>14</b>

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the [PSAA website \(www.psa.co.uk\)](http://www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Borough Council of King's Lynn and West Norfolk (the Council) give a true and fair view of the financial position as at 31 March 2016 and of the income and expenditure for the year then ended;
- ▶ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness;

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

## **Changes in our audit scope**

Appendix C provides an overview of the nature of our planned involvement in the work to be performed by the component auditor of Alive Management limited.

We will provide an update to the Audit and Risk Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September, 2016.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<b>Non-Current Assets</b>	
<p>Property, Plant and Equipment (PPE), and Investment properties represent the largest asset values on the Council's balance sheet. These assets are initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis. This is carried out by an internal valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment. The introduction of IFRS13 Fair Value Measurement in 2015/16 will impact on Investment Property accounting.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p> <p>Due to the nature, size and complexity of PPE and investment property accounting we consider this a significant risk.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reliance on management's experts and review of the instructions given to that valuer</li> <li>▶ Consideration of the accounting treatments and basis of valuation as required by the Code and the introduction of IFRS 13 Fair Value Measurement specifically for Investment Properties this year.</li> <li>▶ Test of detail if required</li> <li>▶ Test of the journals and derivation of accounting entries.</li> </ul>
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>▶ Review and test revenue and expenditure recognition policies</li> <li>▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias</li> <li>▶ Develop a testing strategy to test material revenue and expenditure streams</li> <li>▶ Review and test revenue cut-off at the period end date</li> <li>▶ We will test the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure..</li> </ul>
<b>Risk of management override</b>	
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>▶ Reviewing accounting estimates for evidence of management bias, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions..</li> </ul>

**Other Financial Statement Risks**

**Pension Liability - IAS19**

The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement. The Pension liability is the largest value liability on the balance sheet. Due to the nature, volume and size of the transactions we consider this to be a risk.

Our approach will focus on:

- ▶ The actuarial expertise used by the CouncilThe reasonableness of the estimations and judgements used.

**Non-Domestic Rates Provision**

Councils need to provide for Business Rate appeals and will need to consider the following when estimating the provision under IAS 37.

We found that the council had developed an appropriate methodology in previous years but this methodology needs to be reassessed to ensure that the assumptions made remain appropriate to prepare a reliable estimate.

We will review the:

- ▶ detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice; and
- ▶ Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.

**BCKLWN Group Boundary**

During recent years the Council has entered into a number of arrangements with other entities regarding service delivery, most significantly:

- Nar Ouse Regeneration Agreement (NORA);and
- Alive Leisure Trust (ALT);

It is therefore important that the Council continues to revisit on an annual basis its assessment of the group boundary.

Our approach will focus on:

- ▶ Assessing where overall control lies with regard to the operation and delivery of services of the potential group entities.
- ▶ Reviewing the group boundary assessment prepared by the Council
- ▶ Ensuring that appropriate consolidation procedures are applied when consolidating relevant entities into the BCKLWN group accounts.

## 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud, and,
- ▶ Performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

For 2015/16 this is based on the overall evaluation criterion:

*"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"*

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the following significant VFM risks which we view as relevant to our value for money conclusion has not identified any risks which we view as relevant to our value for money conclusion.

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

#### 1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

Alongside our audit report, we also:

- ▶ Review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require;

#### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

### 4.2 Audit process overview

To the fullest extent permissible by auditing standards, we intend to consider internal audit's work in documenting your financial systems and controls. This will enable us to more efficiently update our understanding of your systems and carry out the walkthrough of those systems as required under auditing standards. Our intention is to carry out a fully substantive audit in 2014/15 rather than rely on the operation of controls as we believe this to be a more efficient approach.

#### **Analytics**

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

#### **Internal audit**

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

## Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions	Actuary/EY Pensions team
Property, plant and Equipment	Internal Valuer
NORA Property Valuation	External Valuer
Financial Instruments	Capita

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the expert to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

### 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

#### Procedures required by standards

- ▶ Addressing the risk of fraud and error;
- ▶ Significant disclosures included in the financial statements;
- ▶ Entity-wide controls;
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements;
- ▶ Auditor independence.

### **Procedures required by the Code**

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

Finally, we are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014.

## **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £1.680m based on 2% of gross expenditure on deficit on provision of services. We will communicate uncorrected audit misstatements greater than £0.08m to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **4.5 How materiality is applied to the component locations**

We determine component materiality as a percentage of Group materiality based on risk and relative size to the Group. The component reporting limit for adjustments of £0.08m is the same as that noted above.

## **4.6 Fees**

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Borough Council of King's Lynn and West Norfolk is £51,291.

Due to change in scope of audit from a single entity audit to a group audit we will seek to agree a scale fee variation for this additional work which is above and beyond the indicative scale fee.

## **4.7 Your audit team**

The engagement team is led by Mark Hodgson, who has significant experience on Local Government audits. Mark is supported by Sappho Powell who is responsible for the day-to-day direction of audit work and is the key point of contact for the group accountant.



## 4.8 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit and Risk Committee's cycle in 2015/16. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit and Risk Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
High level planning	January to February		
Risk assessment and setting of scopes	February to March	23 February 2016	Audit Plan
Review of routine processes and controls	February to March		
Year-end audit	June to July		
Completion of audit	August to September	September	<ul style="list-style-type: none"> <li>Report to those charged with governance via the Audit Results Report</li> <li>Audit report (including our opinion on the financial statements; and, overall value for money conclusion).</li> <li>Audit completion certificate</li> <li>Reporting to the NAO on the Whole of Government Accounts return.</li> </ul>
Conclusion of reporting	October	November	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

### 5.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

### ***Self-interest threats***

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council.

At the time of writing, there are no long outstanding fees.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Council. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

### ***Self-review threats***

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

### ***Management threats***

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

### ***Other threats***

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

### ***Overall Assessment***

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, the audit engagement Executive Director and the audit engagement team have not been compromised.

## **5.3 Other required communications**

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2015 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2015>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2015/16 £	Scale fee 2015/16 £	Outturn fee 2014/15 £	Explanation
Opinion Audit and VFM Conclusion	51,291	51,291	73,188	See Note 1
<b>Total Audit Fee – Code work</b>	<b>51,291</b>	<b>51,291</b>	<b>73,188</b>	
Certification of claims and returns <sup>1</sup>	19,602	19,602	31,280	Based on 2013/14 outturn with a 25% reduction in fees from PSAA Ltd.

*All fees exclude VAT.*

Note 1 – We need to assess the implications of Council's assessment of the group boundary and that impact on the potential consolidation on the Council's statutory accounts. If there are consolidated financial statements there will be the need to vary the scale fee to reflect the additional work required on the disclosures needed to meet the group consolidation requirements of the Code of Practice and International Accounting Standards.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Officers provide appropriate responses to queries, draft audit reports and other information we request within agreed timescales;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the s151 Officer and the Audit & Risk Committee in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

<sup>1</sup> Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

Required communication	Reference
<p><b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.</p>	▶ Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	▶ Report to those charged with governance
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	▶ Report to those charged with governance
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	▶ Report to those charged with governance
<p><b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	▶ Report to those charged with governance
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	▶ Report to those charged with governance
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Risk Committee may be aware of</li> </ul>	▶ Report to those charged with governance

Required communication	Reference
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<ul style="list-style-type: none"> <li>▶ Report to those charged with governance</li> </ul>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Report to those charged with governance</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<p>Audit Plan</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>

## Appendix C Detailed scopes

Our objective is to form an opinion on the group's consolidated financial statements under International Standards on Auditing (UK and Ireland).

We set audit scopes for each reporting unit which together enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each reporting unit.

The preliminary audit scopes we have adopted to enable us to report on the group accounts are set out below. Our audit approach is risk-based, and therefore the data below on coverage of gross revenue expenditure and total assets is provided for your information only.

Group audit scope	Number of locations	% of GRE	% of Net Assets
Specific	1	2.2%	0.6%

- ▶ **Full scope:** locations deemed significant based on size and those with significant risk factors are subject to a full scope audit, covering all significant accounts and processes using materiality levels assigned by the Group audit team for the purposes of the consolidated audit. Procedures are full-scope in nature, but may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements (as materiality thresholds support to the consolidated audit).
- ▶ **Specific scope:** locations where only specific procedures are performed by the local audit team, based upon procedures, accounts or assertions identified by the Group audit team.
- ▶ **Limited Scope:** limited scope procedures primarily consist of enquiries of management and analytical review. On-site or desk top reviews may be performed, according to our assessment of risk.

**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. These other procedures will include:

- ▶ Obtain management's review of actual performance compared to budget, prior year and KPIs.
- ▶ Review of group wide entity level controls over these components, including the level of Chief Executive, Assistant Director and other group management oversight and results of Internal Audit visits.
- ▶ Test consolidation journals, and intercompany eliminations
- ▶ Enquiry of management about unusual transactions in these components.

ISA 600 (UK and Ireland) requires that we provide you with an overview of the nature of our planned involvement in the work to be performed by the component auditors of significant components. Our involvement can be summarised as follows:

Sending out group instructions specifying the specific balances we wish them to provide assurance over.

EY | Assurance | Tax | Transactions | Advisory

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# Local government audit committee briefing

## Contents at a glance

### Government and economic news

### Accounting, auditing and governance

### Regulation news

### Key questions for the audit committee

### Find out more

This sector briefing is one of the ways that we see as supporting you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the local government sector and the audits that we undertake.

The public sector audit specialists in EY's national Government and Public Sector (GPS) team have extensive public sector knowledge which is supported by the wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only

technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authorities.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local engagement team.



## Government and economic news

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### EY Item Club forecast

In its latest quarterly forecast (Winter) the EY Item Club highlights that what it terms the UK consumer's "holiday" from inflation and austerity in 2015 is expected to continue well into 2016, aided by the sharp fall in oil and other commodity prices, and the Chancellor's change of heart on working tax credits.

Whilst the global situation is clearly fragile, the UK is seen to be well placed to ride out the storms. Growth is expected to increase from the revised 2.2% in 2015 to 2.6% this year, being supported by low inflation and interest rates. The CPI is forecast to increase by just 0.7% and they do not expect the Bank of England Monetary Policy Committee to increase bank rate until late in the year.

Looking further forward, the forecast is for inflation and austerity to return, with GDP growth of 2.3% in 2017 and 2.2% in 2018 and consumer spending growth dropping from 2.8% in 2016 of 2.1% in 2017 and 1.7% in 2018. Highlighted as impacting on this are the increasing taxes and levies on consumers and companies, and the roll-out of Universal Credit (which will claw back this Autumn's concessions to low earners). Inflation is expected to increase to 1.8% by 2018, remaining below the MPC target until 2019.

Continuing uncertainty over the EU Referendum could potentially hit business investment this year, as businesses wait to see the result, but momentum in the UK and other economies is seen as supporting capital spending this year.

### Local Government Devolution

Towards the end of 2015, Birmingham and Liverpool each agreed devolution deals with Treasury which gives them control over infrastructure investment, transport and skills. This brings the total of devolution deals to 6:

- ▶ Birmingham
- ▶ Liverpool
- ▶ Greater Manchester
- ▶ Sheffield
- ▶ North East
- ▶ Tees Valley

Each area will need to elect a metro mayor, with elections expected to take place in 2017.

For Birmingham, £1.2bn of government investment is anticipated over the next 30 years, and for Liverpool the expectation is £30mn per year over the next three decades.

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.



## Government and economic news

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### Spending Review 2015

Some headlines from the Spending Review 2015 include:

- ▶ The intention to be running a £10bn surplus by 2019/20.
- ▶ Tax credit taper rates and thresholds will remain unchanged.
- ▶ Council tax increases of 2% to support social care will be permitted. Local Police and Crime Commissioners will have the power to increase their share of council tax by 2% from April 2016.
- ▶ From 2020, local government will retain 100% of business rates collected. The system of top ups and tariffs redistributing revenues between local authorities will be retained. The uniform rate will be abolished; allowing local areas to cut business rates if they choose to do so in order to win new jobs and generate wealth.
- ▶ Police and schools funding will be protected in line with inflation.

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

The Government has also consulted on the 2016-17 settlement. Further details available at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/486730/Provisional\\_settlement\\_consultation\\_document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486730/Provisional_settlement_consultation_document.pdf).

### Consultation: New Homes Bonus

In 2011 the New Homes Bonus was introduced to incentivise local authorities to encourage housing growth in their areas. Since 2011, £3.4bn has been allocated to support the delivery of 700,000 new homes and the return of 100,000 long term empty homes to use.

The Department for Communities and Local Government (DCLG) has released a consultation which seeks views on potential changes to the New Homes Bonus. The changes are intended to “better reflect authorities’ delivery of new housing”. Other proposed changes include introducing a reduction to the number of years in which current and future payments are made, from six years to four years.

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

The deadline for response is 10th March 2016.



## Government and economic news

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### Local Authority Revenue Expenditure and Financing

During November 2015, statistics for 2014-15 on revenue expenditure and financing with local government were released by the Department for Communities and Local Government.

Some highlights include:

Total revenue expenditure by local authorities in England reduced by 0.5% in 2014-15, from £96.4bn in 2013-14 to £95.9bn, however, excluding spend on Education (30.7% of total net current expenditure) there was an increase of 1.5% from £60.5bn in 2013-14 to £61.5bn.

Net current expenditure on education saw the largest decrease, which was largely driven by schools achieving academy status and therefore receiving central expenditure, and by the reclassification of some services to Children and Families Social Care services (which saw a £1.2bn increase for this reason).

Local Authorities added £0.9bn to reserves in 2014-15 as compared to £2.4bn in 2013-14. This takes total reserves to £22.5bn and means that the last 15 years has seen a significant increase in the amount held by local authorities in non-ringfenced reserves. Communities Secretary Greg Clark has noted this increase and said:

“With local government accounting for a quarter of all public spending, it is right that they are called on to play their part in dealing with the deficit.

Today’s figures show how they are well placed to do so, with local authorities holding £22.5bn held in non-ringfenced reserves – up 170% in real terms over the last 15 years.

As we continue to secure our country’s economic future and cut the deficit, now is the time to make efficient use of their assets and resources to provide the services local people want to see.”

Public Finance has published an article available at <http://www.publicfinance.co.uk/news/2015/11/mounting-reserves-leave-councils-well-placed-make-cuts-says-clark>, and the full publication is available at <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

### Response to flooding

The Bellwin scheme, which compensates eligible authorities for exceptional costs incurred in incidents like flooding, has been opened for councils affected by floods resulting from storms Desmond and Eva.

Authorities are eligible for costs under the scheme when they have spent more than 0.2% of their calculated annual revenue budgets on works.



## Government and economic news

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Bellwin allows eligible authorities to apply to have 100% of their costs above threshold reimbursed by the government.

Eligible authorities include:

- ▶ Councils
- ▶ Policing bodies
- ▶ Fire and rescue authorities
- ▶ National Park authorities

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

### Council Tax support

A review into the effectiveness of Council Tax support schemes across the country has been initiated, led by Member of Parliament, Eric Ollerenshaw, OBE.

Council Tax Benefit was reformed from 2013-14 to give councils the power to design their own schemes and align them to local needs. This review is intended to examine the implementation of this change and to consider whether or not this support should be part of the Universal Credit payments in the future.

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>.

### Public sector exit payment recovery regulations

The government is consulting on draft regulations that will give effect to the powers enacted in the Small Business, Enterprise and Employment Act 2015. These regulations allow for the recovery of exit payments following the return of a high earner to the public sector within a year of their initial departure.

Changes made to the policy since the previous consultation include:

- ▶ The minimum earnings threshold for individuals subject to the recovery provisions has been lowered from £100,000 to £80,000
- ▶ The policy has been extended to include qualifying returns to any part of the public sector, rather than only to the same part of the public sector
- ▶ Introduction of a tapered recovery period for 12 months from the exit date
- ▶ Recovery will now include employer funded pension 'top up' payments made under the Local Government Pension Scheme.

Public sector organisations that are in scope and those that are proposed to be exempt are included in the draft regulations.

Following this consultation, the regulations will go through Parliamentary scrutiny, and the intention is that the policy will take effect from April 2016.

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>.



## Accounting, auditing and governance

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### Faster Close update

Since our think piece 'accelerating your financial close arrangements' in the summer – we have worked together with our clients to successfully deliver another round of financial statements audits.

We have seen again a number of our clients achieve the earlier 31 July deadline – three years ahead of schedule. Nationally, 5% of opinions were issued by 31 July for 2014-15.

At other clients, we have seen a shortening of the actual audit window as both preparers and auditors refine the operational timetable in readiness for 2017-18 audits.

The think piece set out some areas where preparers can hone their closedown plans and work with their auditors in the run up to the revised timetable. Discussions with clients around the country are showing encouraging signs that finance teams are already grasping the issue and working on solutions to enable them to prepare and submit draft financial statements and supporting working papers to the auditor by 31 May. Twenty-one percent of our clients have committed to this earlier target for the 2015-16 audits.

On our side, as a firm, we are reviewing how we can streamline our audit approach, to provide maximum ability to undertake early substantive testing across a Month 8-10 window, thereby reducing some pressure in the key June – July audit window. This may not work in all cases, because of the budget setting process, so other ways of streamlining the audit approach are also being developed.

In addition, we are addressing the resourcing challenge that this presents to audit firms, with a significant recruitment campaign to enable us to continue to deliver exceptional client service across the entire sector. This will require us to phase our audits, at both an interim and final audit stage to allow us greater flexibility in resource deployment and audit clients should be prepared to have bigger audit teams on site for shorter periods of time, as running all audits concurrently is not likely to be possible.

A key issue arising from our recent discussions is dealing with the governance processes at councils for receiving the auditor's report and approving the accounts. There are a wide range of approval processes in place at councils as a result of custom and practice over the years, and some are more streamlined than others.

Councils will need to review their governance processes for approving the accounts with a view to making it as simple as possible to ensure the maximum amount of the nine week window for audit can be used for audit procedures. Under the Account and Audit Regulations 2015, it is only the responsibility of the committee 'charged with governance' to approve the financial statements ahead of final certification by the s151 officer. Adding additional layers of approval through to Cabinet or Full Council slows down the governance process and potentially adds to the audit burden.

For 2014-15 audits, 8% of our clients had Audit Committee meetings scheduled before September for approval of the financial statements. For 2015-16, in several instances Audit Committee timetables have not yet been finalised, however, currently 7% of our client base has already confirmed that their Audit Committee timetable would enable accounts authorisation before September, with 4% scheduled before 31 July 2016.



## Accounting, auditing and governance

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An effective Audit Committee is one which can appropriately scrutinise the financial statements and the auditor's results report prepared under International Standard on Auditing (UK&I) 260, and challenge officers about accounting policies and estimates in order to be able to approve the financial statements on behalf of the council.

Given the lead time for amending corporate governance processes, officers should review the approval arrangements, and schemes of delegation from Full Council, ensuring that the Audit Committee operates as effectively as possible and to the remit as set out by CIPFA in its guidance 'Audit Committees: Practical Guidance for Local Authorities and Police (2013 edition)'.

We are encouraged by the response of our clients to this challenge and the acceptance that it is a joint responsibility to achieve the faster close, and we will continue to work with you as we both prepare for the advanced deadlines.

For further information, please speak to a member of your engagement team.

### Value for Money guidance

The Local Audit & Accountability Act 2014 Section 20(1) requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

The Act is implemented through the National Audit Office's 2015 Audit Code of Practice (the Code), which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

Paragraph 3.14 sets out that 'the auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report as appropriate to audited bodies other than health service bodies, providing a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period'.

To support the Code, the NAO issues guidance to auditors. This is undertaken by preparing and publishing Auditor Guidance Notes (AGNs) which are publically available on its website. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

AGN 03 – Auditors' work on Value for Money Arrangements was published in November 2015 following a consultation period. It confirms the requirement is for auditors to issue a conclusion in respect of the single overall criterion that:

**"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."**

To assist auditors the NAO provide three sub-criteria that are intended to guide auditors in reaching their overall judgement:

- ▶ Informed decision making
- ▶ Sustainable resource deployment
- ▶ Working with partners and other third parties

However, these are not separate and auditors are not required to reach a judgement against each one.

Underpinning these sub-criteria are the proper arrangements,



## Accounting, auditing and governance

which are aligned to the scope of arrangements that are already required to be put in place and reported on through documents such as the annual governance statement.

Auditors are required to undertake a risk assessment to identify any significant risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.

The Code defines 'significant' as follows: **"a matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects."**

Where such a significant risk is identified, further audit work will be undertaken based on the auditor's professional judgement. If the auditor does not identify any significant risks, there is no requirement to carry out further work.

Full information on all of the above can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

### New arrangements for the exercise of public rights

The Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015-16 onwards. In respect of principal bodies, paragraph 9(1) requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. This is a change to previous arrangements where the local auditor notified the audited body of the appointed date on or after which local government electors could exercise their rights.

Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place until after the conclusion of the period for the exercise of public rights. For 2015-16, the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.

Paragraph 14(1) states that any rights of objection, inspection and questioning of the local auditor conferred by sections 26 and 27 of the Act may only be exercised within a single period of 30 working days. In effect this paragraph brings the period in which an elector can question the auditor into the inspection period, rather than immediately following the inspection period as per the previous regulations. As a result of this, auditors are unable to issue their audit reports until the 30 day period has been concluded.

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>.

### Consultation: HRA accounting

The Department for Communities and Local Government is consulting on directions to replace the Housing Revenue Account (Accounting Practices) Directions 2011, which will cease to have effect in relation to Housing Revenue Accounts of local housing authorities in England from 1 April 2016. DCLG describes the replacement directions as essentially technical changes in order to bring the accounting requirements in line with proper practices under international accounting standards. They specify information to be disclosed in the notes to the HRA.

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>





## Regulation news

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### Report on the results of auditors' work 2014-15

Public Sector Audit Appointments (PSAA) have published their first report showing the results of auditors' work for 2014-15 covering 509 principal bodies and 9,755 small bodies.

The report includes information on timeliness of reporting, as well as the outcomes of those reports.

- ▶ Auditors were able to issue an early opinion (by 31st July 2015) for 5% of principal bodies.
- ▶ The auditor was unable to issue an opinion by the statutory deadline of 30th September at 15 bodies (3%), compared to 2% in 2013-14.
- ▶ Consistent with 2013-14, no non-standard opinions were issued.
- ▶ 20 non-standard value for money opinions were issued, including 1 adverse conclusion, 18 except-for conclusions, and one report on matters arising.
- ▶ Ten value for money conclusions were outstanding at the time of publishing the report.

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>



## Key questions for the audit committee

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### **What questions should the Audit Committee ask itself?**

Have we considered our responses to the key government consultations that affect us, including New Homes Bonus and HRA Accounting Directions?

Have we formulated a response to support the review of Local Council Tax Support Schemes? How effective have our council tax support arrangements been since 2013-14?

Are we monitoring our progress against the revised timetable for closing the accounts from 2017-18 onwards?

Have we considered amending governance arrangements to streamline the approval of the financial statements?



## Find out more

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### **Ey Item Club Summer 2015 forecast**

For details of the EY Item Club's latest forecast, see <http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections>

### **Local Government Devolution**

Read the government announcements in full at <https://www.gov.uk/government/news/historic-devolution-deal-to-power-the-midlands-engine> and <https://www.gov.uk/government/news/liverpool-devolution-deal-boosts-the-northern-powerhouse>.

### **Spending Review 2015**

Read more at:

<https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

### **Consultation: New Homes Bonus**

See full details of the consultation as well as methods for responding at:

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

### **Local Authority Revenue Expenditure and Financing**

The full publication is available at:

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn>

### **Response to flooding**

For more information see <https://www.gov.uk/government/news/north-west-england-floods-2015-government-response>.

### **Council Tax Support**

Further details of the review are available at:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>. **43**

### **Public Sector Exit Payment Recovery Regulations**

Read more at <https://www.gov.uk/government/news/government-calls-time-on-public-sector-parachute-payments-for-boomerang-bosses>

### **Faster Close update**

The original publication 'accelerating your financial close arrangements' can be accessed at [http://www.ey.com/Publication/vwLUAssets/EY\\_-\\_Accelerating\\_your\\_financial\\_close\\_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)

For more information, please contact a member of your engagement team.

### **Value for Money guidance**

Full information on the new guidance can be found within AGN 03. See <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

### **New arrangements for the exercise of public rights**

Read the regulations in full at <http://www.legislation.gov.uk/uksi/2015/234/regulation/2/made>

### **Consultation: HRA accounting**

See full details of the draft direction at:

<https://www.gov.uk/government/consultations/housing-revenue-account-accounting-practices-directions-2015>

### **Report on the results of auditors' work 2014-15**

Read the report in full at:

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

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**AUDIT AND RISK COMMITTEE REPORT**

<b>TYPE OF REPORT:</b> Audit	<b>Portfolio:</b> Performance
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If not for publication, the paragraph of Schedule 12A of the 1972 Local Government Act considered to justify that is paragraph 3.	

**Committee:** Resources and Performance – Audit & Risk Committee  
**Date:** 23<sup>rd</sup> February 2016  
**Subject:** Strategic Internal Audit Plan 2016-21

<b>Summary</b>	This report provides Committee Members with the opportunity to review the proposed Strategic Internal Audit Plan for 2016-21.
<b>Recommendation</b>	To note the Strategic Internal Audit Plan for 2016-21.

**1.0 Introduction and Background**

- 1.1 According to the Terms of Reference of the Audit and Risk Committee, one of the Core Functions is to review the Internal Audit’s Strategic Audit Plan.
- 1.2 The Strategic Internal Audit Plan 2016-21 is attached to this report as **Appendices 1 and 2**. The plan indicates the work proposed by the Audit Manager for Internal Audit function for the next five years. The first year is defined and although the work can be adjusted if necessary to accommodate any major occurrences during the year, it is usual for the plan to be completed as shown. The next four years are more flexible and simply provide an indication of the work that is anticipated and demonstrate that all areas of the Council’s business are considered.
- 1.3 The overall strategy of the Internal Audit is reviewed on annual basis and is attached as **Appendix 3**.

## **2.0 Purpose of the Audit Plan**

2.1 The Strategic Audit Plan is intended to:

- Ensure all areas are audited over the life of the plan, taking in to account clients' audit requirements and the major risks facing the council.
- Ensure there are adequate resources to undertake the required audits.
- Provide a basis for monitoring actual performance of the Internal Audit function.

2.2 The audit work performed to fulfil the plan informs the Audit Manager's opinion that is required in the Annual Governance Statement.

## **3.0 Preparing the Plan**

3.1 The plan was produced on the assumption that the Council and the Audit and Fraud team will continue in their current form and with the risks that have been identified in the Corporate Risk Register. If either of these changes significantly, the plan will need to be reviewed for any impact on the workload of the Internal Audit function. Any proposed amendments to the plan will be reported to the Committee.

3.2 Within the plan there are 8 Core Audits that are considered to be fundamental and cover systems that are essential to the business of the Council. These audits are:

- Council Tax and Non-Domestic Rates
- Creditors and Payments
- General Ledger (incl. Budgetary Control)
- Housing and Council Tax Benefits
- Treasury and Cashflow Management (incl. Bank Reconciliations)
- Payroll
- Accounts Receivable
- Inventories and Asset Management

In the past these systems have been audited extensively every year with high levels of assurance achieved repeatedly over several years. It is now felt that more effective use could be made of internal audit resources by allocating additional time to other areas. Therefore coverage of the core systems will consist of audits in alternate years unless there are any significant changes in the area concerned.

3.3 The rest of the plan consists of the audit of other, non-fundamental systems and computer systems that are not integral to other audits. There is some allowance for specific tasks that are known to be required and contingencies for other work that previous experience has shown can arise. Audit work is also carried out for the Water Management Alliance and Alive Leisure, which generates some income for the section.

- 3.4 A more proactive approach has been taken with major projects and an allowance has been made within the plan for members of the audit team to provide 'critical friend' support.
- 3.5 The Public Sector Internal Audit Standards (PSIAS) require that the Audit Manager must '*establish risk-based plans to determine the priorities for the internal audit activity, consistent with the organisation's goals*'. In response to this requirement, an Assurance Framework has been developed. This provides a structured analysis of the Council based on five high level domains that support the Council's business and one domain covering the operational aspects.
- 3.6 Within these domains, audit areas have been identified and risk assessed based on the following factors;
- Materiality (Value and Volume);
  - Significance/ Profile;
  - Complexity of the system;
  - Change;
  - Regulatory/ Contractual matters;
  - External Monitoring;
  - Prior Audit results;
  - Susceptibility to fraud and corruption;
  - Staff turnover.

Other sources of assurance are considered within the External Monitoring section and where they are deemed to be satisfactory by the Audit Manager, the score is adjusted accordingly. Examples of this are the use of external specialists to review the Council's Health and Safety systems, and the certification of the CCTV against Security Industry Authority Approved Contractor Status. This reduces the need for internal audit to review the systems and duplicate work.

A risk rating of High, Medium or Low is allocated according to the result of the assessment. Based on the rating, a time scale between audits is applied. The audit plan is based on this risk assessment process covering all six domains to ensure all aspects of the Council are covered to some degree.

- 3.7 In preparing the plan, the Audit Manager calculated the available audit days by deducting allowances for annual leave, Bank Holidays, training and some management time from the gross number of working days in the year for the staff in the section. This was compared with the number of days required by the draft plan to establish if the resources available are adequate to provide the assurance needed.
- 3.8 The draft plan was discussed with the Assistant Director (s151 Officer) and presented to Management Team for discussion and acceptance.
- 3.9 Both the Audit Manager and the Assistant Director (s151 Officer) are satisfied that the resources are sufficient, after the level of contingencies

have been adjusted, and that the proposed plan will provide the level of assurance required.

- 3.10 During the course of the year, the Committee may request that additional audits are undertaken or that any already in the plan are brought forward, and the resulting reports presented at future meetings.

#### **4.0 Format of the plan**

- 4.1 The plan is presented in two parts. The first part is the Annual Plan (**Appendix 1**), which deals with 2016-17 only.

- 4.2 The second part (**Appendix 2**) provides an indication of allocations for audits in 2017-18 to 2020-21 so that coverage of all areas of the Council can be seen. However the allocations for the later years are indicative only and may change as circumstances arise.

#### **5.0 Outcomes**

- 5.1 As in 2015/16, the Audit Manager will continue to produce regular monitoring reports indicating:

- The audit work completed
- The results of Follow-ups carried out, especially any issues outstanding
- Work ongoing
- Progress against the Audit Plan
- Results against the Performance Indicators

- 5.2 This will enable Members to monitor progress against the agreed annual plan and identify any specific reports of interest to be brought to the next meeting.



Audit Title	Risk Rating	Last Audit date	Last Audit results	2016/17
<b>Brought forward from 2015/16</b>				80
<b>Sub Total brought forward from 2015/16</b>				<b>80</b>
<b>Governance and Reputation</b>				
Partnership working	Medium	2014/15	Substantial	15
				<b>15</b>
<b>People</b>				
Attendance management [Including flexitime, sick leave and Special leave]	Medium	None		15
<b>Sub Total People</b>				<b>15</b>
<b>Financial</b>				
Creditors (CORE)	High	2015/16	Substantial	20
Treasury management (CORE)	High	2015/16	Substantial	20
Asset Register and Inventories [Including management and disposal of assets] (CORE)	High	2015/16	Substantial	20
Payroll, expenses and allowances [Staff and Members] (CORE)	High	2015/16	Full	20
Insurance	Medium	2012/13	Full	15
Capital programme	Medium	2011/12	Full	15
<b>Sub Total Financial</b>				<b>110</b>
<b>Infrastructure</b>				
ICT network security, including mobile working	Medium	2013/14	Substantial	15
ICT change management	Medium	2013/14	Substantial	15
Internal Communications [Including Intranet and Ciphernet]	Low	2011/12	Substantial	10
<b>Sub Total Infrastructure</b>				<b>40</b>
<b>Information</b>				
Informing the Customer (inc CIC)	Medium	2010/11	Full	15
				<b>15</b>
<b>Operational and Service Delivery</b>				
Alive Leisure/ Management - oversight and accountability	High			15
Allotments	Medium	2014/15	No assurance	15
Care and Repair	High	2013/14	Limited	15
Emergency planning and management	Medium	2011/12	Full	15
Food safety	Medium	2012/13	Full	15
Housing standards	Medium	2012/13	Substantial	15
Licensing (incl Caravan Sites)	Low	2011/12	Full	10
Major Projects: Joint Venture; Major Housing; Channel Shift; Housing companies; IDOX;	High			45

<b>Audit Title</b>	<b>Risk Rating</b>	<b>Last Audit date</b>	<b>Last Audit results</b>	<b>2016/17</b>
Planning enforcement	Medium	2010/11	Substantial	15
Play Areas	Medium	None		15
Refuse collection and recycling	High	2013/14	Substantial	20
Tourism and tourist information	Low	2011/12	Full	10
<b>Sub Total Operational and Service Delivery</b>				<b>205</b>
<b>Total Risk Based Audits</b>				
				<b>480</b>
<b>External Audits</b>				
Water Management Alliance				10
Alive Leisure				15
<b>Other Work</b>				
PRP Calculations				2
Annual Governance Statement review				3
Audit Committee				15
National Fraud Initiative				50
Risk Management				13
Review of Statement of Accounts				5
Fraud Prevention and Detection				50
Follow ups				10
Contingency				50
<b>Total Other Work</b>				<b>223</b>
<b>Grand Total</b>				<b>703</b>

Audit Title	Risk Rating	Last Audit date	Last Audit results	2017/18	2018/19	2019/20	2020/21
<b>Governance and Reputation</b>							
Strategic planning [Corporate and Directorate]	Medium	<b>None</b>					15
Policies	Medium	2015/16			15		
Risk management	Medium	2012/13	Full	15			
Democratic Services	Medium	2014/15	Substantial	15			
Performance management and reporting	Low	2012/13	Full	10			
Health & safety including Crisys & home working	Low	2013/14	Substantial		10		
Legal services and compliance	Medium	2011/12	Substantial	15			
Culture and ethics	Medium	<b>None</b>					15
Partnership working	Medium	2014/15	Substantial	15			
Business Continuity	Medium	2015/16			15		
<b>Subtotal Governance and Reputation</b>				<b>70</b>	<b>40</b>	<b>0</b>	<b>30</b>
<b>People</b>							
Recruitment	Medium	2015/16	Full		15		
Training (incl CPD requirements)	Low	2011/12	Full	15			
Performance and appraisal	Medium	2015/16	Substantial		15		
Conduct and discipline	Low	<b>None</b>		15			
Attendance management [Including flexitime, sick leave and Special leave]	Medium	None			15		
Prevention of fraud and corruption	Medium						
Leavers	Medium	2015/16			15		
Gifts and hospitality	Medium	2014/15	Substantial	15			
Staff car leasing	Low	2012/13	Substantial	10			
<b>Subtotal People</b>				<b>55</b>	<b>60</b>	<b>0</b>	<b>0</b>
<b>Financial</b>							

Audit Title	Risk Rating	Last Audit date	Last Audit results	2017/18	2018/19	2019/20	2020/21
Accounts receivable (CORE)	High	2015/16	Full	20		20	
Creditors (CORE)	High	2015/16	Substantial		20		
Treasury management (CORE)	High	2015/16	Substantial		20		
General Ledger incl Budgetary control (CORE)	High	2015/16	Full	20		20	
Council tax and Business Rates (CORE)	High	2015/16	Substantial	20		20	
Housing Benefit (CORE)	High	2015/16	Substantial	20		20	
Asset Register and Inventories [Including management and disposal of assets] (CORE)	High	2015/16	Substantial		20		
Payroll, expenses and allowances [Staff and Members] (CORE)	High	2015/16	Full		20		
External funding/ grants received	Medium	<b>None</b>				15	
Procurement [Including use of corporate credit cards]	Medium	2012/13	Substantial	15			
Contracts [Letting, management, and use of Framework Contracts]	Medium	2015/16			15		
Grants / funding to third parties	Medium	<b>None</b>		15			
Taxation / VAT	Medium	2015/16	Full				
Insurance	Medium	2012/13	Full				
Capital programme	Medium	2011/12	Full				
S106 funds / CIL	Medium	2015/16			15		
<b>Subtotal Financial</b>				<b>110</b>	<b>110</b>	<b>95</b>	<b>0</b>
<b>Infrastructure</b>							
<u>Buildings and land</u>							
Council Offices and sites, including Tourist Information Centre	Medium	2014/15	Substantial	15			
Industrial estates and commercial property	Medium	2014/15	Substantial	15			

Audit Title	Risk Rating	Last Audit date	Last Audit results	2017/18	2018/19	2019/20	2020/21
Amenity property and land	Medium	None		15			
<u>Other Infrastructure</u>							
ICT network security, including mobile working	Medium	2013/14	Substantial				
ICT disaster recovery	Medium	2015/16			15		
ICT change management	Medium	2013/14	Substantial				
Internal Communications [Including Intranet and Ciphernet]	Low	2011/12	Substantial				
External Communications [Including Internet and social networking]	Low	2015/16			10		
Vehicle fleet	Medium	None				15	
<b>Subtotal Infrastructure</b>				<b>45</b>	<b>25</b>	<b>15</b>	<b>0</b>
<b>Information</b>							
Information legislation [DPA, FOI & EIR]	Medium	2015/16	Substantial		15		
Information management and security	Medium	None				15	
Document management [Electronic and physical, retention and destruction]	Low	2012/13	Substantial	10			
Data quality and interpretation [including use of spreadsheets and databases]	Medium	None		15			
Informing the Customer (inc CIC)	Medium	2010/11	Full				
Transparency Agenda	Low	2015/16					10
<b>Subtotal Information</b>				<b>25</b>	<b>15</b>	<b>15</b>	<b>10</b>
<b>Operational and Service Delivery</b>							
Alive Leisure/ Management - oversight and accountability	High			15	15	15	15
Allotments	Medium	2014/15	No assurance				
Care and Repair	High	2013/14	Limited				
Careline Community Services	Medium	2015/16			15		

Audit Title	Risk Rating	Last Audit date	Last Audit results	2017/18	2018/19	2019/20	2020/21
CCTV	Medium	2015/16			15		
Cemeteries and Crematorium	Medium	2013/14	Substantial	15			
Civics	Low	2015/16	Full				10
Civil enforcement and car parking	High	2015/16		20			
Community safety and neighbourhood nuisance	Medium	<b>None</b>				15	
Electoral services	Medium	2010/11	Full	10			
Emergency planning and management	Medium	2011/12	Full				
Environmental quality	Medium	2011/12	Full	15			
Food safety	Medium	2012/13	Full				
Graphics and Print room	Low	2012/13	Substantial	10			
Heritage (Archives and events)	Medium	<b>None</b>				10	
Housing standards	Medium	2012/13	Substantial				
Housing strategy	Medium	2013/14	Full	15			
Housing options and allocations	Medium	2015/16			15		
Licensing (incl Caravan Sites)	Low	2011/12	Full				
Local Land and Property Gazetteer	Low	2011/12	Substantial	10			
Major Projects	High			<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>
Planning Control	Medium	<b>None</b>			15		
Planning enforcement	Medium	2010/11	Substantial				
Planning Support	Medium	2014/15	Substantial	15			
Play Areas	Medium	None					
Refuse collection and recycling	High	2013/14	Substantial				
Regeneration and economic development	Medium	2012/13	Full	15			
Resort Services	Low	2014/15	Full			10	
Street cleansing	Medium	2014/15	Substantial	15			

<b>Audit Title</b>	<b>Risk Rating</b>	<b>Last Audit date</b>	<b>Last Audit results</b>	2017/18	2018/19	2019/20	2020/21
Tourism and tourist information	Low	2011/12	Full				
Town Centre and Market management	Low	<b>None</b>			10		
Water management	Medium	2012/13	Limited	15			
<b>Subtotal Operational and Service Delivery</b>				<b>185</b>	<b>100</b>	<b>65</b>	<b>40</b>
<b>Total for Risk Based Audits</b>				<b>490</b>	<b>350</b>	<b>190</b>	<b>80</b>



## Internal Audit Strategy 2016-17

### **Introduction**

Regulation 5 of the Accounts and Audit Regulations 2015 states that local 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*'.

This strategy is a high level statement of how the Internal Audit service will deliver the required assurance on the Council's internal control systems.

The Council's Internal Auditors will conduct all audit work in accordance with the Public Sector Internal Audit Standards (PSIAS), which define internal audit as:

*'Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.'*

### **Internal Audit Objectives**

Internal Audit's objectives are to:

- Provide an independent and objective internal audit service that helps the Council to meet its stated objectives
- Support the Assistant Director in the discharge of her duties as Section 151 Officer (the officer responsible for the proper administration of the financial affairs of the authority).
- support and assist in embedding corporate governance, effective internal controls and risk management throughout the Council
- help to identify areas for improvement and make recommendations to address these
- offer advice and assurance on achieving effective internal controls
- comply with the Public Sector Internal Audit Standards (PSIAS).

Under the PSIAS the Audit Manager must produce a risk-based audit plan which takes into account the requirement to express an annual internal audit opinion on the effectiveness of the internal controls.

To this end, an Assurance Framework has been developed to enable a structured analysis of the internal controls to take place and in turn the



framework is supported by a risk analysis of each identified sphere of audit. The whole process enables a risk based plan to be produced.

## **Outcomes**

The Internal Audit team will work with a risk based audit plan that is designed to provide the required assurance on the system of internal controls.

On completion of each audit a report, which will describe the scope of the work undertaken and the results of that work, will be provided to the relevant Director, the Assistant Director as S151 Officer and Portfolio Holder. Where necessary recommendations will be made to rectify any control weaknesses or improve service delivery. Any such recommendations will be followed up at an agreed interval, but usually six months after the report is finalised, to assess progress in implementation.

Progress against the plan will be reported to the Audit and Risk Committee at regular intervals. All reports will be made available in full to the members of the Committee via a secure area on InSite.

Managers will also be able to seek advice from the team on possible control issues if necessary.

At the end of the financial year, the Audit Manager produces an Annual Report which includes Annual Audit Opinion as described below.

## **Annual Audit Opinion**

Internal Audit's role is to understand the key risks to the Council and to examine and evaluate the adequacy and effectiveness of its systems of risk management, governance and internal control. Each year the Audit Manager will provide her opinion on the effectiveness of the internal control environment to the Audit and Risk Committee. It will be influenced by the individual opinions provided for each piece of audit work undertaken and the progress made by managers in implementing previously agreed actions. The opinion will be supported by sufficient, reliable and relevant evidence

## **Resources**

The internal audit service will be provided by an in-house team consisting of an Audit Manager, one full time Auditor, one part time Auditor and a fulltime Investigation Officer/ Internal Auditor. The team will operate according to the Public Sector Internal Audit Standards.

The available resources are calculated as shown in the table below:

	<b>Days</b>
Total working days available	991
Less:	
Annual Leave	96
Bank Holidays ( Including extended Christmas closure)	36
Training (non-qualification)	20
Section administration	85
Management	50
<b>Total audit time available</b>	<b>704</b>
Core Systems	80
Risk based and external audits	425
Fraud prevention and detection	100
Risk Management	15
Follow-ups, reviews and Audit Committee support	34
Contingency	50
<b>Total allocated</b>	<b>704</b>

In addition to the in-house team the Council has access to IT auditors via the contract the Norfolk Internal Audit Consortium has in place with TIAA Ltd for the provision of their internal audit services.

To maintain the skills and knowledge levels required, training assessments of the team will be carried out on an annual basis as part of the Council's appraisal process. The Audit Manager will be responsible for prioritising the identified needs and ensure that the most effective use is made of the available training resources.

### **Key Performance Indicators**

<b>PI Ref</b>	<b>Indicator</b>	<b>Target</b>
AUD 1	Delivery of the Audit Plan	95%
AUD 2	Productive time	60%

### **Audit and Risk Committee**

The Terms of Reference relating to the Audit and Risk Committee include a requirement to review and approve, but not direct the Internal Audit Strategy. It is intended that this Strategy will be reviewed on an annual basis and the results presented to the Committee for approval along with the Audit Strategic Plan.

**The next date for review will be – March 2017.**

**REPORT TO CABINET**

<b>Open</b>		<b>Would any decisions proposed :</b>		
<b>Any especially affected Wards None</b>	Mandatory	(a) Be entirely within Cabinet's powers to decide	NO	
		(b) Need to be recommendations to Council	YES	
		(c) Be partly for recommendations to Council and partly within Cabinets powers –	NO	
Lead Member: Councillor Nick Daubney E-mail: cllr.nick.daubney@west-norfolk.gov.uk		Other Cabinet Members consulted: None		
		Other Members consulted: None		
Lead Officer: E-mail: toby.cowper@west-norfolk.gov.uk Direct Dial: 01553 616423		Other Officers consulted: Management Team		
Financial Implications YES	Policy/Personnel Implications YES	Statutory Implications (incl S.17) YES	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 24 March 2016

**TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2016/2017**

**Summary**

The Council is required to receive and approve a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy which covers –

- Capital plans, including prudential indicators
- A Minimum Revenue Provision (MRP) Policy
- The Treasury Management Strategy
- An Investment Strategy

This report covers the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance Accountants (CIPFA) Prudential Code, the Department of Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

This report looks at the period 2016/2020 which fits with the Council's Financial Plan and capital programme. The report is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Capita Asset Services, Treasury Solutions.

## **Recommendations**

### **Cabinet is asked to recommend to Council:**

- 1 The Treasury Management Strategy Statement 2016/2017, including treasury indicators for 2016/2020.**
- 2 The Investment Strategy 2016/2017.**
- 3 The Minimum Revenue Provision Policy 2016/2017.**
- 4 Adopt the revised Treasury Management Practices (TMPs).**

### Reason for the Decision

The Council must produce a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2016/2017 by 31 March 2016.

## **1 Background**

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year and the use of reserves and balances will meet its expenditure. Part of the treasury management operations ensure the cash flow is adequately planned, with surplus monies being invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering maximising investment return.
- 1.2 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 the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 As a consequence treasury management is defined by CIPFA (Chartered Institute of Public Finance and Accountancy) as:

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

## 2 Reporting Requirements

2.1 CIPFA's Code of Practice on Treasury Management (revised November 2009) was adopted by this Council in March 2010.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices (TMPs) which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of:
  - a. An annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead.
  - b. A Mid-year Treasury Management Review Report - This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.
  - c. 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.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. For this Council the delegated officer is the Assistant Director (Section 151 officer)
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

## 2.2 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. Training was provided for members on the 26 January 2016 and further training will be arranged as required.

## 2.3 Treasury Management Consultants

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

The Council recognises that responsibility for treasury management decisions remains within the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

The Council 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.

## 2.4 The key parts of the Treasury Management Strategy Statement for 2016/2017 are:

### **Capital Issues**

- 3.1 The Capital Budget Plan 2015/2016 – 2019/2020
- 3.2 Capital Financing Requirement
- 3.3 Minimum Revenue Provision (MRP) Policy Statement

### **Treasury Management Strategy**

- 4.1 Current Portfolio Position
- 4.2 Estimated Portfolio Position
- 4.3 Prospects for Interest Rates
  
- 5.1 Borrowing Strategy 2015/2020
- 5.2&3 Treasury Indicators: Limits to Borrowing Activity
- 5.4 Policy on Borrowing in Advance of Need
- 5.5 Debt Rescheduling
  
- 6.1 Annual Investment Strategy
- 6.2 Changes to credit rating methodology
- 6.3 Creditworthiness policy
- 6.4 Diversification Policy
- 6.5 Country limits
- 6.6 Investment returns expectations
- 6.7 Investment term limit
- 6.8 Investments held as at 31 January 2016

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

### 3.1 The Capital Budget Plan 2015/2016 – 2019/2020

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

#### Capital Expenditure Summary (Approved at Full Council 25 February 2016).

	Revised Budget 2015/2016 £000s	Revised Budget 2016/2017 £000s	Revised Budget 2017/2018 £000s	Revised Budget 2018/2019 £000s	Revised Budget 2019/2020 £000s
Major Projects	12,596	18,764	20,118	10,737	9,389
Central & Community Services	1,430	1,933	1,891	1,890	1,765
Chief Executive	124	226	50	50	50
Commercial Services	1,593	2,478	1,181	624	784
Environment & Planning	4	12	0	0	0
<b>Total</b>	<b>15,747</b>	<b>23,413</b>	<b>23,240</b>	<b>13,301</b>	<b>11,988</b>

#### Capital Financing Summary (Approved at Full Council 25 February 2016).

	Revised Budget 2015/2016 £000s	Revised Budget 2016/2017 £000s	Revised Budget 2017/2018 £000s	Revised Budget 2018/2019 £000s	Revised Budget 2019/2020 £000s
<b>Capital Expenditure</b>	<b>15,747</b>	<b>23,413</b>	<b>23,240</b>	<b>13,301</b>	<b>11,988</b>
<b>Financed by:</b>					
Capital receipts	(3,198)	(16,043)	(19,810)	(20,211)	(17,814)
Capital grants	(759)	(759)	(759)	(759)	(759)
S106	(677)	(185)	(38)	0	0
Capital reserves	(4,189)	(1,546)	338	(1,186)	(1,408)
Unsupported borrowing	(1,151)	(1,081)	(629)	(274)	(45)
<b>Increase (decrease) in Borrowing Required</b>	<b>5,773</b>	<b>3,799</b>	<b>2,342</b>	<b>(9,129)</b>	<b>(8,038)</b>

### 3.2 Capital Financing Requirement (The Council's underlying need to borrow)

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

The Council is asked to approve the CFR projections below:

	2015/2016 Estimate £000s	2016/2017 Estimate £000s	2017/2018 Estimate £000s	2018/2019 Estimate £000s	2019/2020 Estimate £000s
<b>Total CFR</b>	<b>18,590</b>	<b>22,762</b>	<b>25,130</b>	<b>26,433</b>	<b>16,620</b>
Borrowing Required	5,773	3,799	2,342	(9,129)	(8,038)
<b>Net Financing Need Total</b>	<b>24,363</b>	<b>26,561</b>	<b>27,472</b>	<b>17,304</b>	<b>8,582</b>
Less MRP and other financing movements*	(1,601)	(1,431)	(1,039)	(684)	(455)
<b>Movement in CFR</b>	<b>4,172</b>	<b>2,368</b>	<b>1,303</b>	<b>(9,813)</b>	<b>(8,493)</b>
<b>Closing CFR</b>	<b>22,762</b>	<b>25,130</b>	<b>26,433</b>	<b>16,620</b>	<b>8,127</b>

\*Includes finance lease annual principal payments and the repayment of borrowing.

### 3.3 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of its underlying need to borrow (the CFR) each year through a revenue charge (MRP).

Department for Communities and Local Government (CLG) Regulations have been issued which require the full Council to approve **an MRP Policy 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 continued use of the Asset Life Method as set out below.

**Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3) which provides for a reduction in the borrowing need over approximately the asset's life.



## 4 Treasury Management Strategy

The capital expenditure plans set out in Section 3 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 the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 4.1 Current Treasury Position – December 2015

Before looking at future borrowing and investment strategies it is worth noting the Council's current treasury portfolio:

		<b>Principal</b>	<b>Average</b>
		<b>£'000</b>	<b>Rate</b>
			<b>%</b>
Fixed Rate Funding	PWLB	800	2.92
	Market Loans	12,500	3.41
<b>Total Debt</b>		<b>13,300</b>	<b>3.37</b>
<b>Total Investments</b> <b>(detailed later in the</b> <b>report)</b>		<b>33,513</b>	<b>0.95</b>

## 4.2 Estimated Portfolio Position

The Council's treasury portfolio position at 31 March 2016, with forward projections is estimated below. The table shows the estimated external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000s	£000s	£000s	£000s	£000s
External Debt at 1 April	13,300	19,073	22,872	25,214	16,085
Expected change in Debt	5,773	3,799	2,342	(9,129)	(8,038)
<b>Debt at 31 March</b>	<b>19,073</b>	<b>22,872</b>	<b>25,214</b>	<b>16,085</b>	<b>8,047</b>
The Capital Financing Requirement	22,762	25,130	26,433	16,620	8,127
<b>Under / (over) borrowing</b>	<b>3,689</b>	<b>2,258</b>	<b>1,219</b>	<b>535</b>	<b>80</b>
Total Investments at 31 March *	29,000	29,000	29,000	29,000	29,000
Net debt (Actual Debt 31 <sup>st</sup> March Minus Investments)	(9,927)	(6,128)	(3,786)	(12,915)	(20,953)

**Total debt, net of any investments, should not, except in the short term, exceed the total of the CFR in the preceding year.**

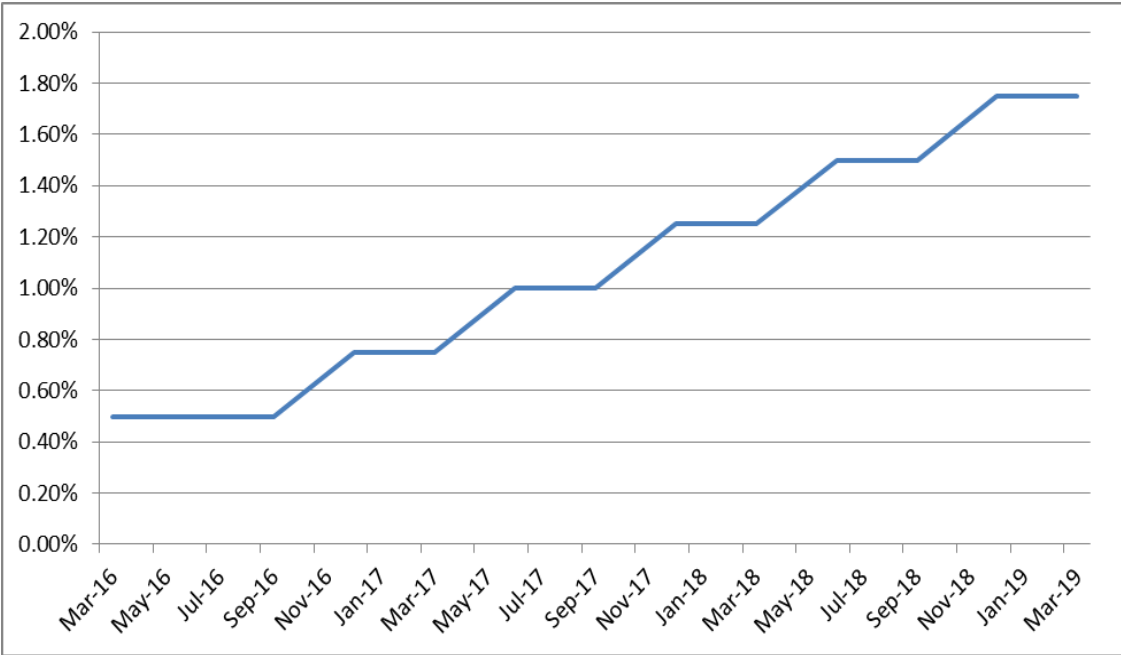
\* Total investments have been held at the estimated core investment balance for the 31 March 2016

This estimate takes into account current commitments, existing plans, and the proposals in the Capital budget report but does not take into account proposed projects still to be approved by Council.

**4.3 Prospects for Interest Rates**

The Council has appointed Capita Asset Services, Treasury Solutions, as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 2&3 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following graph gives the Capita Asset Services, Treasury Solutions view:

**Bank Rate Forecast**



**5.1 Borrowing Strategy 2015/2020**

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 relatively high.

The Council will only borrow if it is financially advantageous to do so.

The Council’s borrowing strategy will give consideration to new borrowing in the following order of priority: -

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years

- Temporary borrowing from the money markets or other local authorities
- PWLB (Public Works Loan Board) variable rate loans for up to 10 years
- Short dated borrowing from non PWLB below sources
- Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available).
- PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a concentration in longer dated debt.

It is likely that the Municipal Bond Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority may wish to make use of this new source of borrowing as and when appropriate, depending on duration and interest rate.

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

## 5.2 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.

The Council is asked to approve the following Operational Limit:

<b>Operational boundary</b>	<b>2015/2016 Estimate £000's</b>	<b>2016/2017 Estimate £000's</b>	<b>2017/2018 Estimate £000's</b>	<b>2018/2019 Estimate £000's</b>	<b>2019/2020 Estimate £000's</b>
Debt	30,000	30,000	30,000	27,000	20,000

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

The Council is asked to approve the following Authorised Limit:

<b>Authorised limit</b>	<b>2015/2016 Estimate £000's</b>	<b>2016/2017 Estimate £000's</b>	<b>2017/2018 Estimate £000's</b>	<b>2018/2019 Estimate £000's</b>	<b>2019/2020 Estimate £000's</b>
Debt	35,000	35,000	35,000	32,000	25,000

From 2016/2017, the limits (Operational and Authorised) increase due to the borrowing required for the major housing development as approved Full Council on the 25th February 2016.

The above limits do not include provision for Phase 3 of the NORA joint Venture or other projects that are being developed. These will be subject to separate reports to Cabinet.

### 5.3 Treasury Management Limits on Borrowing Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- 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>2016/2017 £000's</b>	<b>2017/2018 £000's</b>	<b>2018/2019 £000's</b>	<b>2019/2020 £000's</b>
<b>Interest rate Exposures</b>				
	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	35,000	35,000	32,000	25,000
Limits on variable interest rates based on net debt	20,000	20,000	20,000	20,000

<b>Maturity Structure of fixed interest rate borrowing 2016/2017</b>			
	<b>Current Position £M</b>	<b>Lower limit for portfolio</b>	<b>Upper limit for portfolio</b>
Under 12 months	0	0%	100%
12 months to 2 years	2.5	0%	100%
2 years to 5 years	1	0%	100%
5 years to 10 years	0	0%	100%
10 years and above	10*	0%	100%

*\*The term of these loans was originally for a seventy year period, 2007 - 2077 (with a lenders option at ten years)*

The lower and upper limits for this indicator have been set at 0% – 100% to maximise the flexibility of borrowing options over different periods. Any new borrowing undertaken will take into account the existing debt portfolio and look to minimise refinancing risk by borrowing for different periods.

#### **5.4 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.

#### **5.5 Debt Rescheduling**

The Assistant Director (Section 151 Officer) will monitor the situation and take advantage of market conditions if advantageous to do so.

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 the Cabinet at the earliest meeting following its action.

## 6.1 Annual Investment Strategy

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

- 1. Security**
- 2. Liquidity**
- 3. Return on Assets**

In accordance with the above guidance from the CLG 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.

As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" 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 4 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

Alternative options for investment will be considered where opportunities become available as an alternative to traditional investments. These will be assessed in conjunction with Capita Asset Services, Treasury solutions, our Treasury Management Advisors. Further reports will be brought to Cabinet if these types of investment are to be used.

## 6.2 Changes to credit rating methodology

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA-..... This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.



**6.3 Creditworthiness policy**

This Council applies the creditworthiness service provided by Capita Asset Services, Treasury Solutions. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS (credit default swaps) 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 duration for investments. The Council will therefore use counterparties within the following durational bands:

<b>Yellow</b>	5 years
<b>Dark pink</b>	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
<b>Light pink</b>	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
<b>Purple</b>	2 years
<b>Blue</b>	2 year (only applies to nationalised or semi nationalised UK Banks)
<b>Orange</b>	1 year
<b>Red</b>	6 months
<b>Green</b>	100 days
<b>No colour</b>	not to be used

<b>Counterparties</b>	<b>Colour (and long term rating where applicable)</b>	<b>Money per institution Limit</b>	<b>Time Limit</b>
<b>Banks /Building Societies</b>	<b>yellow</b>	<b>£2m</b>	<b>5yrs</b>
<b>Banks / Building Societies</b>	<b>purple</b>	<b>£4.5m</b>	<b>2 yrs</b>
<b>Banks / Building Societies</b>	<b>orange</b>	<b>£6m</b>	<b>1 yr</b>
<b>Banks – UK part nationalised</b>	<b>blue</b>	<b>£6m</b>	<b>2yr</b>
<b>Banks / Building Societies</b>	<b>red</b>	<b>£6m</b>	<b>6 mths</b>
<b>Banks / Building Societies</b>	<b>green</b>	<b>£6m</b>	<b>100 days</b>
<b>Banks / Building Societies</b>	<b>No colour</b>	<b>Not to be used</b>	
<b>The Council's transactional bank for cashflow purposes (Barclays Bank)</b>	<b>No colour</b>	<b>&lt;£250,000</b>	<b>1 day</b>
<b>DMADF (Debt Management Account Deposit Facility)</b>	<b>AAA</b>	<b>unlimited</b>	<b>6 months</b>
<b>Local authorities</b>	<b>yellow</b>	<b>unlimited</b>	<b>unlimited</b>
<b>Money market funds</b>	<b>AAA yellow</b>	<b>£6m</b>	<b>liquid</b>
<b>Enhanced money market funds with a credit score of 1.25</b>	<b>Dark pink / AAA</b>	<b>£4m</b>	<b>liquid</b>
<b>Enhanced money market funds with a credit score of 1.5</b>	<b>Light pink / AAA</b>	<b>£4m</b>	<b>liquid</b>

The Capita Asset Services, Treasury solutions creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, 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 Short Term rating F1, Long Term rating A-, Viability ratings of A-, and a Support rating of 1. 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 Capita Asset Services, Treasury solutions 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 against the iTraxx benchmark and other market data on a weekly basis. 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 government support for banks and the credit ratings of that government support.**

#### 6.4 **Diversification Policy:**

This Borough Council will avoid concentrations of lending and borrowing by adopting a policy of diversification. It will therefore use the following: -

Greater amounts of investments will be held with the higher credit rated counterparties where possible. Based on an estimated investment portfolio of £29m in 2016/2017

#### **Maximum investment per institution £6M**

- Group limits where a number of institutions are under one ownership – Investments for the whole group will not exceed the credit rating limit in the table above.

#### 6.5 **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 5.

This list will be added to or deducted from by officers should ratings change in accordance with this policy.

- 6.6 **Investment returns expectations.** Bank Rate is forecast to start to rise from quarter 1 of 2016. Investment returns expectations forecasts for financial year ends (March) are:
- 2016/2017 1.00%
  - 2017/2018 1.50%
  - 2018/2019 1.50%
  - 2019/2020 1.75%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

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).

- 6.7 **Investment term limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

<b>Maximum principal sums invested &gt; 364 days</b>				
	<b>2016/2017</b>	<b>2017/2018</b>	<b>2018/2019</b>	<b>2019/2020</b>
Principal sums invested > 364 days	£4.5m	£4.5m	£4.5m	£4.5m
With Local Authorities	£10m	£10m	£10m	£10m

Capita Asset Services, Treasury Solutions, the Council’s treasury advisors, recommend that due to current market conditions, all investments should generally be made for periods less than 364 days, **unless they are placed with other Local Authorities.** The Council will continue to monitor creditworthiness on a daily basis.

If an investment became available with an institution with good credit quality and recommended duration was more than 364 days, Capita Asset Services, Treasury Solutions would be consulted before the investment was placed. With rates not predicted to increase dramatically over the next two years, the total amount which could be invested over 364 days would be £4.5m (approx. 15% of the portfolio).

For its cash flow generated balances, the Council will seek to utilise its business reserve/instant access accounts, 15, 30 and 95 day notice accounts, money market funds and short-dated deposits in order to benefit from the compounding of interest.

#### 6.8 Investments held as at 31 January 2016 are as follows:

Institution	Long Term Rating	Expires:	Principal £000's	Rate of interest %
Wyre Forest DC	AAA	14 July 2016	2,000	0.95
Goldman Sachs Int	A	22 May 2016	2,000	0.59
Bank of Scotland	A+	14 April 2016	2,000	1.00
Newcastle City Council	AAA	4 August 2016	2,000	1.00
King and Shaxson – RBS	BBB+	30 August 2016	2,000	1.68
King and Shaxson – RBS	BBB+	22 May 2017	2,500	1.33
Qatar National Bank	AA-	1 June 2016	3,000	0.88
Fife Council	AAA	13 November 2017	3,000	0.95
Santander	A	10 June 2016	5,000	1.15
Cheshire West & Chester Council	AAA	20 January 2018	2,000	0.99
Norfolk & Waveney Enterprise Services	AAA		3,013	1.80
BNP			5,000	0.51
<b>Total Investments</b>			<b>33,513</b>	<b>0.95</b>

#### 6.9 Liquidity and Yield

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.

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

- Bank overdraft - £200,000
- Liquid short term deposits held and available within a week's notice.

Yield - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate

## 7.1 **Changes to the Treasury Management Practises (TMPs)**

Good practise requires TMPs to be reviewed on an annual basis and any changes made to be reported to members. The TMPS will be reviewed after April 2016.

The TMPs can be found at the link: [Click here](#)

7.2 TMPs are reviewed as risks and market conditions change. In particular credit risk is monitored using our Treasury advisors on a daily basis.

## 8 **Financial Implications**

The financial implications of the borrowing and investment strategy and MRP are reflected in the financing adjustment figure included in the Financial Plan 2015/2020 approved at Cabinet on 2 February 2016.

## 9 **Risk Management Implications**

There are elements of risk in dealing with the treasury management function although the production and monitoring of such controls as Prudential Indicators and Treasury Management Strategies help to reduce the exposure of the Council to the market. The costs and returns on borrowing and investment are in themselves a reflection of risk that is seen by the market forces. The action and controls outlined in the report will provide for sound financial and performance management procedures.

## 10 **Policy Implications**

There are no other changes in the Treasury Management policy at present, other than those outlined in this report.

## 11 **Statutory Considerations**

The Council must set Prudential Indicators and adopt a Treasury Management Strategy and Annual investment Strategy before 31 March 2016.

## 12 **Access to information**

Monthly Monitoring reports 2015/2020  
Treasury Management Strategy and Annual investment Strategy 2015  
The Financial Plan 2015/2020 – A Financial Plan  
Capital Programme 2015/2020  
Council Website – Treasury Management Practices

## Appendices

1. Other Prudential Indicators
2. Interest rate forecasts - update for new forecast
3. Economic background – update for new forecast
4. Treasury Management practice - Specified and non specified investments and limits
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

## APPENDIX 1: Other Prudential Indicator

### 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:

**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.

%	2015/2016 Estimate	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate
General Fund	6.66	6.22	7.30	7.78	7.96

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

### Estimates of the incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the capital programme 2015 – 2019 reported to Cabinet on the 2 February 2016 in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

### Incremental impact of capital investment decisions on the band D council tax

	2015/2016 Estimate	2016/2017 Estimate	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate
<b>Council tax - band D</b>	£4.46	(£4.02)	(£6.75)	(£9.82)	(£7.30)



## APPENDIX 2: Interest Rate Forecasts 2016-2019

UPDATED 20.1.16													
Capita Asset Services Interest Rate View													
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
<b>Bank Rate View</b>	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%
6 Month LIBID	0.70%	0.70%	0.80%	0.90%	1.00%	1.20%	1.30%	1.50%	1.60%	1.70%	1.80%	2.00%	2.20%
12 Month LIBID	1.00%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.80%	1.90%	2.00%	2.10%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB Rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB Rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
<b>Bank Rate</b>													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
Capital Economics	0.50%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	-	-	-	-	-
<b>5yr PWLB Rate</b>													
Capita Asset Services	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
Capital Economics	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
<b>10yr PWLB Rate</b>													
Capita Asset Services	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
<b>25yr PWLB Rate</b>													
Capita Asset Services	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
Capital Economics	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
<b>50yr PWLB Rate</b>													
Capita Asset Services	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%
Capital Economics	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

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

## APPENDIX 3 Economic Background

**UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

**USA.** The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.0% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

**EZ.** In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

**Greece.** During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. 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 later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

## APPENDIX 4 - Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management Specified and Non-Specified Investments and Limits

**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 50% 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 per institution	Max. maturity period
DMADF – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating	50%	1 year
UK Government Treasury bills	UK sovereign rating	50%	6 months
Bonds issued by multilateral development banks	UK sovereign rating	50%	1 year
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	Unlimited

Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 5 years Up to 2 years Up to 2 year Up to 1 year Up to 6 Months Up to 100 days Not for use
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 5 years Up to 2 years Up to 2 year Up to 1 year Up to 6 Months Up to 3 months Not for use
Enhanced cash funds	AAA	50%	1 year
Corporate bond funds	AAA	50%	1 year
Gilt funds	UK sovereign rating	50%	1 year
Treasury Bills	UK sovereign rating	50%	1 year
Local Authority Mortgage Scheme. Under LAMS the Council is required to place funds with the lender for a period of 5 years. This is classified as being a service investment, rather than a treasury management investment, and is therefore outside of the Specified / Non specified categories.			

<b>Non Specified Investments (can be longer than 1 year)</b>	<b>Minimum Credit Criteria</b>	<b>Use</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits – UK government (with maturities in excess of 1 year)	Credit rating in TMP's	In-house	100%	5 yrs
Term deposits – other LA's (with maturities in excess of 1 year)	Credit rating in TMP's	In-house	100%	5 yrs
Term deposits – banks and building societies (with maturities in excess of 1 year)	Credit rating in TMP's	In-house	As set out in TMP 1	5yrs
Term deposits with unrated counterparties : any maturity	Credit rating in TMP's	In-house	As set out in TMP 1	5yrs
Certificates of deposits issued by banks and building societies with maturities in excess of 1	Credit rating in TMP's	In house on a 'buy and hold basis'	As set out in TMP 1	2 yrs

year		and Fund managers		
UK Government Gilts with maturities in excess of 1 year	AAA	In house on a 'buy and hold basis' and Fund Managers	As set out in TMP 1	Overall duration of 3 years
Bonds issued by multilateral development banks with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	50% of the total fund	Overall duration of 3 years
Bonds issued by a financial institution which is guaranteed by the UK government with maturities in excess of 1 year	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	50% of the total fund	Overall duration of 3 years
Sovereign bond issues (i.e. other than the UK govt) with maturities in excess of 1 year	AAA	In house on a 'buy and hold basis' and Fund Managers	50% of the total fund	Overall duration of 3 years
Corporate Bonds : <b><i>the use of these investments would constitute capital expenditure</i></b>		In house on a 'buy and hold basis' and Fund Managers	50% of the total fund	Overall duration of 3 years
Floating Rate Notes : <b><i>the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank</i></b>		Fund managers	50% of the total fund	Overall duration of 3 years
Property Fund: <b><i>the use of these investments would constitute capital expenditure</i></b>		In house and Fund Managers	50% of the total fund	Overall duration of 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.

## **APPENDIX 5 - Approved countries for investments as at 1<sup>st</sup> Feb 2016**

### AAA

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

### AA+

- Finland
- U.K.
- U.S.A.

### AA

- Abu Dhabi (UAE)
- France
- Qatar

### AA-

- Belgium



## APPENDIX 6 Treasury management scheme of delegation

### **(i) Full board/council**

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

### **(ii) Boards/committees/council/responsible body**

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

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

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

## APPENDIX 7 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.

**REPORT TO CABINET**

<b>Open</b>		Would any decisions proposed :		
<b>Any especially affected Wards</b>	Discretionary /	Be entirely within Cabinet's powers to decide	NO	
		Need to be recommendations to Council	YES	
		Is it a Key Decision	NO	
Lead Member: Cllr Nick Daubney E-mail: <a href="mailto:cldr.Nick.Daubney@West-Norfolk.gov.uk">cldr.Nick.Daubney@West-Norfolk.gov.uk</a>		Other Cabinet Members consulted:		
		Other Members consulted:		
Lead Officer: Ray Harding E-mail: <a href="mailto:ray.harding@west-norfolk.gov.uk">ray.harding@west-norfolk.gov.uk</a> Direct Dial: 01553 616245		Other Officers consulted: Lorraine Gore, Assistant Director (s151 Officer) Emma Duncan, Monitoring Officer Vanessa Dunmall, Performance and Efficiency Manager Management Team		
Financial Implications NO	Policy/Personnel Implications NO	Statutory Implications YES	Equal Impact Assessment NO	Risk Management Implications YES

Date of meeting: 1<sup>st</sup> March 2016

**RISK MANAGEMENT POLICY AND STRATEGY REVIEW**

<p><b>Summary</b> The Council's Risk Management Strategy was last reviewed and approved by Council on 28<sup>th</sup> January 2010. This latest review has split the existing document into two documents, Policy and Strategy, and linked risk management more closely to the achievement of the Council's objectives. The risk appetite is formally recognised within the Policy, and the Strategy provides a means of escalating risks from service and project level to the Corporate Risk register if necessary.</p> <p><b>Recommendation</b> That Cabinet recommend that Council approve the Risk Management Policy and Strategy.</p> <p><b>Reason for Decision</b> To ensure there is a comprehensive and up to date framework for the Council's management of risk.</p>
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**Background**

The Council's current risk management system has been contained within one document, 'Risk Management Strategy' approved by Council on 28<sup>th</sup> January 2010.

Whilst this document has been sufficient, on review it was felt that a clearer commitment to risk management could be expressed by having a separate

policy and strategy. The policy outlines the Council's approach to risk management and the strategy describes how it will be implemented.

### **Risk Management Policy**

The policy (**Appendix A**) states the Council's commitment to managing risk in a positive manner. It is recognised that in order to achieve the Council's objectives it is necessary to take risks and that these need to be identified, understood and managed accordingly.

The risk appetite is defined in the policy as 'Open' which means that the council is *'prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk'*.

### **Risk Management Strategy**

The strategy (**Appendix B**) describes the approach to be carried out in practice. It explains how risks will be identified, analysed, managed and monitored. The criteria to be used for deciding the potential impact of a risk are shown and the appropriate levels of action to be taken for the different risk categories.

The criteria used to assess the impact of a risk have been amended. Previously the criteria had included one for effects on delivering partnership objectives and one for the effect of unplanned service changes. These have been combined into one assessment of 'impact on service'. A new criteria of 'Legal and Statutory' has been introduced.

The values for the 'Financial Loss' criteria have been extended to include a percentage of budget as well as a fixed value. This is to enable the criteria to be applied to service and project risks as well as the corporate risks.

A review period of three years has been set for both documents, with the next review due in March 2019.

### **Policy Implications**

The Risk Management Policy and Strategy represents a refresh of the Council's existing policy and approach to risk which encourages a positive culture towards risk and its effective management.

### **Financial Implications**

There are no direct financial implications, however failure to manage risk effectively may have a financial impact. It is therefore essential that the Risk Management Policy and Strategy are fit-for-purpose.

### **Personnel Implications**

There are no Personnel implications.

### **Statutory Considerations**

Accounts and Audit Regulations 2015 regulation 3(c) – *A relevant authority must ensure it has a sound system of internal control which includes effective arrangements for the management of risk.*

**Equality Impact Assessment (EIA)**

There are no EIA considerations

**Risk Management Implications**

This report is designed to take forward and enhance the Council's effective management of risk throughout the organisation.

**Declarations of Interest / Dispensations Granted**

None

**Background Papers**

Risk Management Strategy dated December 2009 (approved by Council 28<sup>th</sup> January 2010).



# Risk Management Policy

## 1. Introduction

It is the Council's policy to proactively identify, understand and manage the risks involved in service delivery and associated with our plans and strategies, so as to encourage responsible and informed decision making.

The purpose of this Risk Management Policy is to state the Council's risk management objectives and approach. The processes required to implement this Policy are contained in the Risk Management Strategy.

The Council's Business Plan sets out the Council's objectives for the next 4/5 years. The risk management approach described in this policy is key to identifying, assessing and managing risks to the achievement of the objectives.

This policy will be reviewed every three years to ensure it remains relevant to the needs of the Council. **The next review date is March 2019.**

## 2. Definitions

2.1 Risk can be defined as *'an uncertain event or set of events which, should it occur, will have an effect upon the achievement of objectives'*.

2.2 Risk Management can be defined as *'the process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling or responding to them'*.

2.3 Risk Appetite is *'the amount of risk that an organisation is willing to seek or accept in the pursuit of its long-term objectives'*.

## 3. Benefits of risk management

Effective risk management delivers benefits to individual services and the Council as a whole. The key benefits include:

- A better, more informed, decision making process
- The ability to manage the process of achieving objectives.

By delivering enhanced risk management practice and adhering to the Risk Management Strategy, the following additional benefits can be realised:

- Increased likelihood of achieving the Council's objectives
- More robust assessment of opportunities
- Improved business planning through risk based decision making
- Improved governance and controls
- Enhanced stakeholder confidence and trust

- Enhanced performance through an integrated approach
- Effective allocation and use of resources
- Improved organisational resilience

#### **4. Objectives**

The purpose of risk management is to:

- Improve business performance
- Promote a risk aware culture to avoid unnecessary liabilities and costs, but to encourage the taking of calculated risks in pursuit of opportunities that benefit the Council
- Promote Corporate Governance by integrating risk management and internal control
- Preserve and protect the Council's assets, reputation and staff

#### **5. Risk Management Approach**

To ensure it is effective, risk management needs to be aligned with corporate aims, objectives and priorities. The Council's approach to embedding risk management is to create a culture that spreads best practice, identifies and communicates lessons learnt, and uses appropriate expertise.

Risk management has to be proactive to ensure that corporate and operational risks are:

- Identified
- Assessed by considering the impacts and likelihoods of their occurrence
- Effectively managed by identifying suitable controls and countermeasures, and assessing the mitigating actions proposed.

Effective risk management anticipates and avoids risks rather than dealing with the consequences of events happening.

#### **6. Risk Appetite**

The Council recognises that it must take risks. Indeed, only by taking risks can it achieve its aims and deliver beneficial outcomes to its customers. It must, however, take risks in a controlled manner, thus reducing its exposure to a level deemed acceptable by the Council and by relevant auditors, regulators and inspectors.



Methods of controlling risks must be balanced in order to support innovation and the imaginative use of resources, especially when it is to achieve substantial benefit. Calculated controlled risks, such as accepting new opportunities or using innovative approaches for the benefit of the Council, may be taken providing the risk exposure is within the Council’s ‘risk tolerance’ levels, these are defined as:

**6.2.1 Acceptable risks** – the risks associated with any proposed actions and decisions need to be clearly identified, evaluated and managed to ensure that risk exposure is acceptable. Particular care is needed in considering actions that could:

- Have an adverse effect on the Council’s reputation and/ or performance
- Undermine the independent and objective review of activities
- Result in censure or fines being imposed by regulatory bodies
- Result in financial loss

Any threat or opportunity that could have a significant impact on the Council’s reputation or its services must be closely examined, and all risks clearly evaluated and referred to the appropriate Executive Director. Where there is risk that could potentially have a corporate impact on the Council, it must be considered by Senior Management Team.

**6.2.2 Prohibited risks** – risks are not acceptable where they could result in physical harm; non-compliance with legislation or Government regulations; or non-compliance with Council policy, rules and procedures. Therefore any opportunity or innovative approach that may result in such outcomes must not be pursued.

The organisation’s current overall risk appetite is defined as ‘Open’, which means that:

Open	Prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk.
------	---

Signed: \_\_\_\_\_ Ray Harding, Chief Executive

Date: \_\_\_\_\_

Signed: \_\_\_\_\_ Cllr N Daubney, Leader

Date: \_\_\_\_\_



# Risk Management Strategy

## **Introduction**

Risk management can be defined as *'the process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling or responding to them'*.

The Council's risk management objectives and approach are stated in the Risk Management Policy. This strategy explains the processes required to implement the policy and provides simple templates designed to evaluate the effect of a risk.

The purpose of risk management is to:

- Improve business performance
- Promote a risk aware culture to avoid unnecessary liabilities and costs, but to encourage the taking of calculated risks in pursuit of opportunities that benefit the Council
- Promote Corporate Governance by integrating risk management and internal control
- Preserve and protect the Council's assets, reputation and staff.

This strategy will be reviewed every three years to ensure it remains relevant to the needs of the Council. **The next review date is March 2019.**

## **Process of managing the risk**

Risk management consists of initially defining the risk appetite and then applying four basic processes:

1. Identifying risks
2. Evaluating
3. Minimising, controlling and responding
4. Monitoring and reporting

Risk Appetite is *'the amount of risk that an organisation is willing to seek or accept in the pursuit of its long-term objectives'*. The Council's risk appetite was defined in the Risk Management Policy as '**Open**', which means that the council is *'prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk'*.

## 1. Identify the risk

The purpose of this stage is to identify anything that might affect the achievement of the Council's objectives and assess what that effect might be. The question to ask is 'What might possibly present itself in the course of delivering the objectives, which has the capacity to threaten or improve the success?' Once identified, the extent to which it might affect the objectives needs to be considered.

A number of approaches are taken to identify risks to the Council at the earliest opportunity and ensure that they are managed from a very early stage. These include:

- Regular monitoring of the Corporate Business Plan
- Regular monitoring of Committee reports and Performance monitoring reports
- Regular reviews by Management Team to ensure all corporate risks have been captured on the Corporate Risk Register and accurately assessed.
- Robust processes at the commencement of projects, particularly major ones, and ongoing monitoring

## 2. Evaluate the risk

This stage develops a greater understanding of each risk, its impact and the likelihood of those consequences. It provides an input to risk evaluation and to decisions on how risk will be managed.

The categories for Likelihood and Impact are shown below.

### Likelihood

Score	Definition
1 – Rare	The event may occur only in exceptional circumstances
2 – Unlikely	The event could, but is not expected to, occur
3 – Possible	The event might occur at some time
4 – Likely	The event will probably occur in most circumstances
5 – Almost Certain	The event is expected to occur in most circumstances

## Impact

Score	Impact on service	Personal safety	Financial loss	Legal and Regulatory	Corporate objective	Environmental impact	Reputation
1	Little	No injury	<£25,000 or 1% of budget	Minor civil litigation or regulatory criticism	No effect on delivery	None or insignificant	No damage
2	Some	Minor injury	>£25,000 or >2.5% of budget	Minor regulatory enforcement	Little effect on delivery	Minor damage	Minimal damage (minimal coverage in local press)
3	Significant	Violence or threat of serious injury	>£175,000 or >5% of budget	Major civil litigation and/or public enquiry	Possible impact on delivery	Moderate damage	Significant coverage in local press
4	2-7 days	Extensive or multiple injuries	>£500,000 or >10% of budget	Major civil litigation and/or national public enquiry.	Significant impact on delivery	Major damage	Coverage in national press
5	>7 days	Fatality	>£1m or >15% of budget	Section 151 or government intervention or criminal charges	Non delivery	Significant damage locally or nationally	Requires resignation of Chief Exec, Exec Director or Leader

Apply the definitions of Likelihood and Impact to establish the risk score and rating. This will determine what level of action is required and who by.

<b>LIKELIHOOD</b>	5 Almost Certain	(5) (Green)	(10) (Orange)	(15) (Red)	(20) (Red)	(25) (Red)
	4 Likely		(8) (Green)	(12) (Orange)	(16) (Red)	(20) (Red)
	3 Possible		(6) (Green)	(9) (Green)	(12) (Orange)	(15) (Red)
	2 Unlikely			(6) (Green)	(8) (Green)	(10) (Orange)
	1 Rare					(5) (Green)
		1 Insignificant	2 Minor	3 Moderate	4 Major	5 Extreme

**IMPACT**

<b>Risk Category</b>	<b>How the Risk should be managed</b>
Very High Risk (15 – 25) (Red)	Immediate action required. Senior Management must be involved.
High Risk (10 – 12) (Orange)	Senior Management attention needed and management responsibility specified.
Medium Risk (5 – 9) (Green)	Manage by specific monitoring or response procedures. Responsibility to be allocated by Management Team to a named Service Manager.
Low Risk (1 – 4) (White)	Manage by routine procedures, unlikely to need specific or significant application of resources.

For example, a risk that is ‘Likely’ to occur, and has a ‘minor’ impact will score 4 x 2 = 8 which is a ‘Medium’ risk.

### **3. Minimising, controlling and responding**

When deciding how to manage risks, the cost effectiveness of implementing proposed controls needs to be considered. There is little benefit to be gained from pursuing a course of action if the cost of controlling a risk outweighs the benefits to be gained.

There are four basic ways of responding to risk:

#### **1. Avoidance**

Deciding not to continue or proceed with the activity in view of the level of risk involved. This may be as a result of the cost of mitigating the risk being too high, or the consequences being too adverse. (Note: statutory requirements cannot be avoided).

#### **2. Transfer**

Involves another party bearing or sharing the risk, a typical example being the use of insurance. (Note: ultimate responsibility to undertake statutory requirements remains with the Council even if third party provision is engaged).

#### **3. Mitigate**

Ensuring existing controls are effective by periodic review and testing, and implementing additional controls where necessary.

#### **4. Acceptance**

Certain risks cannot be adequately treated by any of the above. In such cases, there is no alternative but for the Council to accept the residual risks concerned. Details of how these risks and their possible effects are to be managed must be recorded in the risk register at Corporate, Service or Project level as appropriate, and subject to regular review.

#### **4. Monitoring and reporting**

Management Team reviews the Corporate Risk Register at regular intervals to assess if any risk has increased, reduced or stopped altogether, or if new risks need to be added.

The Terms of Reference for the Audit and Risk Committee state that *'the purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework...'*, and as such one of its functions is to *'consider the effectiveness of the Council's risk management arrangements'*.

The Committee will therefore receive regular updates on the risk register and will consider the effectiveness of the Risk Management Strategy.

#### **5. Corporate Risk Register**

The Corporate Risk Register records high level risks that pose a threat or opportunity to the Council's objectives. Executive Directors are responsible for identifying risks within their respective Directorates that have a corporate impact during any section or project meetings. The Audit Manager should be notified of any such risk so that it can be added to the Corporate Risk Register and included in the next review by Management Team.

#### **6. Roles and responsibilities**

Risk management is the responsibility of everyone. It is important that risk management becomes part of daily routines to ensure achievement of the Council's objectives is not jeopardised by unrecognised risks.

All Council employees and Members are responsible for ensuring there are robust and fit-for-purpose systems of internal control and risk management in place; and they are aware of the risks that:

- they are empowered to take
- must be avoided or reported upwards

## **Members**

The Leader of the Council is responsible for acting as Lead Councillor for risk management.

The Audit and Risk Committee has specific responsibility for the scrutiny of risk management. The Committee receives the annual review of the Risk Management Strategy and half-yearly reports on the update of the Risk Register. It is the Committee's responsibility to ensure that risks are being actively managed.

## **Management Team**

**Ultimately Management Team is responsible for managing risk. The responsibility cannot be devolved down, although actions to mitigate risk can be assigned to officers.**

Executive Directors must inform the s151 Officer of any financial viability or resilience issues as soon as they emerge so that any appropriate action that may be required can be taken.

In addition Management Team should:

- Nominate a member of Management Team with overall responsibility for Risk Management, currently the Chief Executive
- Identify risks within their respective Directorates through section and project meetings.
- Take ownership of risks within their respective Directorates and assign a responsible officer to all significant service risks
- Receive regular updates on identified and any new significant emerging risks within their Directorate
- Ensure that the risk management process is reviewed on a regular basis

## **S151 Officer**

The S151 Officer has a responsibility to monitor the viability and resilience of the Council's finances and take appropriate action if required to ensure the ongoing security of the Council. Therefore she must be informed of any potential financial risk arising from project or service activities as it emerges.

## **Service Managers**

Service Managers are responsible for raising awareness of the risk strategy in their own service area and notifying their Executive Director of any significant risks.



Service Managers, in conjunction with their Executive Director, should:

- Lead reviews of the operational risks relating to their services
- Ensure a responsible officer is assigned to manage significant risks
- Identify resources to address the highest priority risks
- Monitor progress on a regular basis
- Review the risks on an annual basis and when new situations arise.

### **Project Managers**

Managers of major projects are responsible for raising awareness of the strategy in their own projects and should monitor the project risk register on a regular basis. Any significant risks should be notified to the relevant Executive Director and.

Project Managers, in conjunction with their Executive Director, should:

- Lead reviews of the operational risks relating to their projects
- Ensure a responsible officer is assigned to manage significant risks
- Identify resources to address the highest priority risks
- Monitor progress on a regular basis
- Review the risks on an annual basis and when new situations arise.

### **Internal Audit**

The Audit Manager is responsible for co-ordinating the review of the Corporate Risk Register, managing any updates in the intervening periods and presenting the results to the Audit and Risk Committee. Therefore audit of the Risk Management process will require external review to avoid a conflict of interests with the Audit Manager's role.

Internal Auditors will consider any potential unidentified risks during their audit work and bring any issues to the attention of management where necessary.

## AUDIT AND RISK COMMITTEE WORK PROGRAMME 2015/2016

### 8 June 2015

- Final Accounts and Statement of Accounts for year ended 31 March 2015: Revenue Outturn, Capital Programme and Resources.

### 23 June 2015

- Internal Audit end of Year 2014/2015 Progress Report.
- End of Year Report of Benefit Investigations Unit and Internal Audit work on the National Fraud Initiative.
- Corporate Risk Monitoring Report April 2015
- Strategic Internal Audit Plan 2015/2018

### 21 July 2015

#### **5.30 pm start – First Item – Presentation on the Annual Governance Statement – all Members invited to attend**

- Audit Manager's Annual Report
- Effectiveness Reviews
- Business Continuity Annual Update – D Robson

#### Cabinet Report

- Annual Treasury Report 2014/2015.

### 7 September 2015

#### **5.30 pm Start – First Item – Briefing/Training on Closing of Accounts, etc – all Members invited to attend**

- Monitoring Officer Report 2014/2015 – E Duncan

#### Cabinet Reports

- Statement of Accounts 2014/2015
- Annual Governance Statement

- Review of the Effectiveness of the Audit and Risk Committee
- Business Continuity Management Policy Statement and Strategy

### **27 October 2015**

- Internal Audit Half Year Progress Report
- Fraud Report
- Risk Register

### **Cabinet Report**

- Mid Year Treasury Report

### **24 November 2015**

**5.30 pm start – First Item – Briefing/training on Briefing/training on How an Audit is undertaken – all Members invited to attend**

- Annual Audit Letter – External Audit

### **23 February 2016**

**5.30 pm Start – First Item – Risk Assessment Training – all Members invited to attend**

- Annual Certification of Claims and Returns
- External Audit Plan
- Local Government Audit Committee Briefing Note
- Strategic Internal Audit Plan

### **Cabinet Reports**

- Treasury Management Strategy 2016/2017
- Risk Management Policy and Strategy Review

**FORWARD DECISIONS LIST**

<b>Date of meeting</b>	<b>Report title</b>	<b>Description of report</b>	<b>Key or Non Key Decision</b>	<b>Decision Maker</b>	<b>Cabinet Member and Lead Officer</b>	<b>List of Background Papers</b>	<b>Public or Private Meeting</b>
1 March 2016	Treasury Management Strategy 2016/17		Non	Council	Leader Asst Exec Dir – L Gore		Public
	Modifications to the Local Plan		Key	Council	Development Exec Dir – G Hall		Public
	Crematorium Project update		Non	Cabinet	ICT Leisure & Public Space Exec Dir - C Bamfield		Public
	Risk Management Policy and Strategy Review		Non	Council	Leader Chief Executive		Public
	Assessing King’s Lynn and West Norfolk’s Housing Requirement		Non	Cabinet	Development Exec Dir – G Hall		Public
	Appointment of Honorary Aldermen		Non	Council	Leader Chief Executive		Public

108

<b>Date of meeting</b>	<b>Report title</b>	<b>Description of report</b>	<b>Key or Non Key Decision</b>	<b>Decision Maker</b>	<b>Cabinet Member and Lead Officer</b>	<b>List of Background Papers</b>	<b>Public or Private Meeting</b>
5 April 2016	The Statement of Community Involvement		Non	Cabinet	Development Exec Director G Hall		Public
	NORA Joint Venture – Phase 3		Key	Council	Regeneration Chief Executive		Public
	Child Protection Policy Update		Non	Council	Housing & Community		Public
	Affordable Housing Company		Non	Cabinet	Housing & Community Chief Executive		Public
	Major Housing Project		Key	Cabinet	Regeneration Chief Executive		Public
	Staff Pay Award						
	Asset Management : Land with Development Potential		Key	Council	Regeneration & Industrial Assets Exec Dir – C Bamfield		Private- Contains exempt Information under

							para 3 – information relating to the business affairs of any person (including the authority)
	King's Lynn: Strategic Land Acquisition		Key	Council	Regeneration & Industrial Assets Exec Dir – C Bamfield		Private- Contains exempt Information under para 3 – information relating to the business affairs of any person (including the authority)
	Electoral Review		Key	Council	Leader Chief Executive		Public