CARLISLE CITY COUNCIL
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AGENDA

Audit Committee

Thursday, 22 December 2016 AT 10:00
In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG

A private preparatory / briefing meeting for Members of the Committee will be held at 9.15 am in the Flensburg Room

Apologies for Absence

To receive apologies for absence and notification of substitutions

Declarations of Interest
Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any item on the agenda at this stage.

Public and Press
To agree that the items of business within Part A of the agenda should be dealt with in public and that the items of business within Part B of the agenda should be dealt with in private.

To approve and sign the Minutes of the meeting held on 27 September 2016.
[Copy Minutes in Minute Book Volume 43(3) / herewith]

PART A

To be considered when the Public and Press are present

A.1 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL **25 - 34**

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 20 October and *6 December 2016 are submitted for information.
(Copy Minutes herewith / *to follow)

A.2 ANNUAL AUDIT LETTER 2015/16 **35 - 46**

To receive Grant Thornton's Annual Audit Letter 2015/16 for information.
(Copy Letter herewith)

A.3 AUDIT COMMITTEE PROGRESS AND UPDATE REPORT **47 - 60**

Grant Thornton to present their progress and update report.
(Copy Report herewith)

A.4 FINAL ACCOUNTS PROCESS 2016/17 **61 - 84**

The Chief Finance Officer to submit a report updating Members on the final accounts process.
(Copy Report RD.44/16 herewith)

A.5 INTERNAL AUDIT PROGRESS REPORT 2016-17 **85 - 92**

The Chief Finance Officer to submit a report summarising the work carried out by Internal Audit and detailing progress against Audit Plans for 2015/16 and 2016/17.
(Copy Report RD.45/16 herewith)

The undernoted Final Audit Reports are submitted for consideration:

Audit of Carlisle Enterprise Centre **93 - 106**

Audit of Overtime **107 - 118**

Audit of External Communications **119 - 128**

Audit of Electoral Registration **129 - 140**

(Copy Reports herewith)

A.6 TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2017/18 **141 - 170**

The Chief Finance Officer to submit a report setting out the Council's Treasury Management Strategy Statement for 2017/18 in accordance with the CIPFA Code of Practice on Treasury Management. The matter was considered by the Executive on 19 December 2016.
(Copy Report RD.42/16 herewith / Minute Excerpt to follow)

A.7 TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22 **171 - 188**

The Chief Finance Officer to submit a report providing the regular quarterly summary of Treasury Management Transactions, together with budgetary projections for 2017/18 - 2021/22. The matter was considered by the Executive and Resources Overview and Scrutiny Panel on 21 November and 6 December 2016 respectively.
(Copy Report RD.34/16 and Minute Excerpts herewith)

A.8 CORPORATE RISK MANAGEMENT **189 - 198**

The Deputy Chief Executive to submit a report updating Members on the Council's Risk Management arrangements. The matter was considered by the Resources Overview and Scrutiny Panel on 20 October 2016.
(Copy Report SD.32/16 and Minute Excerpt herewith)

PART B

To be considered when the Public and Press are excluded from the meeting

B.1 FUTURE OF THE INTERNAL AUDIT SERVICE

This report is not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as the report contains exempt information relating to the financial or business affairs of any particular person (including the authority holding that information)

Pursuant to Minute AUC.63/16, the Chief Finance Officer to submit a report concerning the future of the Internal Audit Service. The Executive considered the matter on 24 October 2016.
(Copy Report and Minute Excerpt to follow)

Members of the Audit Committee

Conservative - Higgs, Mrs Mallinson, Shepherd,Bowman S (sub), Christian (sub), Earp (sub)

Labour – Bowditch (Vice-Chairman), Ms Franklin, Patrick (Chairman), Mrs Riddle, Alcroft (sub), Ms Williams (sub), Wilson (sub)

Enquiries to:

Morag Durham - Tel: 817036

AUDIT COMMITTEE

TUESDAY 27 SEPTEMBER 2016 AT 10.00 AM

PRESENT: Councillor Patrick (Chairman), Councillors Higgs, Mrs Mallinson, Mrs Riddle, Ms Williams (as substitute for Councillor Ms Franklin) and Wilson (as substitute for Councillor Bowditch)

OFFICERS: Chief Executive (for Item A.6)
Deputy Chief Executive (for Item A.6)
Director of Governance
Director of Resources (for Items A.6 – B.1)
Director of Economic Development (for Item A.6)
Financial Services and HR Manager
Chief Accountant
Policy and Communications Manager
Building and Estates Services Manager (for Item A.6)
Environmental Health and Housing Manager (for Item A.6)
Legal Services Manager (for Item A.6)

Audit Manager (Cumbria Shared Internal Audit Service) (until 12.20 pm)
Group Audit Manager (Cumbria Shared Internal Audit Service) (until 12.20 pm)

ALSO PRESENT: Director (Grant Thornton)
Audit Manager (Grant Thornton)

AUC.48/16 WELCOME

The Chairman welcomed all those present to the meeting.

AUC.49/16 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Bowditch, Ms Franklin and Shepherd; Councillor Dr Tickner (Deputy Leader, and Finance, Governance and Resources Portfolio Holder); and the Associate Director (Grant Thornton).

AUC.50/16 DECLARATIONS OF INTEREST

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct in respect of Agenda item A.6 – Audit of Housing Benefits Overpayments Recovery. The interest related to the fact that Councillor Mrs Mallinson is a landlady.

Councillor Mrs Riddle declared an interest in accordance with the Council's Code of Conduct in respect of Agenda item A.6 – Audit of Homelife Scheme as she was a customer of Homelife.

AUC.51/16 PUBLIC AND PRESS

RESOLVED – That, in order to facilitate the smooth running of business, Agenda item A.3 (Records Management Update) would be taken prior to Agenda item A.2 (Audit Findings for Carlisle City Council 2015/16).

AUC.52/16 MINUTES OF PREVIOUS MEETING

The Minutes of the meeting of the Audit Committee held on 7 July 2016 were submitted.

Referring to Minute AUC.39/16, the Chairman apologised that timing and resource issues had prevented the briefing on Value for Money / Treasury Management being provided as requested by Members. The Financial Services and HR Manager was considering the matter, together with what training and additional items may be of benefit throughout the year.

RESOLVED – That the Minutes of the meeting of the Audit Committee held on 7 July 2016 be agreed as a correct record and signed by the Chairman.

AUC.53/16 MINUTES OF RESOURCES OVERVIEW AND SCRUTINY PANEL

The Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 4 August and 8 September 2016 were submitted for information.

RESOLVED – (1) That the Minutes of the meetings of the Resources Overview and Scrutiny Panel held on 4 August and 8 September 2016 be noted and received.

(2) That the Committee was pleased to note the improving position as regards sickness absence, as detailed within Minute ROSP.70/16.

AUC.54/16 RECORDS MANAGEMENT UPDATE

Pursuant to Minute AUC.42/16, the Policy and Communications Manager submitted report PC.20/16 providing an update on the record management recommendations within the Code of Corporate Governance Action Plan.

Speaking by way of background, the Policy and Communications Manager confirmed that the recommendations made in the original audit had all been met; and that the ongoing work highlighted the developments which had taken place since the audit.

He also drew Members' attention to the table at Section 1.2 and summarised the completed / ongoing work in the following terms:

Recommendation	Update
R1 - Records Management Policy	The Policy was completed in 2014. A new version had been prepared to reflect the changes following the completion of the restructure.
R2 - Project Group	The initial project group had now been subsumed into the work of service planning and operational risk management. The programme of work forming the 'Digital Vision and Technology Strategy 2015-2020' was now the key area for project work relating to records management.
R3 - Guidance	The Policy detailed roles and responsibilities. Training needs were identified in the cycle of team appraisals (training and personal development).
R4 - Constitution	The constitution would be updated at the next opportunity to reflect the arrangements for records management.
R5 - Disposal Log	A template disposal log was included in the Policy.
R6 - Overall responsibility	Overall responsibility was detailed in the Policy.

The Policy and Communications Manager also outlined the updates on records management; and records management and ICT, as detailed at Sections 2 and 3 of the report.

In terms of the impact of the floods on records management, he informed Members that It was recommended that the Civic Centre basement was no longer used for storage purposes. However, a decision in that regard had yet to be made.

An assessment of the future resilience and building requirements was now almost complete. That would be reported back to Executive (in the first instance). A feasibility report would explore the potential use of the basement and ground floor, resilience adaptations, possible re-design of the first floor and future use and costs of the Civic Centre. Once that report had been discussed by the Joint Management Team then a comprehensive programme would be devised for implementation.

In conclusion, the Policy and Communications Manager asked the Committee to note the updates and current position relating to records management.

The following questions and concerns were raised in discussion:

- *Were the key Data Retention Schedules now in place?*

In response, the Policy and Communications Manager confirmed that work on the high risk areas had been completed some time ago. The service retention schedules (which set out guidance for the retention of records) formed a key part of the Council's Records Management Policy and had now been compiled into a single searchable list and published on Project Server. As had been reported at the Management Briefing Meeting on 7 September 2016, Managers could access and make use of the list of retention schedules. The list could be filtered by Directorate, holding team and function.

It should be noted that this work was not set in stone. It was rather dynamic and may change following discussions with service Managers. Members could, nevertheless, be assured that the Data Retention Schedules were in place.

- *Bearing in mind the previous significant flooding events in Carlisle, a Member expressed concern regarding future use of the Civic Centre basement for storage purposes. She also emphasised the importance of an audit trail for e-mails should freedom of information requests be received, and considered that the Council's IT records should be backed up off site (e.g. the cloud) so that such records could be produced in a timely fashion should the need arise.*

The Director of Governance replied that the basement was not being used and consideration was being given to storage facilities further up the tower. He further clarified the obligations upon the authority in terms of responding to freedom of information requests.

- *Who made the day to day judgement in terms of the retention of hard copy records?*

The Policy and Communications Manager considered that to be a very good point. The records function, which included e-mails, must be dealt with. The advantage of developing systems and moving to cloud based computing was that records were more secure and accessible. He undertook to provide a more detailed response on the manner by which the City Council backed up its systems.

The Chairman indicated that a great deal of excellent and hard work had gone into progressing records management which was recognised by Members. The issue had been around a lack of feedback of that information to the Committee which meant that Members had not been able to gain the necessary level of assurance.

Following discussion, it was agreed that the Committee would await further assurance from the Information Governance Audit Review before removing the item from the Annual Governance Statement.

RESOLVED – (1) That the Audit Committee noted the updates and current position regarding records management as set out within Report PC.20/16.

(2) That the Committee acknowledged the excellent work undertaken and direction of travel with regard to records management, but would await further assurance from the Information Governance Audit Review prior to taking a decision to remove the item from the Annual Governance Statement.

AUC.55/16 AUDIT FINDINGS REPORT FOR CARLISLE CITY COUNCIL 2015/16

The Director (Grant Thornton) presented a report highlighting the key issues arising from Grant Thornton's audit of the Council's financial statements for the year ended 31 March 2016. The report was also used to present their audit findings to management and the Audit Committee in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260 and the Local Audit and Accountability Act 2014.

In conducting the audit, it had not been necessary to alter or change the planned audit approach, communicated to the Committee in the Audit Plan on 19 April 2016.

The Director (Grant Thornton) stated that the draft financial statements and accompanying working papers had been received well in advance of the 30 June 2016 statutory deadline. That good performance was particularly pleasing bearing in mind the challenging year faced by the authority and the Finance Team in responding to the aftermath of the December 2015 floods.

The Director (Grant Thornton) explained that, subject to the completion of final procedures, it was anticipated that an unqualified audit opinion would be provided in respect of the financial statements. She also referenced the amendments; classification / exposure issues; and the new guidance which had been incorporated within the Accounts.

Based upon their review, Grant Thornton was satisfied that, in all significant respects, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The work specifically undertaken in relation to the value for money conclusion was summarised at Section 3 of the report.

In conclusion, the Director (Grant Thornton) thanked the Financial Services Team for their patience in reaching this point.

The Audit Manager (Grant Thornton) provided an overview of the key audit and financial reporting issues set out within the Executive Summary, including an adjustment identified to primary statements amended by management; two other misstatements not amended by management, which did not impact upon the audit opinion; and the key disclosure note adjustments.

In terms of the key messages, the Audit Manager (Grant Thornton) informed Members that

- The Council had achieved a good standard of compliance in terms of the disclosures required for 2015/16, particularly with the new IFRS13 disclosure requirements relating to investment properties;
- Although there were a number of amendments to the Accounts, most were disclosure issues to existing notes and not omissions;
- The Council had again achieved early closedown, with Accounts authorised for issue on 7 June 2016, which was over three weeks ahead of the specified deadlines;
- De-cluttering of the Accounts occurred prior to the compilation of the statements to aid readability and remove non material disclosure notes;
- Working papers were of a good standard; and
- Quality assurance processes could be improved prior to the authorisation of the draft financial statements.

The Annual Governance Statement had ‘records management’ as a significant governance area for both 2015/16 and 2014/15. That was despite action taken to monitor the area during 2015/16 by management, with oversight from the Audit Committee. Action Plans were in place to address the matter during 2016/17 with a report having been included for consideration earlier in the meeting.

The Narrative Statement was a new requirement for 2015/16, and the draft version presented for audit was to a good standard. Minor amendments were identified to improve presentation, with further narrative added on value for money and post balance sheet events.

In addition, Grant Thornton was required to certify the Council’s Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Work on that claim was presently in progress and was not due to be finalised until 30 November 2016. To date, there were no issues to report and the final outcome of that certification work would be reported to the Audit Committee in December 2016.

The Audit Manager (Grant Thornton) then summarised in some detail:

- the Audit findings – highlighting the concept of materiality; the two presumed significant risks applicable to all audits; the two other identified significant risks of material misstatement; the recommendation within the Action Plan regarding the need to carry out a review of income recognition; other communication requirements; adjusted and unadjusted misstatements; and the misclassifications and disclosure changes.
- the work undertaken and key findings in relation to the value for Money conclusion
- other statutory powers and duties

In conclusion, the Audit Manager (Grant Thornton) thanked the Financial Services and HR Manager, the Chief Accountant and their staff for their work during what had been a particularly intense period.

The Chairman questioned whether the classification error of £34.002 million was partly due to the additional pressures faced by Financial Services Officers following the floods.

The Financial Services and HR Manager did not believe so. She outlined the quality review processes currently undertaken, adding that an enhanced process would be put in place for the 2016/17 accounts onwards as detailed within the Action Plan.

The Chief Accountant also clarified the position regarding the two un-adjusted misstatements, reiterating that those did not affect the bottom line on the balance sheet.

RESOLVED – That the Audit Committee:

(1) Noted and received the positive Audit Findings Report for the year ended 31 March 2016.

(2) Welcomed the unqualified opinion on both the financial statements and the Value for Money conclusion.

(3) Approved management's proposed treatment of the unadjusted misstatements detailed within the table on page 21 of the report.

(4) Recognised the good work undertaken by the Financial Services Team, including work on the Narrative Statement which was a new requirement for 2015/16 and in the aftermath of the December 2015 floods; and requested that the thanks of the Committee be conveyed to all those involved in the preparation of the Council's financial statements and audit process. The Committee was also most appreciative of the contribution of the Director and Audit Manager (Grant Thornton).

AUC.56/16 STATEMENT OF ACCOUNTS 2015/16

The Chief Accountant submitted report RD.28/16 presenting the Council's Statement of Accounts 2015/16 which had been subject to a three month audit process, (commencing in July and with a statutory completion date of 30 September 2016).

The Audit was substantially complete with the Auditor's Audit Findings Report (ISA260) being considered elsewhere on the Agenda. That report anticipated providing the Council with an unqualified opinion on both the Accounts and the VFM conclusion. It also detailed any issues found during the course of the audit process, and any amendments required to the Accounts which must be reported and approved by Members of the Audit Committee.

The Chief Accountant highlighted, in particular, the £34m disclosure amendment together with the new note concerning valuation techniques used to determine level 2 and 3 fair values for investment properties, details of which were set out on pages 130 and 151 of the agenda document pack.

He added that there were six recommendations made by the Auditor relating to the disclosure issues raised in the Audit Findings Report (ISA260). The completed Action Plan would be reviewed and closely monitored during 2016/17.

The Chief Accountant then thanked the Auditors for their work during what had been an intense four week period.

The Committee was asked to approve the 2015/16 Statement of Accounts, noting that also included the audited Annual Governance Statement.

In response to a question, the Chief Accountant confirmed that Section 1.9 (Events after the Balance Sheet Date) was a new addition to the accounts.

The Chairman expressed thanks to the Financial Services Team for their hard work in preparing the Statement of Accounts.

RESOLVED – That the Audit Committee:

(1) Acknowledged the de-cluttering which had been undertaken to aid readability and remove non material disclosure notes from the Statement of Accounts; and thanked the Financial Services Team for their efforts.

(2) Approved the 2015/16 Statement of Accounts, noting that also included the amended Annual Governance Statement.

AUC.57/16 LETTER OF REPRESENTATON 2015/16

The Chief Accountant reported (RD.29/16) that the audit of the Statement of Accounts for 2015/16 was substantially complete with the Auditors' Audit Findings Report (ISA260) being considered elsewhere on the Agenda. Following approval of that report, the Auditors would issue their formal opinion and the audit process for 2015/16 would be complete.

However, in accordance with Auditing Standards, a Letter of Representation (a copy of which was appended to the report) must also be considered and approved by the Audit Committee prior to the Audit Opinion being provided. Once approved it would be signed by the Director of Resources on behalf of the City Council.

The Chief Accountant highlighted, in particular, the information concerning unadjusted misstatements and the fact that the impact of the December 2015 flooding event had been considered when valuing assets disclosed on the Council's balance sheet [Sections xiii and xvi referred].

The Audit Manager (Grant Thornton) undertook to feed back a comment concerning the use of roman numerals within the letter of representation.

RESOLVED – (1) That the Audit Committee approved the Letter of Representation for 2015/16.

(2) That the Director of Resources be authorised to sign the same on behalf of the Council.

AUC.58/16 INTERNAL AUDIT PROGRESS REPORT 2016/17

Councillor Mrs Mallinson, having declared an interest, remained within the meeting room, but made no comment on the Audit of Housing Benefits Overpayments Recovery.

Councillor Mrs Riddle, having declared an interest, remained within the meeting room, but made no comment on the Audit of the Homelife Scheme.

The Audit Manager (Cumbria Shared Internal Audit Service) submitted report RD.26/16 summarising the work carried out by Internal Audit and detailing progress against the Audit Plans for 2015/16 and 2016/17.

The Audit Manager reminded Members that the 2015/16 Annual Risk Based Audit Plan was agreed by the Committee on 13 April 2015 (Report RD.02/15 referred). A summary of work completed from the 2015/16 Plan was included in the Internal Audit Annual Report presented to the Audit Committee in July 2016. As a number of reports had not been finalised at that time, a summary of the overall 2015/16 Plan position was included at Appendix A for Members' information.

The outstanding work from the 2015/16 Plan was:

- the draft reports in relation to 2 risk-based reviews (Overtime and Enterprise Centre) were nearing completion
- 1 follow up review (Homeworking) was ongoing
- Procurement Audit – deferred at management's request as agreed at last Committee for completion in 2016/17
- Street Cleaning Education and Enforcement – carried forward to 2016/17 Plan at management's request, as agreed at last Committee.

Members' were further reminded that the 2016/17 Annual Risk Based Audit Plan was agreed by the Committee on 19 April 2016 (Report RD.01/16 referred). A summary of the overall 2016/17 Plan position was included at Appendix B for information.

As stated earlier, management had requested the further deferral of the Audit of Street Cleaning Education and Enforcement due to a restructure in the Department. It would therefore be sensible to defer the Audit until that had been completed and staff established in their new roles.

The Chairman indicated that, whilst disappointed, Members supported the reasons for deferral.

The Audit Manager (Cumbria Shared Internal Audit Service) commented that performance measures would be included within the next internal audit monitoring report once more data was available for 2016/17.

Turning to the issue of final Audit Reports, the Audit Manager (Cumbria Shared Internal Audit Service) informed Members that there were 9 audit reports for consideration by the Committee today – Building Maintenance; Homelife Scheme; Housing Benefits Overpayments Recovery; ICT Strategy; Risk Management; Workforce Planning and Development; Licensing; Treasury Management; and Main Accounting and Budgetary Control.

The Audit Manager (Cumbria Shared Internal Audit Service) and the Group Audit Manager (Cumbria Shared Internal Audit Service) provided an in depth overview of the above mentioned audits (focussing upon those with a partial assurance opinion); associated recommendations and reasons for the assurance opinions attributed to each audit.

Members raised the following issues / concerns during their consideration of the Audit Reviews:

<u>Audit of Building Maintenance (Partial Assurance Opinion)</u>

- *A Member expressed concern regarding the audit findings set out at Sections 5.1.1 and 5.1.2, emphasising that the failure to insert key information within the database set up to record statutory maintenance certifications and lack of systems evidence on condition surveys put the Council at tremendous risk should an injury or accident occur.*

  The Member requested that a follow up be provided in order that the Committee could be assured that action was taking place to address those high priority recommendations.

In response, the Building and Estates Services Manager confirmed that the database information used for recording and monitoring statutory maintenance certifications would be brought up to date. In addition, a fresh five year rolling programme for undertaking condition surveys would be established for the operational property portfolio.

The Director of Governance added that a system of management checks would also be introduced to give the necessary level of assurance.

- *The Chairman expressed surprise that condition surveys were being undertaken by professional staff and yet the recording thereof was incomplete. She further questioned the professional guidance provided to Surveyors as regards what was expected from a condition survey.*

The Building and Estates Services Manager summarised the role undertaken by individual building surveyors. Action was being taken to address the audit finding. Due to resource issues reports on condition would be procured utilising the services of an external Building Surveyor. An annual inspection would be added, including the completion of a pro forma to evidence that the work had been done.

On the latter issue, the Manager confirmed that professional and statutory guidance would be documented appropriately in future.

- *Did the Council have an Asbestos Register in place?*

The Building and Estates Services Manager confirmed that the Council did indeed have an Asbestos Register. Arrangements were being made for a further schedule of inspections to pick up on the audit finding.

- *The audit had been undertaken at the behest of the Director of Governance and the Building and Estates Services Manager. Was there a cultural issue of a lack of communication within teams; and were there any other areas which should similarly be audited?*

In terms of the context, the Director of Governance explained that the Property Services Section had recently undergone a complete transformation. That led to the request by himself and the Building and Estates Services Manager that Building Maintenance be included in the Audit Plan. He did not have any other similar areas of concern at the moment.

The Building and Estates Services Manager emphasised that, due to the availability of resources, there was a clear need to work in different ways moving forward.

The Member was assured by the responses provided.

The Chairman thanked the Officers for their attendance, concluding that the Audit of Building Maintenance did add value in terms of putting measures in place to safeguard the authority.

<u>Audit of Homelife Scheme (Partial Assurance Opinion)</u>

- *The perception of the Homelife Scheme was positive.*

The Director of Economic Development agreed that the Homelife Scheme had been very well received and had done enormous good. For the benefit of Members she summarised, in some detail, the background to the establishment of the Scheme, together with the operational / funding challenges.

The audit had been commissioned at a key time as Homelife went through a transitional period as it downsized and staff changed.   The Director considered the audit to be positive, adding that she was now more comfortable.

- *The majority of the audit recommendations had been implemented meaning that the Committee had that assurance; and the high priority issues would be followed up through the Audit plan moving forward.*

  Recommendation 3 (Management should have arrangements in place to ensure, and demonstrate, that an appropriate level of planning and evaluation is in place to support the development and delivery of schemes and their objectives) had a implementation date of September 2016. Had that been looked at?

In response, the Environmental Health and Housing Manager advised that certain aspects were now included within the Environmental Health Service Plan. Financing the Scheme during 2016/17 remained the key risk / challenge. An options paper on the future of the Scheme was presented to the Joint Management Team on 26 September 2016 who agreed to consider funding options through the DFG grants that may allow a reduced form of the HIA to continue next year. A service review was currently underway to determine the details of the Scheme moving forward.

- *A Member expressed concern regarding the potential risks to the Council emanating from the Homelife Scheme as it operated at the moment. She considered the Management Action Plan to be key.*

  The Chairman indicated that there were mitigating factors and that the audit recommendations were being addressed.

The Environmental Health and Housing Manager replied that, although the risks were still present, they were reducing as core costs had been reduced and key safety risks reduced with the end of the Health and Social Care Co-ordinator Project.

In conclusion, the Chairman thanked the Officers and welcomed the assurances given in response to the audit recommendations. The positive work undertaken by the Homelife team was acknowledged and the audit would strengthen the Scheme for the people of Carlisle.

<u>Audit of Housing Benefit Overpayments Recovery (Partial Assurance Opinion)</u>

The Director of Resources began by outlining the background, context and scope of the planned audit of Housing Benefits Overpayments which was undertaken in accordance with the 2015/16 Audit Plan. He explained that a restructure of the Revenues and Benefits Service had been undertaken, the next step being a lean systems review of the overpayments systems.

The Director was pleased that Internal Audit had recognised the areas of good practice identified during the course of the audit as evidenced at Section 4.3. He gave an assurance that the agreed management actions were being addressed, but stressed that they would take some months to complete.

- *The standardised recovery procedure was out of date. How did that affect staff?*

The Director of Resources replied that the recovery procedure had now been revised and was now more lean.

- *Why were the overpayment recovery policies not currently aligned to other key strategy documents, such as the anti-poverty strategy?*

The Director of Resources stated that Officers within the Revenues and Benefits Shared Service had worked in accordance with their respective authorities' individual procedures and policies. The audit recommendation would be addressed as changes to procedures were developed and applied, with priority being given to the Debt Recovery and Anti-Poverty Strategies.

The Chairman thanked the Director of Resources for his evidence, which was reassuring. The Committee would receive an update on the high priority recommendation as part of the follow up review.

<u>Audit of ICT Strategy (Reasonable Assurance Opinion)</u>

In discussion, Members recognised and appreciated the significant amount of work undertaken on ICT within the authority in recent years.

<u>Audit of Risk Management (Reasonable Assurance Opinion)</u>

The Deputy Chief Executive commented that, whilst being somewhat disappointed by the medium priority rating attributed to the issues identified at Section 4.4.2, following discussion the recommendations were accepted.

The Chairman advised that the Committee accepted the strengths (areas of good practice identified during the course of the audit) and appreciated the management response to the audit findings.

<u>Audit of Workforce Planning and Development (Partial Assurance Opinion)</u>

The Group Audit Manager (Cumbria Shared Internal Audit Service) explained that the partial assurance opinion represented a professional opinion based upon the work done. The key factor in that opinion and area of risk related to the need for a formal decision to be taken on whether a Workforce Strategy was required and actions to then be taken accordingly. It was nevertheless appropriate for the Chief Executive to express his disagreement with that opinion.

Speaking at the invitation of the Chairman, the Chief Executive acknowledged that the audit review was a really useful piece of work.

The Chief Executive accepted that the failure by the Senior Management Team to make a formal decision on whether or not to umbrella the relevant policies and strategies under a single workforce plan was a weakness which would be addressed. He did not, however, consider the "Partial Assurance" opinion to be a fair reflection; the relevant recommendation should in his opinion have been of medium priority and the audit overall of Reasonable Assurance.

- *Did the Chief Executive take the view that the lack of an overarching workforce strategy was not a significant risk?*

In response, the Chief Executive reiterated that the City Council did have in place a number of workforce strategies which contributed towards workforce design and development, including agile working, appraisal process, apprenticeships, etc. He remained to be convinced that devoting time looking at how many policies were required was a good use of Officers' time. Discussions were, however, ongoing with a view to addressing the audit recommendations.

The Chief Executive further commented upon the need to be proactive as opposed to reactive, as evidenced by the authority's work around the Voluntary Redundancy / Early Release initiative. He added that if, having given consideration to the recommendations emanating from this audit review, Members felt strongly that a corporate Workforce Strategy was required he would respond to that.

- *A Member stated that she understood why the audit had received a Partial assurance rating; referencing a risk assessment within the Corporate Risk Register dated 22 March 2016, noting that the risk score had remained above the Council's tolerance level since September 2013. She considered that it would be good to have an umbrella policy in place, emphasising that it was now time for a decision to be made and a line to be drawn.*

  Another Member did not accept that the audit review contained evidence sufficient to warrant a partial assurance opinion. The Member stated, for the benefit of management, that such a decision i.e. whether to have a workforce plan or not, in her understanding must be taken by Members.

Speaking by way of assistance, the Financial Services and HR Manager clarified that the issue was not that the authority must have an umbrella policy in place. It was rather that a decision required to be taken and recorded.

The Chairman indicated that Audit Scotland had compiled a report which may be of assistance.

In terms of the recommendations, the Chairman confirmed that the Committee noted the audit review; looked forward to a decision being taken concerning a Corporate Workforce Strategy; and would receive a formal follow up on implementation of the audit recommendations at a future date.

<u>Audit of Licensing (Reasonable Assurance Opinion)</u>

The Legal Services Manager drew Members' attention to the medium priority audit finding concerning the reconciliation of financial data to LALPAC (Section 5.1.1 referred). The Licensing Manager was investigating the matter. The advisory issue concerning the periodic changing of passwords had already been implemented.

The Legal Services Manager further commented upon the positive working relationship with the Auditors.

In conclusion, the Chairman indicated that the Committee noted the audit review and acknowledged the areas of good practice identified during the course of the audit.

<u>Audit of Treasury Management (Substantial Assurance Opinion)</u>

The Chairman referred to the substantial assurance opinion attributed to the audit review. She considered it important that the Committee acknowledged the good work being undertaken and thanked the Chief Accountant and his team for their efforts.

The Chief Accountant replied that the Principal Accountant must take the credit for much of that work.

Audit of Main Accounting and Budgetary Control (Reasonable Assurance Opinion)

The Chairman noted that the management response recorded that they had not agreed certain of the audit findings contained within the report. The Committee therefore needed to gain an understanding as to why management had responded in that manner.

In response, the Chief Accountant highlighted page 321 of the agenda document pack – Recommendation 3 (a standard period end process should be implemented to document that expected checks / reconciliations have been completed before FIS reports are run). He could understand that such a process may be of benefit in large local authorities, however, all of the City Council's finance staff were located in the same office and communicated with each other as required. Management were content that all items and control account monitoring procedures were in place.

The Chief Accountant had not agreed to the recommendation since it would place an additional un-necessary burden upon what was a small finance team.

As regards Recommendation 4 (management should consider recording performance against target dates in the reporting timetable to demonstrate achievement of deadlines), the Chief Accountant stated that, for the reasons explained at the close out meeting, it was agreed that no forecasts would be included in Q1 and Q2 Executive reports. Financial Services did meet the deadlines for the submission of Executive / Committee reports and assurance could be gained from that.

A Member indicated that she had sympathy with the Chief Accountant's assessment of the position.

RESOLVED – (1) That Report RD.26/16 be received and progress made on the remainder of the 2015/16 Audit Plan, together with progress on the 2016/17 Audit Plan referred to in Section 2 be noted.

(2) That the Audit Committee agreed to the carrying forward of the Audit of Street Cleaning Education and Enforcement to 2017/18.

(3) That the Audit Committee received the finalised audit reports referred to in Section 4 and attached as Appendices C - K to the report, subject to the following:

- Audits of Building Maintenance; Homelife Carlisle; and Housing Benefits Overpayments Recovery – the Committee was reassured by the management responses to the audit findings, and would receive audit follow ups at future meetings of the Committee.
- Audits of ICT Strategy; Risk Management; Licensing; Treasury Management; and Main Accounting and Budgetary Control – Members noted with pleasure the areas of good practice identified during the course of the audit reviews.
- Audit of Workforce Planning and Development – the Committee supported the need for a decision to be taken (by the Senior Management Team / Executive) on whether or not to put in place an overarching Workforce Strategy, and would receive a formal follow up on the matter at a future date.

The meeting adjourned at 11.50 am and reconvened at 12 noon

AUC.59/16 TREASURY MANAGEMENT – APRIL TO JUNE 2016

The Chief Accountant presented report RD.21/16 providing the regular quarterly report on Treasury Management Transactions including the requirements of the Prudential Code.

The Chief Accountant explained that most budget heads were performing very much in line with the original estimate. There was an under spend on Minimum Revenue Provision (MRP) due to the Capital Financing Requirement being lower at the end of 2015/16 as a result of the final capital outturn position.

Interest receivable would be closely monitored following the cut in interest rates on 4 August 2016; however, it was unlikely that would have a significant effect on the overall returns achieved by the Council against the annual budget (£255,700) set given the extremely low level of returns already being achieved.

The dividends received from the Property Fund had maintained an income of approximately £38,000 per quarter. The yield to the end of June was 4.99%. However, with the uncertainty over Brexit, the valuation of the investment fell at the end of June to £3,177,558 from £3,281,180 at the end of March. Members should note that was still higher than the initial investment by £177,558 and that investment was placed for income returns and long term growth.

The Executive had, on 30 August 2016, received Report RD.21/16 and noted the Prudential Indicators as at the end of June 2016 (Minute EX.81/16 referred).

Members were invited to make any observations on treasury matters during the quarter, although it would be noted from the report that it had been a relatively quiet period in treasury terms.

A Member considered the report to be excellent.

RESOLVED – That Report RD.21/16 be noted.

AUC.60/16 EFFECTIVENESS REVIEW OF THE AUDIT COMMITTEE

The Financial Services and HR Manager reported (RD.24/16) that an effectiveness review of the Audit Committee had been undertaken on 19 April 2016 in line with the CIPFA Guidance for Local Authorities Audit Committees. The review was undertaken by an external facilitator following completion of a self-assessment questionnaire issued to all Members and substitute Members of the Committee.

In total, six responses had been received with ten attendees at the facilitated session in April (seven Members and three Officers). The responses to the questionnaire were summarised at Appendix A, together with the scoring methodology and an average score for each question.

Whilst it was pleasing to note that all of the average scores were within the excellent and good categories, the review highlighted areas for improvement. These were also included within the Appendix.

These areas for improvement had been converted and summarised into an improvement plan (Appendix B) for Member's consideration. If agreeable by the Committee, the responsible officer would ensure compliance within the proposed timescale and progress reports presented to the Audit Committee as required.

The external facilitator had also included the core skills and competencies which Members of the Audit Committee should have, or acquire as soon as possible after appointment.

A further review of the effectiveness of the Committee would be undertaken in line with CIPFA guidelines.

The following observations were raised by Members in discussion:

- This was a good report and should be supported
- It may prove beneficial, in terms of widening their knowledge and understanding, if substitute Members of the Audit Committee attended meetings to observe proceedings
- Executive Members should be invited to attend future meetings of the Committee and encouraged to contribute to items of business relative to their respective portfolio areas
- Members of the Audit Committee could consider taking a lead role on particular issues
- Arrangements be made for a further workshop session to develop ideas regarding Member development and training
- Members could perhaps be more proactive in highlighting the benefits of undertaking training with their respective political groups

The Director (Grant Thornton) indicated that the Audit Committee was an example of a well-run Audit Committee. Although the work undertaken was very effective, the Committee may consider being more proactive in terms of investigating other areas of work (i.e. thinking outside the box).

RESOLVED – (1) That the Audit Committee:

(i) Noted the results of the Effectiveness Review.

(ii) Had considered the Improvement Plan, appended to Report RD.24/16, and

(iii) Agreed to the adoption and implementation of the actions as set out in the Improvement Plan, noting the responsible Officer/Member and proposed timescales.

(2) That arrangements be made for a further workshop session, prior to Christmas 2016, to which both Members and Substitute Members of the Committee should be invited.

AUC.61/16 LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 – APPOINTMENT OF EXTERNAL AUDITORS

The Financial Services and HR Manager reported (RD.25/16) that the Local Audit and Accountability Act 2014 received royal assent on 30 January 2014 and established three main components; one of which provided for the abolition of the Audit Commission and established new arrangements for the audit and accountability of local public bodies.

Report RD.05/15 considered by the Committee in April 2015 summarised the initial guidance in relation to the audit of local public bodies insofar as a local authority must appoint a local auditor to audit its accounts by 31 December each year for the following year's Accounts.

The Council's current external auditor was Grant Thornton, that appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the DCLG.

Those transition arrangements were put in place for the audit of the 2012/13 accounts and were due to cease after the audit of the 2016/17 accounts; however the DCLG, in October 2015, determined that they would be extended for 1 year to include the 2017/18 accounts. Therefore the Council needed to consider the options available and put in new arrangements in time to make a first appointment by 31 December 2017 in time for the audit of the 2018/19 accounts.

Since the last Audit Committee meeting the LGA had, with the support of 270 eligible bodies, been working on developing a sector led body to act as an 'appointing person' under the Local Audit (Appointing Person) Regulations 2015. Greater economies of scale would come from the maximum number of councils acting collectively and opting into a sector led body (SLB). As a result, the DCLG had now specified PSAA as an appointing person; a national sector led body to deliver economic and efficient external arrangements for the benefit of all authorities who wished to opt into that arrangement.

The Financial Services and HR Manager then summarised the following three main options available to the Council in terms of the local appointment of external auditors, together with the associated advantages/benefits and disadvantages/risks:

- setting up an independent Auditor Panel;
- joining with other councils to set up a joint independent Auditor Panel;
- opting-in to a sector led body that would negotiate contracts and make the appointment on behalf of Councils, removing the need to set up an independent Auditor Panel.

In conclusion, the Financial Services and HR Manager requested that Members give consideration to the above mentioned options before making a recommendation to Council.

RESOLVED – That, having considered the options set out in Report RD.25/16, the Audit Committee recommended to Council that:

- The Council opts, in principle, into the sector-led procurement of local authority external auditors from 31 December 2017; and that
- The final confirmation be delegated to the Chief Finance Officer in consultation with the Chairman of the Audit Committee. That would be given once the details of the sector-led offer were known.

At the invitation of the Chairman, the Audit Manager (Grant Thornton) advised that on 17 February 2015 regulations were laid before Parliament confirming proposals to bring forward the date by which Accounts must be published in England to 31 July, effective from the 2017/18 financial year.

The Audit Manager circulated, for Members' information, copies of the Executive Summary of a report entitled "Advancing closure – Transforming the financial reporting of local authority accounts" which included further information and case studies.

AUC.62/16 PUBLIC AND PRESS

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against the minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

AUC.63/16 FUTURE OF INTERNAL AUDIT
(Public and Press excluded by virtue of Paragraph 3)

The Group Audit Manager; and the Audit Manager (Cumbria Shared Internal Audit Service) retired from the meeting for this item of business.

Councillor Mrs Mallinson declared an interest in accordance with the Council's Code of Conduct. The interest related to the fact that she is a Member of Cumbria County Council.

Councillor Mrs Mallinson remained within the meeting room and took part in discussions.

The Director of Resources reported (RD.27/16) that, since 1 April 2010, the Council's Internal Audit Service had operated as part of a shared service arrangement between Cumbria County Council, Carlisle City Council, Copeland Borough Council and the Police Authority.

The current Internal Audit Shared Service would terminate on 31 March 2017 and the report set out the options available to the Council, together with recommendations and reasons therefor.

The Director of Resources and the Financial Services and HR Manager gave a presentation outlining, in detail, the current shared Internal Audit Service; the key drivers for review; the regulatory framework; various audit roles; the timetable and issues to be addressed.

In conclusion, the Director of Resources asked that the Committee consider the report and future options for administering the Internal Audit Service, and make recommendations to the Executive.

Members of the Audit Committee raised a number of questions / concerns regarding the current Internal Audit Service; financial / budgetary implications of the options under consideration; potential risks around the recruitment / retention of audit staff; the decision making process and associated timescales; independence; and TUPE arrangements to which the Director of Governance, the Director of Resources, the Financial Services and

HR Manager; the Director (Grant Thornton) and the Audit Manager (Grant Thornton) responded.

The Director (Grant Thornton) questioned whether consideration had been given to the third option and commented upon the need for care, from a procurement perspective to ensure compliance with procurement legislation. The Director of Governance responded on those points.

The Director (Grant Thornton) further commented upon the challenges around the demonstration of independence from a public perception and suggested that, prior to a decision being taken, an independent review be undertaken in order that the Committee may gain assurance on that aspect.

The Financial Services and HR Manager assured the Committee that the CIPFA guidance on the role of the Head of Internal Audit would be adhered to. That included any independence issues.

Having given detailed consideration to the various options set out within the report, it was:

RESOLVED – (1) That the Audit Committee had given in depth consideration to private Report RD.27/16 on the Future of Internal Audit and made the undernoted observations for transmission to the Executive:

- the concerns raised by Management relative to the changed client / contractor role and the role of Internal Audit (detailed at Sections 2.2 and 2.3 of the report) were appreciated;
- Members were concerned to ensure that capacity (number of audit days allocated within the Audit Plan) was sufficient to satisfy assurance requirements; and regarding potential difficulties around recruitment / retention of audit staff.

(2) That the Audit Committee sought assurance from the Executive that any new Internal Audit Service would remain independent of the Council's operational processes moving forward.

(3) That the Audit Committee wished to have sight of the Business Case prior to any final decision being taken on the future of the Internal Audit Service.

AUC.64/16 SUSPENSION OF STANDING ORDERS

During discussion of the above item it was noted that the meeting had been in progress for 3 hours and it was moved, seconded and RESOLVED that Council Procedure Rule 9, in relation to the duration of meetings be suspended in order that the meeting could continue over the time limit of 3 hours.

AUC.65/16 CHAIRMAN'S COMMENTS

The Chairman reported that this was the last meeting at which the Director of Resources would be in attendance. She conveyed thanks to the Director for his contribution to the work of the Committee, adding that he would be missed.

[The meeting ended at 1.18 pm]

RESOURCES OVERVIEW AND SCRUTINY PANEL

THURSDAY 20 OCTOBER 2016 AT 10.00AM

PRESENT:	Councillor Watson (Chairman), Councillors Allison, Bowditch, Mrs Bowman, Mallinson J, McDonald, Mrs Riddle and Robson (until 11.27am).
ALSO PRESENT:	Councillor Dr Tickner – Finance, Governance and Resources Portfolio Holder (until 11.20am) Councillor Mrs Bradley – Economy, Enterprise and Housing Portfolio Holder
OFFICERS:	Town Clerk and Chief Executive Deputy Chief Executive Corporate Director of Governance and Regulatory Services Policy and Communications Manager Chief Finance Officer Senior Estates Surveyor Policy and Performance Officer

ROSP.73/16 APOLOGIES FOR ABSENCE

There were no apologies for submitted.

ROSP.74/16 DECLARATIONS OF INTEREST

There were no declarations of interest affecting the business to be transacted at the meeting.

ROSP.75/16 PUBLIC AND PRESS

It was agreed that the items of business in Part A be dealt with in public and Part B be dealt with in private.

ROSP.76/16 MINUTES OF PREVIOUS MEETING

The minutes of the meeting of the Resources Overview and Scrutiny Panel held on 8 September 2016 had been circulated and it was noted that the finish time was incorrect, the meeting finished at 11.52am and not 10.52am as stated.

RESOLVED – That the minutes of the meeting held on 8 September 2016 be noted with the above amendment.

ROSP.77/16 CALL - IN OF DECISIONS

There were no items which had been the subject of call-in.

ROSP.78/16 OVERVIEW REPORT AND WORK PROGRAMME

Report OS.21/16 was submitted and provided an overview of matters that related to the work of the Resources Overview and Scrutiny Panel.

The Notice of Executive Key Decisions which had been published on 23 September 2016 contained the following items which fell within the remit of the Panel:

KD.21/16 – Budget Process 2017/18 – would be considered by the Panel on 6 December 2016.
KD.22/16 – Land and Property Transactions – Disposal of Showman's Site, Willowholme – The Executive would be asked to give consent to dispose of the assets at their meeting on 21 November 2016.
KD.23/16 – Future of Internal Audit – The Executive would be asked to consider the future of Internal Audit at their meeting on 24 October 2016.

A Member requested that KD.22/16 be submitted to the next meeting for consideration by the Panel. The Panel held a detailed discussion regarding the role of Scrutiny in decision making and the reasons for which the matter should be considered by the Panel. The Town Clerk and Chief Executive reminded the Panel that the Policy for the disposal of sites had been agreed by Members and the Executive disposed of sites within the boundaries of the Policy.

Members had some concerns regarding the potential income from the site and social considerations of the disposal of the site. They were reminded that Overview and Scrutiny had the option of calling in the decision if they were not happy with the decision or the information provided which informed the decision.

A Member asked why the Future of Internal Audit would be considered as an exempt Part B item and the Finance, Governance and Resources Portfolio Holder informed the Panel that the matter was of a sensitive nature as it had implications on staff. Members felt that it would be beneficial to include Members in the decision making process and agreed that the matter would be added to the Panel's agenda in January 2017 and all Members could be invited to attend.

The Panel's Work Programme for the current year had been circulated and Members were asked to consider the framework for the meeting on 6 December 2016.

A Member commented that this was the first Overview and Scrutiny Panel meeting without the Overview and Scrutiny Officer and was disappointed that the report had not been presented and key items had not been highlighted.

RESOLVED – 1) That the Overview Report incorporating the Work programme and Key decision items relevant to this Panel (OS.21/16) be noted.

2) That the following items be included on the agenda for next meeting on 6 December 2016:

- Budget Monitoring 2016/17
- Significant Partnerships
- Performance Monitoring
- Sickness Absence
- Corporate Programme Board
- Budget Setting 201718 – 21/22

3) That the Future of Internal Audit be added to the 5 January 2017 Panel agenda and all Members be invited to attend should they so wish.

ROSP.79/16 EMPLOYEE OPINION SURVEY 2016

The Policy and Communications Manager presented the results of the 2016 Employee Opinion Survey (PC.21/16).

The Policy and Communications Manager reported that the 2016 Employee Opinion Survey had taken place in June 2016 with 226 responses, a response rate of 51% based on the headcount of 443 staff. This had been an increase in the response rate in 2014 of 39.6%.

The 2016 survey had maintained several of the questions from previous years and new questions regarding visible leadership, bullying and support for personal development. A copy of the survey had been attached to the report.

The Policy and Communications Manager gave a breakdown by Directorates of the responses received and highlighted the key findings as detailed in the report.

In considering the results of the survey Members raised the following comments and questions:

- What was meant by ‘agile working’?

The Town Clerk and Chief Executive clarified that agile working did not mean the authority was moving towards ‘hot desking’. Agile working meant that technology would be used to enable staff to work where they wanted to work, when they wanted to work depending on the role and included working from home and the use of video conferencing which reduced travelling time. There would be changes to the telephony system which would increase mobile working and allow everyone to keep in contact.

- Was the City Council still able to accommodate flexible working following the significant reduction in staff? What was the administration costs associated with the Flexitime system and was it time to review the system?

The Town Clerk and Chief Executive responded that flexible working was dependant on the role and the system was subordinate to the requirement of the business. Many roles in the authority allowed for flexible working and staff, managers and supervisors ensured that the system was used sensibly.

- It was clear that, although the responses could be uncomfortable, the survey was useful for managers but was there a statutory reason to carry out the survey and how much did it cost?

The Town Clerk and Chief Executive agreed that the responses could be uncomfortable particularly as there had been a reduction in the satisfaction with SMT providing strong and visible leadership. Some of the rationale behind the change had been the Voluntary Reduction/Early Redundancy scheme which, although the right scheme to carry out, was not proactive and did not create a strong proactive leadership environment. There was no statutory requirement to carry out the survey and the cost was negligible against the benefit to the authority of having information about how the organisation was performing. The survey also demonstrated that the authority was interested in how staff felt the authority was performing.

- How would the issue of bullying at work be addressed?

The Town Clerk and Chief Executive reminded the Panel that the survey could not and would not be used to identify staff who felt they were experiencing bullying at work. The information would be used to ensure that all staff knew how to report bullying and felt comfortable in doing so as it was everyone’s interest to understand what bullying was.

RESOLVED – That report PC.21/16, Employee Opinion Survey 2016, be welcomed.

ROSP.80/16 CORPORATE RISK MANAGEMENT

The Deputy Chief Executive presented report SD.20/16 which provided an update on the Corporate Risk Register.

The Deputy Chief Executive reported that significant progress had been made in terms of managing the Council's corporate risks and managing the emerging risks. An update of the risks and control strategies were set out in appendix 1 of the report. The Deputy Chief Executive detailed each of the current action statuses as detailed in the appendix and drew Members' attention to the risks which had been identified in the risk workshop which had not been considered corporate risks. The risks and the reasons for not including them as corporate risks were set out in appendix 1.

A recent audit of risk management had been undertaken and the scope for the consideration of the management arrangements had been agreed along with areas of good practice and recommendations details of which were set out in section 2 of the report.

RESOLVED – That the Corporate Risk Management update (SD.20/16) and the results of the recent internal audit as evidence of effective guidance in the area of risk management be noted.

ROSP.81/16 REVENUE BUDGET OVERVIEW AND MONITORING REPORT: APRIL TO JUNE 2016

The Chief Finance Officer presented report RD.19/16 providing an overview of the Council's overall budgetary position for the period April to June 2016 for revenue schemes only.

She summarised the budgetary position as at June 2016 which showed an updated Budget 2016/17 totalling £13,702,500; and highlighted the main income and expenditure variances as summarised at Section 3.3 of the report.

Section 4 recorded that the Council's financial position was affected by a number of external factors which would have a financial impact during the course of the year and ultimately at the year-end, including the general effect of local economic activity on the Council's income streams (e.g. car parking, tourism and leisure facilities); fuel prices, energy costs and other inflationary issues; and the effects of the housing market and property prices, especially with regard to income from land charges, rents and building and development control.

The Chief Finance Officer added that the Council's financial position would continue to be closely monitored and the likely year end position would be reported more fully in the Quarter 3 report. It would be important to maintain a prudent approach so as to ensure a sustainable budget position for future years and to avoid any significant variance at the year end.

Attention was drawn to the overspend of £195,800 on insurance renewals due to the increased premiums as a result of the December 2015 flood. Full Council would be asked to agree a recurring virement of £196,000 from the budget provision earmarked for inflation which was no longer required to fund the increased insurance.

The Executive had considered the matter at their meeting on 30 August 2016 (EX.79/16 refers) and resolved:

"That the Executive:

1. Noted the budgetary performance position of the Council to June 2016.
2. Noted the action by the Director of Resources to write-off bad debts as detailed in paragraph 6 of Report RD.19/16.

3. Agreed the proposed virement of £196,000, as set out in paragraph 3.3, in respect of increased Insurance premiums, for recommendation to Council in November 2016."

In considering the report Members raised the following comments and questions:

- It had been reported that inflation rates were expected to increase would this effect the virement?

The Chief Finance Officer confirmed that there would be no impact on the virement. The Medium Term Financial Plan (MTFP) had assumed a 2% inflationary increase for future years; if actual inflation increased above this amount the MTFP would be amended as part of the budget process.

- How much was the actual increase to the insurance premiums?

The Chief Finance Officer agreed to include the actual figures for the increase to the insurance premium in the report requesting the virement that would be considered by full Council on 8 November.

- Members discussed the issues that residents and businesses had raised with regard insurance companies and premiums and asked if the Flood RE scheme was still operating.

The Finance, Governance and Resources Portfolio Holder confirmed that the Flood RE scheme was still in operation but it did not apply to everyone. Landlords and businesses were not eligible for the scheme and it would require input from Government level to make changes to the scheme. He added that there had been a presentation to Informal Council on the Flood RE and the information made available could be used by Members in their Wards.

- A Member raised a national issue that local authorities were facing with regard to business rates. Businesses were moving into properties, refurbishing them and then leaving before they had to pay businesses rates. Was there anything the City Council could do to avoid this?

The Chief Finance Officer did not have any details with regard to this matter.

- Had a date been set for the demolition of properties that were currently creating an overspend to NNDR payments?

The Finance, Governance and Resources Portfolio Holder responded that a contractor had been appointed and a schedule of works was being prepared. He agreed to circulate the schedule to Members.

- A Member had concerns regarding overspend in relation to the implementation of the DIS Digital Strategy and asked if the overspend was set to continue?

The Chief Finance Officer explained that the Executive had released the funding for the implementation of the Strategy and this had not been reflected in the report, the next report would show the release of funds.

A Member asked what controls were in place to ensure officers did not overspend without authorisation and the Town Clerk and Chief Executive responded that the Financial Procedure Rules set out the delegated authority for officers which prevented them from spending more than they had been approved to.

The Chairman reminded the Panel that the Digital Vision and Technology Strategy would be scrutinised by the Panel in February 2017.

RESOLVED – 1) That the Revenue Budget Overview and Monitoring Report: April to June 2016 (RD.19/16) be noted;

2) That details of the increase to the Council's insurance premium as a result of the December 2015 be included in the virement request to Council in November;

3) That the schedule of demolition work be circulated to Members of the Panel.

ROSP.82/16 CAPITAL BUDGET OVERVIEW AND MONITORING REPORT: APRIL TO JUNE 2016

The Chief Finance Officer presented report RD.20/16 providing an overview of the budgetary position of the City Council's capital programme for the period April to June 2016.

Members' attention was drawn to the position statement which recorded that, as at the end of June, expenditure of £1,609,303 had been incurred. When considered against the profiled budget of £1,750,913, that equated to an underspend of £141,610. The unspent balance remaining of the revised annual budget of £7,993,000 was £6,383,697. That would be closely monitored over the following months to identify accurate project profiles and any potential slippage into future years.

The Chief Finance Officer pointed out that a number of schemes were included in the capital programme for 2016/17 that required reports to be presented to the Executive for the release of funding before the project could go ahead.

Attention had been drawn to the Disabled Facilities Grant (DFG) allocation which, at £1.4m, was significantly higher than in previous years.

The Executive had considered the matter at their meeting on 30 August 2016 (EX.80/16 refers) and noted the budgetary position and performance aspects of the capital programme for the period April to June 2016, as set out in Report RD.2016.

In considering the report Members raised the following comments and questions:

- Where had the increase in the DFG allocation come from and how would the additional funds be used?

The Chief Finance Officer reminded the Panel that the allocation had changed and came from the County Council through the Better Care Fund.

The Economy, Enterprise and Housing Portfolio Holder added that discussions had begun on a County level with the Cumbria Housing Group to look at the funding and how it could be best used. The Group was attempting to find innovative ways of using the funding to support vulnerable people in the community within the guidelines and legislation. There had been issues in the past where there had been delays in the referrals to DFGs from the Occupational Therapists (OTs). One option for the funding was for the authority to employee their own OTs to speed up the referrals if possible. She assured the Panel that the options were being looked at very carefully as the housing authorities were an integral part of caring for people in their own home.

RESOLVED – That the Capital Budget Overview and Monitoring Report: April to June 2016 (RD.20/16) be noted.

ROSP.83/16 EFFICIENCY PLAN 2017/18 TO 2021/22

The Chief Finance Officer presented the Council's Efficiency Plan for 2017/18 to 2021/22 which had been produced in accordance with the requirements of the Government's four yearly funding settlement. The Plan set out the framework for planning and managing the Council's financial resources and efficiency savings.

The Chief Finance Officer reminded the Panel that the Council received core funding from Government was year made up of Revenue Support Grant (RSG) and the Business Rates baseline. It was announced as part of the 2016/17 Local Government Finance Settlement that RSG would be phased out by 2020 and proposed a four year settlement from 2016/17 to authorities who signed up to an efficiency program.

The City Council had until 14 October 2016 to decide whether to accept the four year RSG settlement and produce an Efficiency Plan. The Medium Term Financial Plan (MTFP) included the four year settlement for the loss of the RSG and set out the Council's agreed Savings Strategy.

The main points for consideration regarding the four year settlement proposals were set in section 2.3 of the report and the Efficiency Plan had been attached as Appendix A.

A Member commented that there had been significant savings identified through VR/ER and asked how realistic they were. The Chief Finance Officer explained that the savings table in the report needed to be updated and would be refreshed as part of the budget process.

A Member asked if the increase in inflation would be a good opportunity for the authority to look at the repayment or re-financing options available for the Stock Issue debt and the Chief Finance Officer confirmed that she had met with the investment advisor recently and the matter was being kept under review.

RESOLVED – That the Efficiency Plan 2017/18 to 2021/22 (RD.30/16) be noted.

ROSP.84/16 MARKET HALL ROOF REPAIR WORKS – CAPITAL CONTRIBUTION AND LEASE EXTENSION

The Corporate Director of Governance and Regulatory Services submitted report GD.51/16 detailing the need for essential repair works to the Market Hall premises, together with proposals to extend the head-lease and under-lease of the premises.

Speaking by way of background, the Corporate Director indicated that the City Council owned the freehold of the Market Hall which was let to BAE Pension Fund on a 99 year head-lease from March 1991 with an option to extend the term by 51 years. The Market Hall had, over the years, fallen into disrepair and BAE had commissioned a survey which highlighted the need for significant essential repairs, primarily to the roof. They had further commissioned that work which was scheduled to start at the beginning of October 2016, with an anticipated completion date of mid-November 2016.

More detailed information on the leasing arrangements and rental income; repair liabilities and cost recovery; and recovery through the service charge was provided at Section 1 of the report.

For the avoidance of doubt, the Corporate Director stated that scaffolding had been erected at the Market Hall due to the need to survey the extent of the damage to the roof. That did not mean that a decision on the repair work had already been taken.

The Corporate Director highlighted, in particular, Section 1.4 which recorded that BAE had put forward a proposal to extend their ground lease by a further 99 years, and the Council had engaged Cushman & Wakefield to advise and negotiate the detail of the lease extension to ensure best value was achieved for the Council. The extension of the head-lease was considered to be beneficial to the Council as it would not only secure an extended revenue stream, but would also secure the ongoing maintenance liability for the Grade II listed building. Negotiations to extend the head-lease would include proposals to consecutively extend the Council's under-lease of the stall holder area and would facilitate the opportunity to update the outdated Market Hall Management Agreement.

In terms of the contribution to the repair works the Executive had agreed that the Council make a one-off capital contribution to fully discharge its costs liability, with the payment being made from the capital sum earmarked as a contribution to the Market Hall repair works (approved by full Council on 2 February 2016).

He added that discussions were taking place via the Market Hall Managing Agent to ensure that the stall holders were kept fully appraised of the works and any potential business disruption those may cause. It was further proposed that the suggested head-lease extension, subject to the agreement of detailed terms, be agreed with the tenant.

The Executive had considered the matter at their meeting on 26 September 2016 (EX.85/16 refers) and resolved:

"That the Executive:

1. Approved the release of capital monies earmarked in the Capital Programme to meet the Council's repair work funding liability.
2. Delegated the agreement to the detailed terms of the proposed head-lease and under-lease extension to the Building and Estates Services Manager and the Asset and Investment Services Manager in consultation with the Director of Governance."

In considering the report Members raised the following comments and questions:

- What was the purpose of renewing the lease?

The Senior Estates Surveyor responded that BAE had put forward a proposal to extend their ground lease by a further 99 years. As part of the discussions the Council wanted to ensure that BAE did not put the repair costs into the service charge which would then impact the tenants.

Members had concerns with regard to the proposal to extend the lease and felt that a further 99 years was unnecessary.

The Corporate Director explained that the Council had a number of options available and any decision taken would be for the benefit of the authority and the City. Although the Market Hall decision would be approached in a commercial manner it would be balanced against the building being a significant asset to the City.

- A Member had spoken to market traders and a number of issues had been raised. There was a high number of empty stalls and the City Council had little control over how traders were treated.

The Economy, Enterprise and Housing Portfolio Holder responded that she had attended the meeting to explain that the report before the Panel dealt with the roof repairs only. The meeting of the Market Management Group was due to take place and she felt it would be far more productive for the Panel to consider the vacancies and relationship with the traders following the meeting when the most up to date and accurate information would be available.

- The cost of the repairs to the roof was extremely high; should there be a more proactive maintenance schedule in place to prevent the building getting to this stage?

The Corporate Director confirmed that the authority had a proactive maintenance schedule for their assets; however the maintenance of the Market Hall fell to BAE and the City Council made a contribution to the maintenance.

- The Market Hall was not operating the way Members had hoped and members questioned how the Council could influence how the market Hall was operating and if anything could be included in the under lease.

The Corporate Director acknowledged that the sub lease had been signed in 1991 and had not evolved over time. There had been changes to the terms of the lease and the Council had appointed a managing agent to run the Market on behalf of the Council. If the lease was renewed with BAE it may be an opportunity to discuss changes to the under lease and modernise the interaction with the tenants and make the Market more vibrant.

A Member commented that the stallholders were not able to advertise and other small issues had been raised. The Corporate Director explained that the under lease was operated by the Council's managing agent and they discussed issues with the Council through the Market Management Group.

The Senior Estates Surveyor added that the Council did have some control over how the Market was managed through the under lease and the managing agents did bring issues from tenants. One issue for the managing agent had been the lack of a formal process or committee for the stallholders and they were trying to address this.

The Economy, Enterprise and Housing Portfolio Holder explained that there had been issues with the stallholders as they all wanted different things and had been unable to establish any kind of committee or association which had resulted in the managing agents having to consult with each tenant individually. This made it very difficult to negotiate changes.

The Corporate Director informed the Panel that the Market Hall had an advertising budget which was well used but the Market traders as a whole needed to consider what their offer was and how to make the Market more vibrant.

- A Member felt that the recommendations to the Executive should have been worded differently to allow Councillors to be involved in the final decision regarding the extension of the head lease and under lease.

Members discussed the options open to the Panel and

RESOLVED – 1) That the Panel noted the resolution of the Executive on 26 September 2016 (EX.85/16 refers) and requested that the Executive considered the Panels concerns regarding the extension of the head lease and asked that the Executive made the final decision.

2) That a report be submitted to the next Panel meeting detailing the relationship with stallholders and the managing agents and provides up to date information and feedback from the October Market Management Group.

ROSP.85/16 PUBLIC AND PRESS

RESOLVED – That in accordance with Section 100A(4) of the Local Government Act 1972 the Public and Press were excluded from the meeting during consideration of the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the paragraph number (as indicated in brackets against each minute) of Part 1 of Schedule 12A of the 1972 Local Government Act.

ROSP.85/16 MARKET HALL ROOF REPAIR WORKS – CAPITAL CONTRIBUTION AND LEASE EXTENSION

The Corporate Director of Governance and Regulatory Services submitted private report GD.51/16 concerning essential repair works to the Market Hall premises, together with proposals to extend the head-lease and under-lease of the Market Hall premises.

The Corporate Director summarised for Members the additional financial information provided within the report; and moved that the Executive note the same.

The Executive had considered the matter at their meeting on 26 September 2016 (EX.91/16 refers) and noted the financial information relative to the proposals set out in public report GD.51/16.

RESOLVED- That report GD.56/16 Market Hall Roof Repair Works – Capital Contribution and Lease Extension be noted.

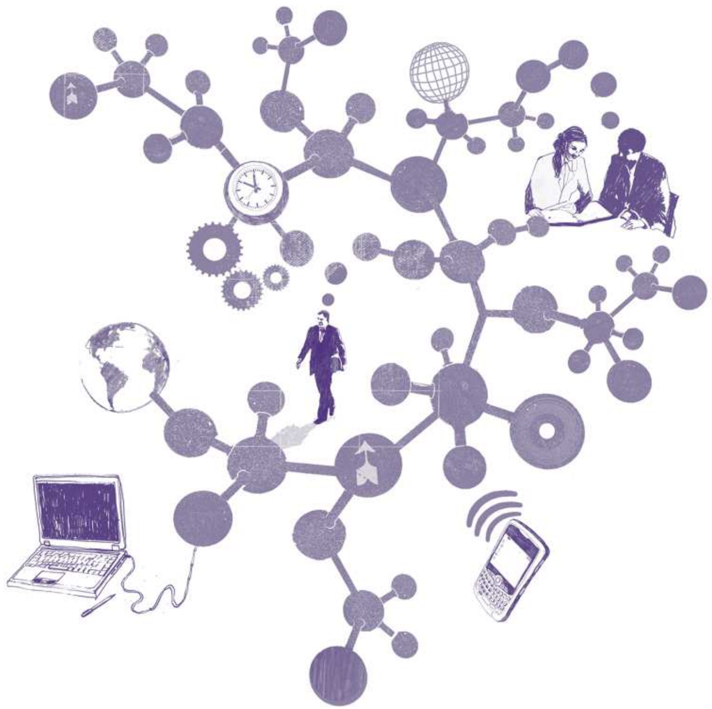
(The meeting ended at 12.20pm)

Grant Thornton

The Annual Audit Letter for Carlisle City Council

Year ended 31 March 2016

October 2016



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Contents

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Carlisle City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Councils' financial statements on 27 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Carlisle City Council in accordance with the requirements of the Code on 27 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,161,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as related party transactions, disclosure of officer's remuneration, salary bandings and exit packages, and disclosure of auditor's remuneration.

We set a lower threshold of £58,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Valuation of pension fund net liability The Council's pension fund assets and liabilities as reflected in its balance sheet represent significant estimates in the financial statements and comprises 59% of its total liabilities. The values of the pension fund net liability is estimated by specialist actuaries. In 2015/16, in response to the move to earlier close-down, there is a greater degree of estimation in the information provided to the actuary.	The work we have performed on this risk included: • documenting the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • walkthrough the key controls to assess whether they were implemented as expected in order to mitigate the risk of material misstatement in the financial statements; • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary. Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.
Valuation of property, plant and equipment (PPE) and investment properties The Council revalues its assets annually. Property Plant and Equipment represents 24% of the Council's assets. Their value is estimated by property valuation experts. The valuation of investment properties changed in 2015/16 because of the introduction of a new international financial reporting standard (IFRS 13). Investment properties represents 51% of the Council's assets and their value is estimated by property valuation experts. Cumbria experienced severe flooding in several areas during December 2015 impacting on a number of Council services, buildings and infrastructure. We gained an understanding of management's processes to account for the impact on asset valuations due to the flooding.	We have undertaken the following work in relation to this risk: • review of management's processes and assumptions for the calculation of the estimate, new accounting standards and impact of flooding; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. Our work included a review of the valuation evidence for the critical flooding impact valuation judgements. Improvements were required to fully evidence any pertinent verbal discussions held between the internal and external valuers. No issues were identified in respect of the valuation of PPE or investment properties.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

The Council achieved early closedown, with accounts authorised for issue on 7 June 2016, which is over 3 weeks ahead of the specified deadlines. This was a great achievement given the additional work the Council finance team dealt with in responding to the floods.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 27 September 2016.

One misstatement to primary statements in the Comprehensive Income and Expenditure Statement (CIES) was identified and adjusted by management for £259,000. The error was in presentation only as the Movement in Reserves Statement (MIRS) was correctly stated.

Three unadjusted misstatements were also identified. The decision to not adjust for these issues did not impact upon the audit opinion. It was the auditor's judgement that two items included within income in advance totalling £88,000 should be recognised as income and one item within provisions for £325,000 was more suited as an earmarked reserve.

Twelve disclosure misstatements were also identified and adjusted by management.
A summary of the main disclosure note adjustments are listed below:

- Note 4.12b – Amounts reported for resource allocation decisions – a classification error between fees and charges and government grants and contributions of £34,002,000 due to incorrect transposition.
- Note 4.31 - Surplus assets - a disclosure note was added to comply with IFRS13 reporting requirements.
- Note 4.34e – Fair value of liabilities carried at amortised cost – the fair value of a loan was overstated by £643,000 due to an incorrect valuation method.
- Note 4.34e – Fair value of assets carried at amortised cost – both the carrying value and fair value were overstated by £3,281,00 due to an item being included twice.
- Note 4.41 – Property Leases – the total was overstated by £562,000 due to calculation errors in the working paper.
- Note 4.4 – Movement in Reserves Statement - the mix of the note was incorrect as £891,000 was netted off both capital grants and revenue expenditure financed under statute (REFCUS).

We made six recommendations in an action plan in the Audit findings Report, all of which management agreed.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use our other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Significant service transformation projects and the Medium Term Financial Plan (MTFP) The Council's has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, including internally reshaping the Council. This is significant both in scale and financial terms.	We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks. We reviewed the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.	The Council continues to face a challenging environment in the short to medium term. The MTFP approved by Council in September 2015 demonstrated that appropriate steps were being taken to ensure a balanced budget position against a background of reduced government funding. A Saving Strategy is in place and continues to focus on assets, service delivery models and the 'Transformation Programme' to deliver the savings required to produce a balanced longer term budget. The MTFP for 2016/17 to 2020/21 prepared in September 2015 identified savings requirements of £3.475 million. The MTFP for 2017/18 to 2020/21 in August 2016 identified savings requirements of £2.274 million, with 98% of the £1.201 million for 2016/17 already achieved. Of the £2.274 million in savings identified for 2017/18 onwards, £0.141 million has been achieved. The Council has a comprehensive approach to its medium term financial planning, budgeting and identification of saving plans, which are agreed at a corporate level, by senior officers and Members. The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to funding streams. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding. The Council has good planning assumptions built into the annual and five year budget processes. The Council is responsive to changes required as the strategic planning process considers sensitivity analysis. **Based on the review of the arrangements in place during 2015/16 for the compilation of the MTFP including identified savings we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in this area.**

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit within one month during August 2016, and completion was 3 weeks before the national deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Providing training – we provided access to your teams with training on financial accounts through workshops.

Providing understanding of external audit – we provided Audit Committee members with an understanding of external audit as part of a training session.

Providing information – we provided you with demonstration access to Place Analytics and CFO Insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular external audit committee updates covering best practice. Areas we covered included, Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Re-forging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – we have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

We will also continue to work with you and support you over the next financial year.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit. There are no fees for other services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	53,290	53,290	71,053
Housing Benefit Grant Certification	11,352	11,352	18,790
Total fees (excluding VAT)	**64,642**	**64,642**	**89,843**

Our grant certification fee for 2015/16 is still an estimate, as our work on the Council's housing subsidy claim is still on-going and will not be finalised until November 2016.

Reports issued

Report	Date issued
Audit Plan	19 April 2016
Audit Findings Report	27 September 2016
Annual Audit Letter	24 October 2016

Grant Thornton

Audit Committee progress and update report for Carlisle City Council

Year ending 31 March 2017

December 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Introduction

This paper provides the Audit Committee and other members with a report on progress in delivering our responsibilities as your external auditors.

Members can find useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector.

In this update we are providing you with a copy of our latest publications listed below:

- Advancing Closure: Transforming the financial reporting of local authority accounts; http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/
- Culture of Place: summary of round table discussions and a collection of short videos: http://www.grantthornton.co.uk/en/insights/culture-of-place/

In our last external audit update report we provided you with hard copies and summary information on the publications listed below.

- Better Together: Building a successful joint venture company; http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at December 2016

Progress against plan

On track

Opinion and VfM conclusion

Issued 27 September 2016

Outputs delivered

Fee letter, Audit Plan, Progress Reports, Audit Findings Report and Annual Audit Letter delivered to plan

2015/16 work	Completed	Comments
Audit Findings Report and opinion Our Audit Findings Report summarises the key findings from the financial statements and value for money conclusion (VfM) work for the year ended 31 March 2016. We were required to report to those charged with governance by 30 September 2016.	September 2016	We issued an Audit Findings Report and presented it at the 27 September 2016 Audit Committee. An unqualified financial statements opinion, an unqualified VfM opinion and closure certificate were issued on 27 September 2016. This concluded the 2015/16 financial statements audit.
Annual Audit Letter Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2016. We were required to agree the report with management and provide a copy for all members by 31 October 2016.	October 2016	We issued our Annual Audit Letter on 24 October 2016, with a copy provided to all members on that date. We will present the Letter at the Audit Committee on 22 December 2016. The Annual Audit Letter confirms that we issued an unqualified financial statements opinion, an unqualified VfM opinion and closure certificate on 27 September 2016.
Housing Benefit Subsidy Claim certification We are required to certify the Council's Housing Benefit subsidy grant claim for the year ended 31 March 2016 by 30 November 2016.	November 2016	We completed the work on the Housing Benefit Subsidy Claim on 25 November 2016. A qualification letter was required. There are no areas of significance to report to you from the testing performed, but the level of errors to report to the Department of Works and Pensions was higher than in previous years, therefore additional testing was required. The audit fee for the claim is indicative based upon a level of testing conducted in a base year of 2013/14. The amount of work required in 2015/16 was higher than the base year, so additional audit fee is required as a result of the increased sample testing. We will update the outcome of the fee review in the Annual Certification Letter.
Annual Certification Letter We are required to summarise the findings of certification work in an annual certification letter by 28 February 2017.	Not yet started	We will issue an Annual Certification Letter and agree it with management before 28 February 2017. We will present the Letter at the next Audit Committee on 16 March 2017. This will include the finalisation of the additional audit fee for the certification of the Housing Benefit Subsidy claim.

Progress at December 2016

Progress against plan
Not yet started

Opinion and VfM conclusion
Not yet started

Outputs delivered
Not yet started

2016/17 work	Completed	Comments
Fee Letter We were required to issue a fee letter for 2016/17 by 30 April 2016.	April 2016	We issued the fee letter for 2016/17 in April 2016, with no change to the scale fee proposed. This was presented to the Audit Committee on 19 April 2016. There is no change in the scope of the areas of audit from 2015/16.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.	Not yet started	It is expected that the Accounts Audit Plan for 2016/17 will be presented to the Audit Committee meeting on 16 March 2017.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment; • updating our understanding of financial systems including an IT control environment review; • review of Internal Audit reports on core financial systems; • early work on emerging accounting issues; • early work on the VfM Conclusion; and • early substantive testing.	Not yet started	We anticipate starting the interim audit in January 2017, with expected completion by March 2017. The findings will be reported in the Audit Plan at the 16 March 2017 Audit Committee. The interim work for 2016/17 includes a cyclical review of the IT environment and specialist IT auditors will be carrying out this work. Meetings with IT staff have already been scheduled during December 2016.
Final accounts audit Including: • Audit of the 2016/17 financial statements, and • proposed opinion on the Council's accounts.	Not yet started	We anticipate the scheduling of work at final accounts to be during June and July 2017. Discussions are on-going with officers for the potential to have an earlier Audit Committee meeting, to be at the end of July 2017 or early in August 2017. A July Committee would be two months ahead of the specified deadlines for 2016/17 of 30 September 2017. In 2017/18 the completion of the audit is required by 31 July 2018, so 2016/17 would be a 'dry run' for the Council and auditors in advance of this significant change in the timing of the audit.

Progress at November 2016

2016/17 work	Completed	Comments
Value for Money (VfM) conclusion The scope of our work is set out in the guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The work required is to assess the overall criteria of; "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". The three sub criterion for assessment to be able to give a conclusion overall are: • informed decision making; • sustainable resource deployment; and • working with partners and other third parties.	Not yet started	We anticipate carrying out this work during the interim stage of the audit, with the final results reported in the Audit Findings Report. Any areas of significant risk and focus will be informed to you in the Audit Plan which we anticipate presenting at the 16 March 2017 Audit Committee.
Annual Audit Letter Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2017.	Not yet started	We will issue an Annual Audit Letter to the Council in line with specified deadlines after the audit of the 2016/17 financial statements.
Housing Benefit Subsidy claim certification We are required to review and certify the Housing Benefit subsidy claim. The date for certification has not yet been determined, but in previous years the deadline has been by 30 November.	Not yet started	We will complete our work on the Housing Benefit claim in accordance with specified deadlines.
Annual Certification Letter Our Annual Certification Letter summarises the key findings arising from the Housing Benefit Subsidy Claim certification we have carried out for the year ended 31 March 2017.	Not yet started	We will complete our work on the Annual Certification Letter in accordance with specified deadlines.

Accounting and audit issues

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a Direction and Statutory Guidance on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate on-going revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Grant Thornton Publications

Advancing closure: the benefits to local authorities

Grant Thornton reports

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017/18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further detail, including:

- enabling sustainable change requires committed leadership underpinned by a culture for success
- efficient and effective systems and processes are essential
- auditors and other external parties need to be on board and kept informed throughout.

http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/

Culture of Place

Grant Thornton reports

Our towns, counties and cities have distinct and varied cultures

Our towns, counties and cities have their own compelling and richly varied cultures. There are shared and sometimes contested values, local traditions, behaviours and drivers for change. Culture evokes memory and identity. It affects how we feel about where we live and work and what's possible. It can be a set of stories describing how we do things around here, bringing out the best in us – like our history and heritage – but also preventing us from moving forward.

With local authorities increasingly adopting a place-shaping role we're exploring how culture impacts on the sector's ability to facilitate and support a vibrant economy.

We have hosted two round tables with local authority CEOs, leaders and others, to consider how local authority leadership needs to change if it is to take local culture into account.

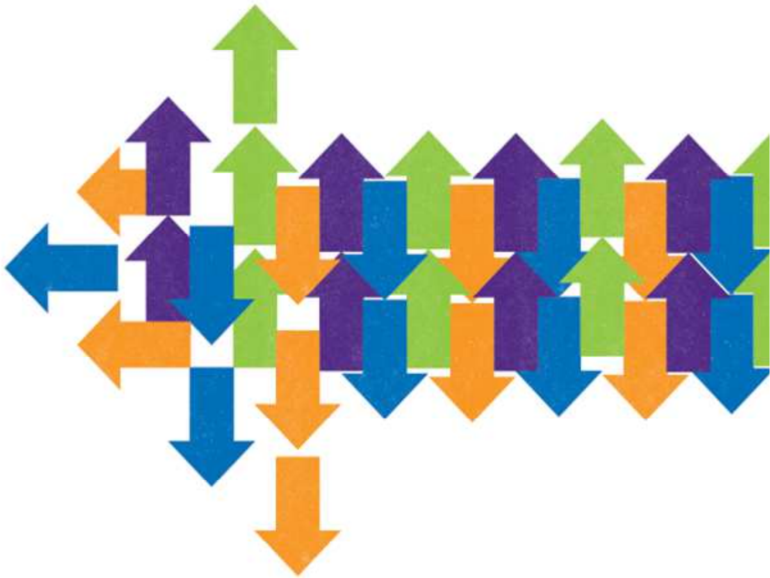
From conversations with local authority CEOs, leaders and others, we have collated a selection of stories that invite us all to think about how the sector can disrupt fixed thinking, open up cultures and energise our places. They go beyond what's immediately obvious, voice what is sometimes unsaid and work with the strengths of their place.

Although the term culture of place is heavily subjective our initial conversations suggest there are some common themes occurring.

- Being clear about what they want to see – there is a strong need to create an environment that gives people permission to care, to be innovative, to take action themselves, to adapt and experiment
- Socio-economic situations often drive the culture – the uniqueness of socio-economic factors leads to a recognition that one place will never be like another – and, in fact, should not aspire to be so - instead tailoring their approach to the areas specific strengths.
- It's all about context – areas within Britain can be local, national and international all at the same time, learning to live with, and get the best advantage from, what's on our doorstep is key.

A copy of the report and a collection of short videos can be found on our website at:

http://www.grantthornton.co.uk/en/insights/culture-of-place/



Report to Audit Committee	Agenda Item: **A.4**

Meeting Date:	22 December 2016
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	Yes
Public / Private	Public

Title:	FINAL ACCOUNTS PROCESS 2016/17
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD44/16

Purpose/Summary:

This report provides information regarding the 2016/17 Final Accounts process with a summary of the key issues arising from the previous year's process and how these issues have been addressed. The report also includes the accounting policies that will be used in the closedown of the 2016/17 accounts.

Recommendations:

Members are asked to note the report and to consider the accounting policies to be used in the preparation of the 2016/17 accounts.

Tracking

Audit Committee:	**22 December 2016**

1. BACKGROUND

1.1 The Accounts and Audit Regulations 2015 require that the City Council's Statement of Accounts for 2016/17 be submitted to a relevant body of the Council (the Audit Committee) for approval by 30 September 2017. Prior to formal approval, the S151 Officer is required to sign the accounts off by 30 June. Members should note that these accounts are based upon information contained within the provisional out-turn reports which are presented to the Executive and Resources Overview and Scrutiny Committee in early June.

1.2 The External Auditors (Grant Thornton) will commence its audit of the Accounts in early July, which must be completed by 30 September. The Auditors will then produce its Annual Audit Findings Report. This report, which summarises the audit work undertaken, conclusions reached and any subsequent recommendations, will be considered by the Audit Committee at its September meeting (subject to any rescheduling of audit work to facilitate an earlier closedown as discussed elsewhere on the agenda). The Chief Finance Office may provide a response report to that same meeting.

1.3 The Auditors will issue their Audit Certificate and formal opinion on the accounts once the Audit Committee has approved the Findings Report. The Accounts must then be published and will be available in hard copy and on the Council's website.

1.4 In order to provide a set of Accounts by these deadlines which are also in accordance with relevant Codes of Practice, Regulations and Guidance, the final accounts process commences in January with the production of an internal timetable for the completion of the various tasks involved. This timetable is monitored by Financial Services officers and progress reported to the Senior Management Team throughout the final accounts process as it is essential that a corporate approach be taken to achieve a set of Accounts which gives a true and fair view of the financial position of the Authority.

2. IMPROVEMENTS

2.1 The 2015/16 Annual Audit Findings Report considered by the Audit Committee on 27 September 2016 acknowledged continuing significant improvements in the final accounts process compared to previous years. There were six recommendations made in the Audit Findings Report and an update is provided below:

1. **Review the adequacy of the quality assurance processes in place to ensure any amendments suggested by management have been reflected in the draft statements submitted for audit.**

   This will form part of the year end process and will be built into the closedown timetable to allow for an enhanced Quality Assurance process.

2. **Document and evidence any verbal discussions held between the internal and external valuer that impact upon critical accounting judgements.**

   This will be undertaken as part of the meetings held with the external valuers and will be held on file for review.

3. **Carry out a review of income recognition to ensure it adheres to the Council's accounting policy for revenue recognition.**

   This will form part of the year end process and will be built into the closedown timetable to allow for an enhanced review process.

4. **Carry out a review of financial instruments disclosure notes to ensure compliance with the Code, with particular focus on any 'available for sale' disclosures.**

   This will form part of the year end process and will be built into the closedown timetable to allow for an enhanced review process.

5. **Carry out a review of the leases working paper to source documentation, as issues were noted with some start and end dates and lease values from our testing.**

   This will form part of the year end process and work will begin shortly to begin the review of leases and to update where necessary the information held in preparing the accounts.

6. **Include specific reporting on the progress and outcome of any 'savings' programme in the budget monitoring reports in order to update members**

regularly. (It is not clear from the current reporting whether the savings targets for each year are achieved).

This has been actioned and a summary of transformation savings progress is now included in the budget monitoring reports presented to Executive.

3. CHANGES ARISING FROM THE 2016 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

3.1 The significant change to the 2016 Code of Practice on Local Authority Accounting involves changes to the presentation of the accounts with changes to the format and reporting requirements to the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and the introduction of a new Expenditure and Funding Analysis. Further details of these changes will be communicated once the Practitioners Guidance Notes are published in late December and the implications can be better assessed.

4. ACCOUNTING POLICIES

4.1 The existing Accounting Policies will be reviewed to reflect the changes in the 2016 Code of Practice and also to provide further explanation of other existing policies. The current policies are attached at **Appendix A**. Members are asked to consider the accounting policies as outlined to provide the basis for the preparation of the 2016/17 Accounts.

4.2 To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2016 Code of Practice, a training session will be proposed for Members in June/July.

5. RECOMMENDATIONS

Members are asked to note the report and to consider the accounting policies to be used in the preparation of the 2016/17 accounts.

Contact Officer:	**Steven Tickner**	**Ext:**	**7280**
Appendices attached to report:	**Appendix A – Draft Accounting Policies 2016/17**		

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Economic Development – not applicable

Governance – The Audit Committee's terms of reference require it to consider the Council's compliance with its own and other published standards and controls and to consider whether appropriate accounting policies have been followed.

Resources – contained within body of the report

Draft Accounting Policies 2016/17

4.0 Accounting Policies

4.0.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

4.0.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as work in progress and included within inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

4.0.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4.0.4 Exceptional Items

When items of income and expense are material and out of the ordinary, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

4.0.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

4.0.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover these costs but is required to make an annual contribution to reduce its overall borrowing requirement. This is known as the Minimum Revenue Provision and is calculated as 4% of the Council's capital financing requirement at the start of the financial year. Depreciation, impairment losses, revaluation losses and amortisations are therefore replaced by a revenue provision in the Movement in Reserves Statement by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

4.0.7 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme (LGPS) administered by Cumbria County Council.

The scheme is a funded defined benefit scheme meaning that the scheme provides retirement lump sums and pensions, earned as employees work for the Council. As a defined benefit scheme it is shown within the Council's accounts using the following principles:

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.

- Liabilities are discounted to their value at current prices using a real discount rate of xx%.

- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.

    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

    Around xx% of LGPS assets are held in equity investments and bond issues with the remainder held in property and other assets.

- The change in the net pension liability is analysed into six components and recognised in the Statements as follows:

  Service Cost comprising:

  - **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.

  - **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.

  - **Net Interest on the defined pension liability (asset)** – i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

  Re-measurements comprising:

  - **The return on plan assets –** excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - **Actuarial gains and losses –** changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note 4.42 to the Accounts.

Statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. This therefore means that within the Movement in Reserves Statement, there are appropriations to and from the Pensions Reserve to remove the notional transactions for retirement benefits and replace them with debits for the amounts paid to the pension fund in the year and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision and accounted for using the same policies as are applied to the LGPS.

4.0.8 Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

4.0.9 Financial Instruments

Financial instruments held by the Council are all classed as either financial liabilities or financial assets (loans and receivables) under the 2016/17 Code.

Financial Liabilities

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

(i) Borrowing

Borrowing is classed as either a long-term liability, repayable after 12 months or longer, or a current liability if it is repayable within a 12 month period. Borrowing is shown in the Balance Sheet at amortised cost using the effective interest rate that applies to the individual loans comprising the total borrowing held by the Council. For borrowing held by the Council, this means that the amount shown in the balance sheet represents the outstanding principal payable to the lender and the interest on the borrowing that is charged to the Comprehensive Income and Expenditure Statement is the amount payable in the year under the loan agreement.

(ii) Creditors

Creditors are recognised when a contractual arrangement is entered into between the Council and a supplier to provide goods and services for an agreed price. The value of the creditors recognised in the balance sheet represents the current value of the outstanding liabilities of the Council at 31 March as a proxy for amortised cost.

Financial Assets

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(i) Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

(i) Loans and Receivables

Investments

Investments are classed as either long-term assets, repayable after 12 months or longer, or as current assets if repayable within a 12-month period. Investments are shown in the Balance Sheet at amortised cost using the effective interest rate of the individual investments. For all the investments that the Council has made, this means that the amount shown in the balance sheet is the amount of principal due to be repaid to the Council and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable by the Council under the loan agreement.

Debtors (including mortgages)

Debtors are recognised when a contractual arrangement is entered into between the council and a debtor for the Council to provide goods and services for an agreed sum. The value of debtors in the balance sheet represents the current value of the outstanding debts owed to the Council at 31 March as a proxy for amortised cost.

Car Loans
Car Loans are provided to staff deemed to be essential users at a discounted rate of interest and therefore meet the definition of a soft loan within the 2016/17 Code. The value of car loans provided has not been recalculated at fair value as the difference between interest at fair value and the actual loan interest charged is not considered material.

Further details on Financial Instruments can be found in note 4.34 to the Financial Statements.

4.0.10 Government Grants and Contributions
Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

4.0.11 Heritage Assets
Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)
The majority of the Council's Heritage Assets are held in the Council's Museum. The Museum has four collections of heritage assets, Archaeology, Social History, Natural History and Fine and Decorative Arts, which are held in support of the primary objective of the Council's Museum, i.e. increasing the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However some of the measurement rules are relaxed in relation to heritage assets as described below. The accounting policies in relation to heritage assets that are deemed to include elements of intangible heritage assets are also presented below. The Council's primary collections of heritage assets are accounted for as follows.

Museum Collection
The Council's museum collection consists of a significant number of artefacts including pictures, prints, sculptures, china, glass, porcelain, coins, medals archaeological items, as well as significant numbers of social and natural history items, costumes and firearms. Museum collections are reported in the Council's balance sheet at insurance valuation which take into account current market values. These insurance valuations are reviewed on an annual basis as part of the overall insurance premium renewal process.

Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations being based on appropriate insurance values. The Museum has a defined acquisitions and disposals policy for the period 2010-2015 that sets out the policy for the development of collections at the museum.

Heritage assets will not be subject to depreciation as it is not deemed appropriate to estimate a useful life for the assets held.

Statues, Monuments and other historical buildings
The Council has a number of statues and monuments and other historical buildings that it does not consider that reliable cost or valuation information can be obtained. This is due to the historical significance of such items. However, in some cases, historical cost information is recorded, particularly those that were previously classified as Community assets. Therefore, those items that were previously categorised as Community Assets will be recognised at their historic cost. This will be re-evaluated so that the most appropriate valuation basis is used, and those previously not recognised (primarily statues and monuments) will not be recognised on the balance sheet although appropriate disclosures made.

Heritage Assets – General
The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4.0.18 in this summary of significant accounting policies. The trustees of the Council's Museum will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

4.0.12 Intangible Asset
Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the

Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

4.0.13 Inventories and Long Term Contracts

Stocks are reflected in the balance sheet at current prices. This is a departure from the requirements of the Code and IAS 2 Inventories, which requires stocks to be shown at the lower of cost or net realisable value where they are acquired through an exchange transaction.

4.0.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

4.0.15 Jointly Controlled Operations and Jointly Controlled Assets
Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

4.0.16 Leases
Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.
Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Operating Leases
Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

4.0.17 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2016/17* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

4.0.18 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Deminimis levels have been set at:

- £5,000 for expenditure on individual items of vehicles, plant and equipment;
- £20,000 for expenditure on land, buildings and other structures.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV), except for a few offices that are situated close to the council's housing properties, where there is no market for office accommodation, and that are measured at depreciated replacement cost (instant build) as an estimate of current value
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

Asset Category	Rate	Basis
Dwellings & Other Buildings	Useful Life	Straight Line
Infrastructure Assets	Useful Life	Straight Line
Vehicles, Plant, furniture & Equipment	Useful Life	Straight Line
Intangible Assets	Useful Life	Straight Line

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Council has a policy on componentisation where any asset with a Gross Book Value of more than £1million and is subject to depreciation will be considered for componentisation where a component is deemed to be more than 5% of the assets value. This will primarily apply to buildings and the major components to be considered will be:

Component
Heating and Ventilation System
Windows
Electrical
Water Systems
Roofing
Lifts

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

4.0.19 Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 – unobservable inputs for the asset or liability.

4.0.20 Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

4.0.21 Reserves
The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

4.0.22 Revenue Expenditure Funded from Capital under Statute
Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

4.0.23 VAT
VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

4.0.24 Council Tax / NNDR Income
The Council is required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The Statutory Collection Fund (England) Statement is included as a supplementary statement in the accounts. In its capacity as billing authority the Council acts as an agent. During 2016/17 the Council collected and distributed NNDR on behalf of itself, the Government and Cumbria County Council. Council Tax was collected and distributed on behalf of the City Council, the County Council, the Police and Crime Commissioner for Cumbria and local town and parish councils.

Council Tax accrued income for the year and Council Taxpayers debtors, creditors and provision for bad debts at the 31 March are shared between the major preceptors and the Council based on their percentage share of the total demands/precepts for the year. Business rates accrued income for the year as well as business ratepayers, debtors, creditors and provisions for bad debts and appeals are shared between the Council (40%), Government (50%) and the Police and Crime Commissioner for Cumbria (10%).

Collection Fund Debtors are reviewed collectively at the balance sheet date by debt type and provision is made for impairment based on the historical evidence of default in each category. The Council's share of the Collection Fund Debtors shown in the balance sheet is net of this bad debt provision.

In accordance with the current accounting code of practice the Council's Comprehensive Income and Expenditure Statement includes its share of accrued council tax and business rates income. Where this amount is more or less than the amount to be credited to the General Fund under statute, there is an adjusting transfer in the Movement in Reserves Statement, between the General Fund Balance and the Collection Fund Adjustment Account. This account holds the Council's share of the Collection Fund Surplus or Deficit at the 31 March. The Council's Balance Sheet includes the net creditor/debtor position with the Government and major preceptors for taxes collected on their behalf and not yet paid to them or taxes paid to them but not yet collected from taxpayers.

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Report to Audit Committee	Agenda Item: A.5

Meeting Date: 22 December 2016
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public

Title: Internal Audit Progress Report 2016-17
Report of: Chief Finance Officer
Report Number: RD45/16

Purpose / Summary:

This report summarises the work carried out by Internal Audit and details progress against Audit Plans for 2015/16 and 2016/17.

Recommendations:

Members are requested to:

- **Note the progress on the remainder of 2015/16 Audit Plan and progress on the 2016/17 Audit Plan - see Section 2**
- **Receive finalised audit reports – see Section 4**

Tracking

Audit Committee	22 December 2016
Overview and Scrutiny:	Not applicable
Council:	Not applicable

1 BACKGROUND

1.1 Management is responsible for establishing effective systems of governance, risk management and internal controls. It is the responsibility of management to establish appropriate arrangements to confirm that their systems are working effectively; that all information within them is accurate; and that they are free from fraud or error.

1.2 Internal Audit's role is to provide independent assurance to senior management and Audit Committee over the adequacy and effectiveness of management's arrangements for governance, risk management and internal control.

1.3 This report summarises the work carried out by Internal Audit in the latest period.

2 PROGRESS AGAINST AUDIT PLANS

2015/16 PLAN

2.1 The remaining 2 risk-based reviews (Overtime and Enterprise Centre) have now been finalised and these reports are included as separate agenda items.

2.2 The follow up review of Homeworking is ongoing but is subject to reviewing evidence recently provided by management to confirm that the agreed action plan has been implemented.

2016/17 PLAN

2.3 The 2016/17 Annual Risk Based Audit Plan was agreed by the Audit Committee on 19 April 2016 – report RD 01/16 refers.

2.4 A summary of the overall 2016/17 plan position is included at **Appendix A** for information.

2.5 Management.

3 INTERNAL AUDIT PERFORMANCE MEASURES

3.1 Performance measures for Internal Audit are included at **Appendix B** for information.

3. COMPLETED AUDIT WORK

3.1. Final Audit Reports

3.1.1. The following is a summary of reports finalised in the latest period. These are now included as separate agenda items.

Audit	Assurance Opinion
Carlisle Enterprise Centre (15/16 plan)	Partial
Overtime (15/16 plan)	Reasonable
Communications	Substantial
Electoral Registration	Reasonable

4. CONSULTATION

Not applicable

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

5.1. The recommendations made in this report will enable Members to track the progress on the delivery of the Audit Plans and gain assurance from the independent audit work undertaken.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

6.1. To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources.

Contact Officer: **Peter Usher** **Tel: 01228 226255**
Audit Manager
(Cumbria Shared Internal Audit Service)

Appendices A-B attached to report:
Appendix A – 2016/17 Audit Plan update
Appendix B – Internal Audit performance measures

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

APPENDIX A

CARLISLE CITY COUNCIL
AUDIT PLAN 2016/17

Directorate	Audit Area	Allocated Days	Status	Audit Committee Date	Assurance Evaluation	Comments
Corporate	Physical security of premises	15	Ongoing			
Corporate	Performance management	20	Ongoing			
Corporate	Information Governance	20	Ongoing			
Chief Executive's Team	Communication	20	Final	Dec 2016	Substantial	
Deputy Chief Executive's Team	Arts Centre	20				
Economic Development	Development Control	20	Draft issued			
Economic Development	Disabled Facilities Grants (DFG's)	20	Ongoing			
Local Environment	Waste management	20	Ongoing			
Local Environment	Education and Enforcement - brought forward from 2015/16 audit plan so days not from 16/17 plan	20	Deferred	Sept 2016		Committee agreed to management's request to defer this review until 2017/18 audit plan
Local Environment	Car park income	20	Ongoing			
Local Environment	Health and Safety	20				
Governance	Asset acquisition and disposal programme	20				
Governance	Electoral Registration	15	Final	Dec 2016	Reasonable	
Governance	Licensing	15	Final	Sept 2016	Reasonable	
Resources	Early Release (ER) & Voluntary Redundancy (VR) Schemes	20	Ongoing			

Cyclical review	Treasury Management	20	Final	Sept 2016	Substantial	
Cyclical review	Income collection & receipting	20	Ongoing			
Cyclical review	NNDR	20	Ongoing			
Cyclical review	Corporate Governance – compliance with Local Code	20				
Resources	Procurement (audit deferred from 2015/16) audit	10	Ongoing			
Other work						
Corporate	Counter fraud support – National Fraud Initiative	15				
Follow up audits	Provision for follow ups	10				
	Main financial systems – additional assurance work	10				

APPENDIX B

Internal Audit Management Performance Measures

KPI	Measure of Assessment	Target	Actual Performance (to 30 Nov 2016)	Comments
Planned audits completed	% of planned audit reviews (or approved amendments to the plan) completed in respect of the financial year.	95% of overall plan	On target	There are 19 audits in the revised 2016/17 plan, excluding follow ups. 5 draft/final reports issued (26% of plan) 10 audits in progress (53%)
Audit scopes agreed	% of audit scopes agreed with management and issued before commencement of the audit fieldwork	100%	On target	100% Scoping meetings are held for all planned audit assignments and client notifications are produced for each.
Draft reports issued by agreed deadline	% of draft internal audit reports issued by the agreed deadline or formally approved revised deadline agreed by Audit Manager and client.	80%	40%	Of 5 draft reports issued, 2 were issued by the agreed deadline (40%) 2 of those outside the draft report deadline were issued within approximately a week of deadline.

KPI	Measure of Assessment	Target	Actual Performance (to 30 Nov 2016)	Comments
Timeliness of final reports	% of final internal audit reports issued for Corporate Director comments within 8 working days of management response or closeout.	80%	100%	100% In most cases the Corporate Director is involved in the closeout meeting and completion of action plan so their response is provided with the action plan.
Recommendations agreed	% of recommendations accepted by management	95%	86%	6 of 7 recommendations accepted – 2016/17 plan
Assignment completion	% individual reviews completed to required standard within target days	50%	75%	For 4 completed reviews, 3 have been completed within budget days.
Quality Assurance checks completed	% QA checks completed	100%.	100%	Independent QA checks have been applied at agreed stages of all audits
Post audit customer satisfaction survey feedback	% of customer satisfaction surveys scoring the service as ‘good’	80%	83%	This is based on 8 completed surveys for audits finalised since July 2016.
Efficiency	% chargeable time	80%	80%	This is measured across the Shared Service overall and is not specific to any single participant.

Cumbria Shared Internal Audit Service

Audit Report for Carlisle City Council

Economic Development Directorate

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Audit of Carlisle Enterprise Centre

Draft Report Issued: 20 October 2016

Final Report Issued: 29 November 2016

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Peter Usher	Peter.Usher@cumbria.gov.uk	01228 226253
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Audit Report Distribution

For Action:	Garry Legg, Investment & Policy Manager
For Information:	Jane Meek, Corporate Director of Economic Development
Audit Committee	The Audit Committee, which is due to be held on 22nd December 2016, will receive the findings and recommendations from this audit.

Executive Summary

1. Background

1.1. This report summarises the findings from the audit of Carlisle Enterprise Centre. This was a planned audit assignment which was undertaken in accordance with the 2015/16 Audit Plan.

1.2. Carlisle Enterprise Centre is important to the Council because it is both an economic asset and an income generator. The Centre is a well-established business complex that is managed to promote and support economic growth in the local economy.

1.3. Audit testing focussed on discussions and information gathered from the Investment and Policy Manager. All evidence has been examined and evaluated to form an opinion regarding the controls in operation over the Centre.

2. Audit Approach

2.1. **Audit Objectives and Methodology**

2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. **Audit Scope and Limitations**

2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Jane Meek, Corporate Director of Economic Development. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Management of the Enterprise Centre.
- Administration of rents and charges.
- Tenancy At Will Agreements.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Carlisle Enterprise Centre provide **<u>Partial</u>** assurance.

3.3. Follow up of the audit will need to be considered within the City Council's Internal Audit follow up arrangements during 2017/18.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There are five audit recommendations arising from this audit review and these can be summarised as follows:

	No. of recommendations		
Control Objective	High	Medium	Advisory
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	1	-
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	2	1	-
3. **Information** - reliability and integrity of financial and operational information	-	-	-
4. **Security** - safeguarding of assets	-	-	-

5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	3	2	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- The financial performance of Carlisle Enterprise Centre is regularly monitored and discussed at DMT.
- Arrangements are in progress to implement a new key fob security system at Carlisle Enterprise Centre.

4.4. **Areas for development**: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- The Economic Development Scheme of Sub-Delegation to Officers that details the delegated authority assigned to the Investment & Policy Manager has yet to be formally approved.
- There are no procedure notes in place for the preparation and issuing of Tenancy At Will Agreements and for the setting, calculation and review of rents.
- There is no mechanism in place to monitor compliance with incoming tenant process notes and no management checks to ensure there is compliance with the Tenancy At Will Agreements.

4.4.2. *Medium priority issues:*

- Key actions, target dates and potential risks that impact on the delivery of the Enterprise Centre objective have yet to be identified, managed and reported.
- There are no effective arrangements in place for management to receive regular assurances that statutory health and safety and building maintenance checks are being undertaken at Carlisle Enterprise Centre.

4.4.3. *Advisory issues:*

- There are no advisory issues arising.

Comment from the Director of Economic Development

I welcome the report and a number of the management actions are already being implemented.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. Management - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
5.1.1. **Enterprise Centre Objective** The Economic Development Action Plan 2016 – 2019 details the objective to 'Maximise occupancy of Carlisle Enterprise Centre' and is linked to the Council's priorities. The key actions, target dates and advertising arrangements to deliver the Carlisle Enterprise Centre objective have yet to be formally documented. The potential risks that impact on the delivery of the Enterprise Centre objective have yet to be identified. **Recommendation 1:** Key actions, potential risks and performance measures/target dates should be identified and documented in support of the agreed Enterprise Centre objective. Once documented, these should be communicated to staff and other stakeholders as appropriate and used to inform team and individual objectives. The actions, risks and performance measures should be regularly reviewed and reported as appropriate.	**Agreed management action:** Business plan to be prepared for the Enterprise Centre relating to the year ahead, detailing key actions and planned activities to support realisation of the Service Plan objective. Risks to realisation of the objective to be detailed through this process but then entered into and regularly reviewed and managed through the Council's Project Server, mirroring the corporate approach. Business plan to be signed off by Director and reviewed each year. The Plan can then be used to inform individual's objectives through the appraisal process. Business Plan is to include a schedule of annual management approvals, evidencing that the need to review for example rents, health and safety assessments, robustness of tenancy agreements etc. has been considered and any updates documented along with reasoning to support decisions made. It is also proposed that this same process be used to document any significant outstanding issues at the preceding year end as well as key achievements within.

Risk exposure if not addressed:	Responsible manager for implementing:
• Planning is not sufficiently developed to help drive the service forward. • Council priorities are not achieved because there is no effective monitoring arrangement to evaluate and deliver these. • The Council's priorities are not achieved because service risks are not identified or effectively managed.	Investment & Policy Manager **Date to be implemented:** 31/03/2017

● **High priority**

Audit finding	Management response
5.1.2. **Scheme of Delegation** A scheme of sub-delegation that details the Investment and Policy Manager's authorised delegated responsibilities and duties relating to the Enterprise Centre is in place. Audit testing confirmed that delegated authority assigned to the manager as detailed in the scheme of sub-delegation has yet to be approved.	**Agreed management action:** The absence of any approval to date reflects that an active review of the scheme of sub-delegation is and has been ongoing for some time, reflecting significant governance and workforce restructures within the organisation. The highlighted issue will be addressed through this ongoing process
Recommendation 2: Management should set a timescale for the approval of the Economic Development scheme of sub-delegation.	
Risk exposure if not addressed: • Service objectives are not achieved because there is no formal delegated authority. • Unauthorised decision making and action by staff because there is not an effective scheme of delegation.	**Responsible manager for implementing:** Corporate Director of Economic Development **Date to be implemented:** Work actively ongoing. To be in place for 1st April 2017

5.2. Regulatory - compliance with laws, regulations, policies, procedures and contracts.

● **High priority**

Audit finding	Management response
5.2.1. **Procedures and Management Checks** There are no formal documented procedures in place for the preparation and issuing of Tenancy At Will Agreements. There are process notes that detail a list of steps to guide staff in processing Incoming Tenants however we consider this does not provide enough detail on how to undertake the expected tasks to prepare and issue Tenancy At Will Agreements. Internal Audit were advised that there are no arrangements in place to monitor that the expected steps detailed in the 'incoming tenant' process notes have been followed. We are advised that reliance is placed on the staff to ensure that all information is in place and to raise any concerns/issues. Internal Audit were advised that there are no management checks in place to monitor compliance with the Tenancy At Will Agreement and confirm that the correct amount of rent is paid. **Recommendation 3:** a) Arrangements should be in place to ensure that all procedures are fully documented and approved by management. In approving procedures, management should ensure that they are sufficiently detailed for staff to follow to prepare Tenancy At Will Agreements. b) Management should introduce arrangements to obtain assurance that the expected procedures are being followed. A timescale should be set for the review and approval of these procedures. c) Management should put arrangements in place to obtain assurance that tenants comply with their Tenancy At Will Agreement and the correct amount of rent is paid.	**Agreed management action:** Existing procedure notes have already been reviewed and significantly updated to enhance their robustness, including making clear when the procedure note was last updated and approved by management. Unit file spot checks to be undertaken – minimum of 10% of Units Let – and to be clearly documented including sign off within the annual management checklist within the proposed Business Plan. Spot checks to be guided by preparation of detailed procedure note ensuring mandatory aspects of Tenancy Agreement are covered including the rent paid.

Risk exposure if not addressed: • The Council is unable to demonstrate that staff are clear about management's expectations of how they should prepare and issue Tenancy At Will Agreements. • Management are unable to be assured that staff are following the correct procedures. • Non-compliance with Tenancy At Will Agreements are not effectively identified because there is no mechanism in place to monitor that tenants comply.	**Responsible manager for implementing:** Investment & Policy Manager **Date to be implemented:** 31/03/2017

● **High priority**

Audit finding	Management response
5.2.2. **Rent Reviews** The approach to set, calculate and review the rents of the units at Carlisle Enterprise Centre has yet to be documented. Internal Audit were advised that a rent review had been undertaken early this year, however a record of this review and approval of rents and further changes had not been retained.	**Agreed management action**: The proposed business plan is to include a schedule of annual management approvals, evidencing that the need to review for example rents, health and safety assessments, robustness of tenancy agreements etc. has been considered and any updates documented along with reasoning to support decisions made. Annual sign off of the business plan will afford assurances that the expected procedures are being followed and any variances documented.
Recommendation 4: a) Arrangements should be in place to ensure that the approach to set and review the rents of the units at the Enterprise Centre are documented and approved. Once documented these should be communicated to staff. b) Management should introduce arrangements to obtain assurance that the expected procedures are being followed.	
Risk exposure if not addressed: • The Council is unable to demonstrate that staff are clear about management's expectations of how they should review and calculate rents. • Management are unable to be assured that staff are following the correct procedures for the setting of rents. • Incorrect decision making due to a lack of understanding of the approach to setting and reviewing rents.	**Responsible manager for implementing:** Investment & Policy Manager **Date to be implemented:** 31/03/2017

● **Medium priority**

Audit finding	Management response
5.2.3. **Health and Safety / Building Maintenance** There are no arrangements in place for management to receive regular assurances that statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. At management's request earlier this year a health and safety audit and a fire safety review on the Carlisle Enterprise Centre had been undertaken and reported. Audit testing confirmed that a record is maintained of the progress on implementation of the recommendations contained in these reports and we are advised that this is reported to senior management. **Recommendation 5:** Arrangements should be put in place to ensure that management receive regular assurances that all statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. Management should consider how these checks and their outcomes should be documented and reviewed and that any remedial actions are undertaken.	**Agreed management action:** Arrangements in the form of a comprehensive schedule of statutory responsibilities to be put together along with reporting protocols to ensure that the schedule can function as a log and be updated to indicate that the required actions / checks have been done, with any issues flagged. Required reviews of overarching health and safety and fire risk assessments to be set out in the proposed Business Plan which will require senior manager sign off.
Risk exposure if not addressed: • Management are unable to be assured that the required statutory health and safety and building maintenance checks are undertaken. • Sanctions, litigation and reputational damage arising from non-compliance with relevant legislation because staff are unaware of the required statutory health and safety and building maintenance checks to follow.	**Responsible manager for implementing:** Investment & Policy Manager and Safety, Health and Environmental Manager **Date to be implemented:** 31/03/2017

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The controls tested are being consistently applied and no weaknesses were identified. Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed. Recommendations are no greater than medium priority.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. Recommendations may include high and medium priority matters for address.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Follow Up Arrangements for Audit Recommendations

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

Cumbria Shared Internal Audit Service

Audit Report for Carlisle City Council

Resources Directorate

CARLISLE CITY COUNCIL
www.carlisle.gov.uk

Audit of Overtime

Draft Report Issued: 14 September 2016

Final Report Issued: 9 December 2016

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Peter Usher	Peter.Usher@cumbria.gov.uk	01228 226270
Lead Auditor(s)	Pauline Connolly	pauline.connolly@cumbria.gov.uk	01228 226270

Audit Report Distribution

For Action:	Alison Taylor, Chief Finance Officer
For Information:	Jason Gooding, Chief Executive
Audit Committee	The Audit Committee, which is due to be held on 22 December 2016, will receive the findings and recommendations from this audit.

Executive Summary

1. Background

1.1. This report summarises the findings from the audit of overtime. This was a planned audit assignment which was undertaken in accordance with the 2015/16 Audit Plan.

1.2. The Council set a target to reduce expenditure on overtime however this has been challenging as at the same time staffing levels have had to be reduced to reflect funding cuts. This has highlighted the need to review the use of overtime and how it can be used efficiently to allow the Council to continue to deliver services given reductions in its staff establishment.

1.3. Information for this audit was provided by relevant staff in the Financial Services and HR Departments and from a number of other Directorates including Local Environment, Customer Services etc. All evidence has been examined and evaluated to form an opinion regarding the controls in operation over overtime.

2. Audit Approach

2.1. Audit Objectives and Methodology

2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Peter Mason, Director of Resources. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- Contractual Overtime.
- Workforce Planning i.e long term impact of staff reductions and the requirement for overtime.
- Recommended practices and methods to reduce overtime.
- Value for money

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within overtime provide **<u>Reasonable</u>** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There are 3 audit recommendations arising from this audit review and these can be summarised as follows:

	No. of recommendations		
Control Objective	High	Medium	Advisory
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	0	2	0
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	0	0	0
3. Information - reliability and integrity of financial and operational information (see section 5.2)	0	0	1
4. Security - safeguarding of assets	0	0	0

5. Value - effectiveness and efficiency of operations and programmes	0	0	0
Total Number of Recommendations	0	2	1

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- There are effective arrangements for monitoring overtime budgets.
- Contractual overtime is limited to two members of staff within the Waste Services Department and these contracts have been reviewed as part of Waste Services' service review.
- The value for money to use overtime has also been considered as part of ongoing services reviews.
- Some directorates are already reviewing their general overtime budgets as part of their review of services and structures

4.4. **Areas for development**: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- None.

4.4.2. *Medium priority issues:*

- Corporate objectives/guidance/a set of principles which sets out the rationale and assessment for the use of overtime are not defined.
- The budget meetings that are held with directors and their budget managers to review and set the annual staff budgets as part of the annual budget process have yet to be formally documented. The Directors' approval of their annual staffing budget including general overtime has yet to be formally documented.

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4.4.3. *Advisory issues:*

- It is recognised that there is a need to review the management information on overtime costs available to managers, in addition to their monthly budget reports, to assist in controlling overtime costs and managing the use of overtime.

Comment from the Chief Finance Officer

It is pleasing to note the strengths and areas of good practice in the Council's monitoring and use of overtime which is reflected in the reasonable assurance rating. The 2 medium priority recommendations have been agreed by management and will be implemented within the agreed timescales.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. Management - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
5.1.1. **Objectives/guidance for the use of overtime and its reduction** Internal Audit were advised that the Pay Policy & Arrangements document details the corporate guidance for staff to claim and managers to approve overtime ie. additional hours worked. Audit testing confirmed that the policy does not reflect any corporate objectives/guidance that sets out the aims, purpose and use of overtime to assist in delivering corporate/service priorities. The Senior Management Team (SMT) agreed that a set of principles be adopted and applied across the Council to ensure a fair and transparent approach to assess and reduce overtime spend. Audit were advised that this new approach is still work in progress and a set of principles has yet to be adopted and applied. HR advisors continue to support managers as required in finding solutions to reduce the cost of overtime whilst supporting employee wellbeing.	**Agreed management action:** Agreed. A set of principles will be established and communicated to guide managers on the use of overtime. .
Recommendation 1: a) Corporate objectives/guidance that clearly defines the rationale for the use of general overtime should be documented and communicated. b) SMT should finalise the set of principles to ensure a fair and transparent approach is taken.	
Risk exposure if not addressed: • Incorrect and inconsistent decision making because managers do not have guidance on the corporate approach to the use overtime. • The use of overtime is not effective because there is not a consistent approach to managing this	**Responsible manager for implementing:** **Chief Finance Officer** **Date to be implemented:** **March 2017**

● **Medium priority**

Audit finding	Management response
5.1.2. Overtime budgets Each director reviews and approves their annual staffing budget including contractual and general overtime to verify it is sufficient to deliver their service plan/objectives. Internal Audit were advised that contractual overtime is included in employees' contracts and general overtime is the same each year. General overtime is based on historical data until a notification to change the directorate's structure is submitted and this is the standard annual budget process to continue to deliver the same level of service. Audit testing confirmed the majority of the annual staffing budget is supported and aligned to the staffing establishment however there is insufficient evidence to support the calculation of the general overtime budget. Internal audit were advised that budget meetings are held to review and discuss annual staffing budgets however neither these meetings nor the approval of the annual staffing budget have yet to be formally documented. Audit testing confirmed that service managers are not involved in the budget setting process when planning and reviewing general overtime budgets. However, Internal Audit were advised that overtime costs and salary budgets form part of service managers' reviews of their services and structures to accommodate VR/ER requests.	**Agreed management action:** a) b) and c) As part of the annual budget process an email response or correspondence sign off will be introduced to obtain assurance from directors and their budget holders of their review, challenge and approval of their annual staffing budgets including any general overtime budgets.
Recommendation 2: a) Management should ensure that as part of the annual budget process a record is maintained of their review and approval of their general overtime budget. b) A record of management's review and challenge on directorates' general overtime budgets should be maintained as part of the annual budget process. c) Budget holders should assess how budget managers are involved in the planning and assessment of general overtime. budget.	

Risk exposure if not addressed:	Responsible manager for implementing:
• Corporate/service priorities are not achieved because there is not an effective arrangement to review annual staffing budgets including overtime • Incorrect and inconsistent decision making because there is an absence of information to support overtime budgets.	**Chief Finance Officer** **Date to be implemented:** **December 2017**

5.2 Information - reliability and integrity of financial and operational information**.**

● **Advisory priority**

Audit finding	Management response
5.2.1 Management information on overtime costs Internal Audit were advised that there is an overtime cost centre 0111 for each individual department/directorate. Audit testing confirmed that the overtime coding structure has not been reviewed for some time to ensure it enables managers' to fulfil their responsibilities for managing overtime costs. We were advised that there is a basic requirement to record overtime within the financial ledger to comply with accounting requirements ie however it is recognised that there is scope to provide more detailed information on overtime but outside the main accounting system.	Agreed management action: Agreed. We will review the feasibility of using Itrent to record detailed management information on overtime including the introduction of a code to capture the reasons for the use of overtime.
Recommendation 3: Management should review current management information on overtime costs to assess whether this is adequate to allow managers to control overtime and for senior management's review of the use of overtime.	
Risk exposure if not addressed: • Insufficient information recorded to enable effective management and review of the use of overtime	**Responsible manager for implementing:** **Chief Finance Officer** **Date to be implemented:** **March 2017**

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The controls tested are being consistently applied and no weaknesses were identified. Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed. Recommendations are no greater than medium priority.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. Recommendations may include high and medium priority matters for address.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Cumbria Shared Internal Audit Service

Internal Audit Report for Carlisle City Council

CARLISLE CITY COUNCIL

www.carlisle.gov.uk

Audit of External Communications

Draft Report Issued: 14th October 2016

Final Report Issued: 24th November 2016

Audit Resources

Title	Name	Email	Telephone
Audit Manager	Peter Usher	peter.usher@cumbria.gov.uk	01228 226254
Lead Auditor(s)	David Kendrick	david.kendrick@cumbria.gov.uk	01228 226290

Audit Report Distribution

For Action:	Steven O'Keeffe, Policy and Communications Manager
For Information:	Jason Gooding, Chief Executive Darren Crossley, Deputy Chief Executive
Audit Committee	The Audit Committee, which is due to be held on 22nd December 2016 will receive the following parts of the report: • Executive summary (sections 1-4) and the Management Action Plan (section 5)

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Audit Manager.

Executive Summary

1. Background

1.1. This report summarises the findings from the audit of External Communications. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.

1.2. Corporate communication is the function involved in managing and coordinating internal and external communications with the stakeholders which the organisation serves. It is comprised of the messages issued by an organisation to its audiences, such as employees, the media, and the general public. Corporate communication is a key function effectively linking all stakeholders to the organisation

1.3. At Carlisle City Council Communications are managed by Steven O'Keeffe, Policy and Communications Manager who reports directly to the Chief Executive. The Communications team reporting to Steven O'Keeffe is comprised of Sarah Irving, Media and Communications Officer and Janet Wainwright, Principle Graphic Designer.

2. Audit Approach

2.1. **Audit Objectives and Methodology**

2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. **Audit Scope and Limitations**

2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Jason Gooding, Chief Executive. The agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas of **External Communications**;

- Clarity of purpose, objectives and risk management
- Roles & responsibilities
- Protocols and training for Officers and Members

- Communication support to other areas of the Council, particularly on service development projects and high risk areas such as emergency planning
- Corporate use of social media
- Website management

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within External Communications provide **Substantial** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There is **1** audit recommendation arising from this audit review and this is summarised as follows:

	No. of recommendations		
Control Objective	**High**	**Medium**	**Advisory**
1. Management - achievement of the organisation's strategic objectives achieved	-	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts	-	-	-
3. Information - reliability and integrity of financial and operational information (see section 5.1)	-	-	1
4. Security - safeguarding of assets	-	-	-
5. Value - effectiveness and efficiency of operations and programmes	-	-	-
Total Number of Recommendations	0	0	1

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- A draft Communications Strategy and supporting toolkit have been prepared which are due to be issued in December 2016.
- The draft Communications Strategy requires that all communications are coordinated by the internal team.
- The policies listed in the Communications Strategy including the Social Media policy will be reviewed prior to release of the Strategy in December 2016.
- There is an annual programme of Communications projects designed to meet the Strategy.
- Objectives targets and performance is monitored within individual Communications Plans which have been prepared for each project included within the annual Programme.
- Progress towards delivering the annual programme of Communications projects is regularly monitored.

- Risks are listed and reviewed quarterly.
- There is a Media Protocol setting out what the rules are on all types of External Communications.
- The Code of Recommended Practice on Local Authority Publicity has been adopted and followed by the City Council.
- Briefing and Purdah guidelines are in place.
- Training on Media awareness has been provided to both Members and Staff.
- The Legal Department are regularly consulted on difficult or contentious issues.
- There is a Social Media Policy in place.
- Internet governance arrangements are in place and the website is effectively managed.
- A new Emergency Plan is being prepared which is due to be released in December 2016 including updated media arrangements.
- The format and content of Communications have been compared with those of other local Councils to ensure standards are consistent.
- Customer surveys have been conducted which will be applied to future Communications updates.
- There is standard Carlisle City Council branding and guidelines on Corporate design.

4.4. **Areas for development**: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *High priority issues:*

- None

4.4.2. *Medium priority issues:*

- None

4.4.3. *Advisory issues:*

- The quality assurance and approval of individual Communication outputs is not always clearly and fully evidenced and lacks formality.

Comment from the Chief Executive

Thank you to the Internal Audit Service for a thorough and helpful audit. I am happy to follow their advice to sharpen up quality control and accountability for signing off external communications.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. Information - reliability and integrity of financial and operational information. • Advisory issue

<table>
<tr><th>Audit finding</th><th>Management response</th></tr>
<tr><td>5.1.1. Formality of the Quality Assurance and Approval Process

Communications output whether in the form of Press Enquiry responses, Press Releases, or Printed / Digital Material is quality assured and approved but the evidence for this is not always complete or clear, consisting of e-mail trails, undocumented discussions and implied approval rather than definitive evidenced approval at each stage of production including formal sign-off at completion.</td><td rowspan="2">Agreed management action:
Recommendation accepted for implementation by 31 Dec 2016</td></tr>
<tr><td>Recommendation 1: Management should consider the need for greater formality in the approval of all forms of Communications both in production, as part of the Quality Assurance process, and at final draft stage in order to ensure that there is clear, consistent and complete evidence of review and approval for each output.</td></tr>
<tr><td>Risk exposure if not addressed:
Risk of adverse publicity where an incorrect or incomplete message appears in a Communication and there is no clear evidence of Quality Assurance and final approval
Greater possibility of misunderstanding in the preparation of the Communication leading to error.</td><td>Responsible manager for implementing:
Policy and Communications Manager
Date to be implemented:
31/12/2016</td></tr>
</table>

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The controls tested are being consistently applied and no weaknesses were identified. Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed. Recommendations are no greater than medium priority.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. Recommendations may include high and medium priority matters for address.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

Recommendation Follow Up Arrangements:

- High priority recommendations will be formally followed up by Internal Audit and reported within the defined follow up timescales. This follow up work may include additional audit verification and testing to ensure the agreed actions have been effectively implemented.
- Medium priority recommendations will be followed with the responsible officer within the defined timescales.
- Advisory issues are for management consideration.

Cumbria Shared Internal Audit Service

Audit Report for Carlisle City Council

Audit of Electoral Registration

Draft Report Issued: 11th November 2016

Final Report Issued: 30th November 2016

Audit Resources

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Audit Report Distribution

For Action:	Mark Lambert, Corporate Director of Governance & Regulatory Services Ian Dixon, Electoral Services Officer
For Information:	Jason Gooding, Chief Executive
Audit Committee	The Audit Committee, which is due to be held on 22nd December 2016, will receive the findings and recommendations from this audit.

Executive Summary

1. Background

1.1. This report summarises the findings from the audit of **Electoral Registration**. This was a planned audit assignment which was undertaken in accordance with the 2016/17 Audit Plan.

1.2. The Electoral Register lists the names and addresses of everyone who is registered to vote in public elections. The register is used for electoral purposes and ensures that only eligible people can vote. Carlisle City Council is required by legislation to maintain an electoral register and a revised register is published annually on 1st December.

2. Audit Approach

2.1. Audit Objectives and Methodology

2.1.1. Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems. A risk based audit approach has been applied which aligns to the five key audit control objectives which are outlined in section 4; detailed findings and recommendations are reported within section 5 of this report.

2.2. Audit Scope and Limitations

2.2.1. The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Sponsor for this review was Mark Lambert, Director of Governance and the agreed scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas :

- Compliance with relevant legislation in maintaining a complete and accurate electoral register.

2.2.2. There were no instances whereby the audit work undertaken was impaired by the availability of information.

3. Assurance Opinion

3.1. Each audit review is given an assurance opinion and these are intended to assist Members and Officers in their assessment of the overall level of control and potential impact of any identified system weaknesses. There are 4 levels of assurance opinion which may be applied. The definition for each level is explained in **Appendix A.**

3.2. From the areas examined and tested as part of this audit review, we consider the current controls operating within Electoral Services provide **Reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4. Summary of Recommendations, Audit Findings and Report Distribution

4.1. There are three levels of audit recommendation; the definition for each level is explained in **Appendix B**.

4.2. There are **3** audit recommendations arising from this audit review and these can be summarised as follows:

	No. of recommendations		
Control Objective	**High**	**Medium**	**Advisory**
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	1	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1	-
3. Value - effectiveness and efficiency of operations and programmes (see section 5.3)	-	1	-
Total Number of Recommendations	-	3	-

4.3. **Strengths:** The following areas of good practice were identified during the course of the audit:

- Electoral Services has undertaken benchmarking against other similar councils to confirm value for money.
- The steps to be taken to comply with statutory requirements are set out in the Electoral Services Annual Canvass Plan.

- Electoral Services have a public awareness strategy which the Electoral Commission consider to be a key part of registration activity.
- Electoral Services staff receive training from the Association of Electoral Administrators.
- Electoral Services have a full quota of canvassers that have attended a canvasser briefing session.
- Electoral Services assess standing and emerging statutory requirements for Electoral Registration.
- The Electoral registration database is regularly updated for changes in property status in the catchment area.

4.4. **Areas for development**: Improvements in the following areas are necessary in order to strengthen existing control arrangements:

4.4.1. *Medium priority issues:*

- Electoral Services do not formally report in writing their compliance with Electoral Commission performance standards.
- Electoral Services have not documented local operating procedures to supplement national guidance and the Xpress software manual.
- Although high level risks relating to Electoral Services are reviewed on a regular basis, detailed risks identified in the annual plan and the IER risk register are not regularly reviewed by management.

Comment from the Director of Governance

A helpful audit with pleasing results. All recommendations are agreed as stated within the body of the report.

Management Action Plan

5. Matters Arising / Agreed Action Plan

5.1. Management - achievement of the organisation's strategic objectives.

● **Medium priority**

Audit finding	Management response
5.1.1. **Electoral Commission Performance Standards** Although verbal assurance is provided, management do not seek assurance through formal written reporting that Electoral Commission performance standards are wholly complied with. For example, the following outcomes should be demonstrated for performance standard 2: • Overall electorate figures. • Number of attainers. • Total number of electors deleted. • Number of electors added to the register. • Number of household enquiry forms issued and responded to and applications made as a result. • Number of review of registration undertaken and total number of electors deleted as a result. • Number of applications and registration made through the exceptions. • Number of electors registered through attestation.	**Agreed management action:** A formal report will be sent to the Town Clerk and Chief Executive and the Corporate Director of Governance & Regulatory Services on a frequency agreed with them.
Recommendation 1: Management should seek assurance through regular formal reporting, that Electoral Services can demonstrate how <u>all</u> the outcomes have been met for performance standard 1 and 2, including the provision of key performance data.	
Risk exposure if not addressed: • Eligible people are not able to participate in the electoral process. • Electoral Services does not meet the required performance standards set by Electoral	**Responsible manager for implementing:** **Electoral Services Officer** **Date to be implemented:**

Commission and suffers reputation loss.	**31 January 2017**

5.2. Regulatory - compliance with laws, regulations, policies, procedures and contracts.

● **Medium priority**

Audit finding	Management response
5.2.1. **Written procedures** Electoral Services use online guidance from the Electoral Commission and the Xpress software manual as a point of reference for staff, but were not able to demonstrate that there were clear written supplementary departmental procedures for electoral registration staff to follow, demonstrating how statutory obligations are fulfilled. Electoral Services is a small team and the loss at short notice of a team member without written procedures to follow, would increase the risk of Electoral Services not meeting its statutory obligations.	**Agreed management action:** A supplementary procedural document to be created and reviewed on a regular basis.
Recommendation 2: Electoral Services staff should have clear written procedures in place which demonstrate how statutory obligations are fulfilled. The procedures should be regularly reviewed and signed off by management.	
Risk exposure if not addressed: • Staff member leaves at short notice and duties are not clear leading to failure of Electoral Services to fulfil its statutory obligations.	**Responsible manager for implementing:** **Electoral Services Officer** **Date to be implemented:** **31 March 2017**

5.3. Value - effectiveness and efficiency of operations and programmes.

● **Medium priority**

Audit finding	Management response
5.3.1. **Risk register** Electoral Services produce an annual plan with an associated risk assessment and also a separate risk register for individual electoral registration.	**Agreed management action:** Agreed.

The individual electoral registration risk register provided during the audit was dated September 2013. Although high level service risks were recorded and regularly reviewed through project server, there was no documented evidence to demonstrate that the individual electoral registration risk register or the associated risk assessment were subject to regular review, ensuring that all risks and associated mitigating actions are appropriately reviewed by management. Electoral Commission guidance for Electoral Registration Officers requires the risk register to be kept under regular review. The Council's own risk management strategy requires services managers to consider the risks to achieving their objectives at least quarterly.	
Recommendation 3: Electoral Services should retain evidence to demonstrate that the risks to achieving their objectives are considered by management at least quarterly, in line with the Council's risk management strategy and Electoral Commission guidance.	
Risk exposure if not addressed: • Senior Management are unaware that service risks have escalated and Electoral Services fails to fulfil its statutory duties.	**Responsible manager for implementing:** **Electoral Services Officer** **Date to be implemented:** **31 January 2017**

Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	The controls tested are being consistently applied and no weaknesses were identified. Recommendations, if any, are of an advisory nature in context of the systems and operating controls & management of risks.
Reasonable	There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.	Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently developed. Recommendations are no greater than medium priority.
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk.	There is an unsatisfactory level of internal control in place as controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified. Recommendations may include high and medium priority matters for address.
Limited / None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	Significant non-compliance with basic controls which leaves the system open to error and/or abuse. Control is generally weak/does not exist. Recommendations will include high priority matters for address. Some medium priority matters may also be present.

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are three levels of audit recommendations used; high, medium and advisory, the definitions of which are explained below.

		Definition:
High	●	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	●	Some risk exposure identified from a weakness in the system of internal control
Advisory	●	Minor risk exposure / suggested improvement to enhance the system of control

# Audit Committee	Agenda Item: **A.6**

Meeting Date:	22 December 2016
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref:KD21/16
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2017/18
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD42/16

Purpose / Summary:

This report sets out the Council's Treasury Management Strategy Statement for 2017/18, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2017/18 are also incorporated as part of the Statement as are the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Recommendations:

Members of the Audit Committee are asked to note and make comments on the proposed Treasury Management Strategy for 2017/18.

CARLISLE CITY COUNCIL
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# Report to Executive	Agenda Item:

Meeting Date:	19 December 2016
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD21/16
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2017/18
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD42/16

Purpose / Summary:

This report sets out the Council's Draft Treasury Management Strategy Statement for 2017/18, in accordance with the CIPFA Code of Practice on Treasury Management. The Draft Investment Strategy and the Draft Minimum Revenue Provision (MRP) Strategy for 2017/18 are also incorporated as part of the Statement. So too are the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

Recommendations:

The Executive is asked to note the Draft Treasury Management Strategy Statement for 2017/18, which incorporates the Draft Investment Strategy and the Draft MRP Strategy, together with the Prudential Indicators for 2017/18 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D.

Tracking

Executive:	**19 December 2016, 18 January 2017**
Overview and Scrutiny:	**5 January 2017**
Audit Committee:	**22 December 2016**
Council:	**7 February 2017**

1. BACKGROUND

1.1 The CIPFA Code of Practice on Treasury Management in Local Authorities was first issued in 1992 and updated in 1996 and 2001. The City Council formally adopted this Code in March 2002 and adopted the 2011 revision in February 2012. The updates made are minor, and centre around the changes in housing finance, Localism Act and the introduction of General Powers of Competence.

1.2 Under the requirements of the revised Code, the Council will receive each year the following reports:-

- Annual strategy and plan in advance of the year
- A mid year review
- Annual report after its close.

2. TREASURY MANAGEMENT STRATEGY STATEMENT

2.1 As required under the Code, the Treasury Management Strategy Statement for 2017/18, which also incorporates both the Investment Strategy for that year and the Minimum Revenue Strategy, is set out in **Appendix A**. The schedule of approved investment vehicles is contained in **Appendix B** and **Appendix C** includes a summary of current economic forecasts on interest rates that have been utilised in preparing the Strategy.

2.2 Also included within Appendix A are the **Prudential Indicators** that must be determined under the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements came into operation on 1 April 2004 under the provisions of the Local Government Act 2003. Part 1 of the Act allows a local authority to borrow money for any purpose that is within its control or for the purposes of the prudent management of its financial affairs. The main purpose for borrowing money is to fund capital expenditure although some short-term borrowing is permitted to cover temporary cash flow needs.

2.3 Since 1 April 2004 there has been no statutory limit to the amount that can be borrowed. There is, however, a requirement for full compliance with CIPFA's Prudential Code; the key objectives of which are to demonstrate that the proposed capital investment plans have been assessed by the Council as affordable, prudent and sustainable. Section 3(1) of the Act puts a duty on the Council to determine before the start of the financial year and keep under review the maximum amount that it can afford to borrow. This amount is called the **Authorised Limit** and is discussed in Appendix A.

2.4 The Prudential Indicators will be monitored via the quarterly Treasury Management monitoring reports.

3. CONSULTATION

3.1 The Council has appointed Capita Asset Services Treasury Services as its Treasury Advisers and they have been involved in the Strategy and proposals contained within this report.

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

4.1 The Executive is asked to note the Draft Treasury Management Strategy Statement for 2017/18, which incorporates the Draft Investment Strategy and the Draft MRP Strategy, together with the Prudential Indicators for 2017/18 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

5.1 To ensure the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact Officer: **Steven Tickner** **Ext: 7280**

Appendices attached to report:
Appendix A – Treasury Management Strategy Statement
Appendix B – Approved Investment Instruments
Appendix C – Interest Rate Forecasts
Appendix D – Treasury Management Policy Statement

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Economic Development – not applicable

Governance – The Council has a fiduciary duty to manage its resources effectively for the benefit of its area and the delivery of its services. Treasury Management is an important part of this function and it is appropriate that the Council has a strategy and takes account of the available specialist internal and external advice. The Treasury Management Strategy forms part of the Budget and Policy framework and, therefore, ultimately requires approval by Council.

Resources – contained within the report.

Draft Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Statement

Carlisle City Council

2017/18

1. INTRODUCTION

1.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next 3 years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act and included as paragraph 9 of this report); these set out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009 and 2011.

1.4 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) was adopted by this Council in February 2012.

1.5 The suggested strategy for 2017/18 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury consultants. The strategy covers the following issues:

- Treasury limits in force that will limit the treasury risk and activities of the Council;
- Prudential and Treasury Indicators;
- Current treasury position;
- Borrowing requirement;
- Prospects for interest rates;
- Borrowing strategy considerations;
- Debt rescheduling opportunities.
- Investment Strategy
- Minimum Revenue Provision Strategy

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

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future

2. TREASURY LIMITS 2017/18 TO 2019/20

2.1 It is a statutory duty, under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount determined is termed the 'Affordable Borrowing Limit'.

2.2 The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit. This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future council tax levels is 'acceptable'. It is important to understand, however, that the Indicators themselves, which are set out in paragraph 5, do not have an inherently right or wrong answer. They are not intended as comparator information between different authorities but are designed to support and record local decision making.

3. USE OF TREASURY CONSULTANTS

3.1 The authority has, like most other authorities, employed treasury advisers for specialist advice and assistance for many years. In the case of this authority, this role has long been fulfilled by Capita Asset Services Treasury Services.

3.2 Capita Asset Services provide specialist advice on both borrowing and investment matters. They also supply other relevant information and hold regular client seminars which help provide up to date training in what is an important and continually changing field. That said, it is important to recognise that responsibility for all treasury matters lies solely with the City Council and this responsibility is not delegated to Capita Asset Services or any other third party. The Council has regard to the advice and information supplied by Capita Asset Services along with advice and information from a variety of other sources. Such advice is valued and the authority is in frequent contact with Capita Asset Services but this does lessen the ultimate responsibility of the City Council in dealing with treasury matters and taking relevant decisions.

4. CURRENT PORTFOLIO POSITION

The Council's treasury portfolio position at 30 November 2016 comprised:

Table 1		Principal £m	£m	Ave Rate %
Fixed Rate Funding	PWLB	0		
	Market	15.0	15.0	8.76
Variable Rate Funding	PWLB	0		
	Market	0	0	0.00
Other Long Term Liabilities			0	0.00
Gross Debt			**15.0**	**8.76**
Total Investments			**23.3**	**1.13**

5. PRUDENTIAL AND TREASURY INDICATORS 2017/18 - 2019/20

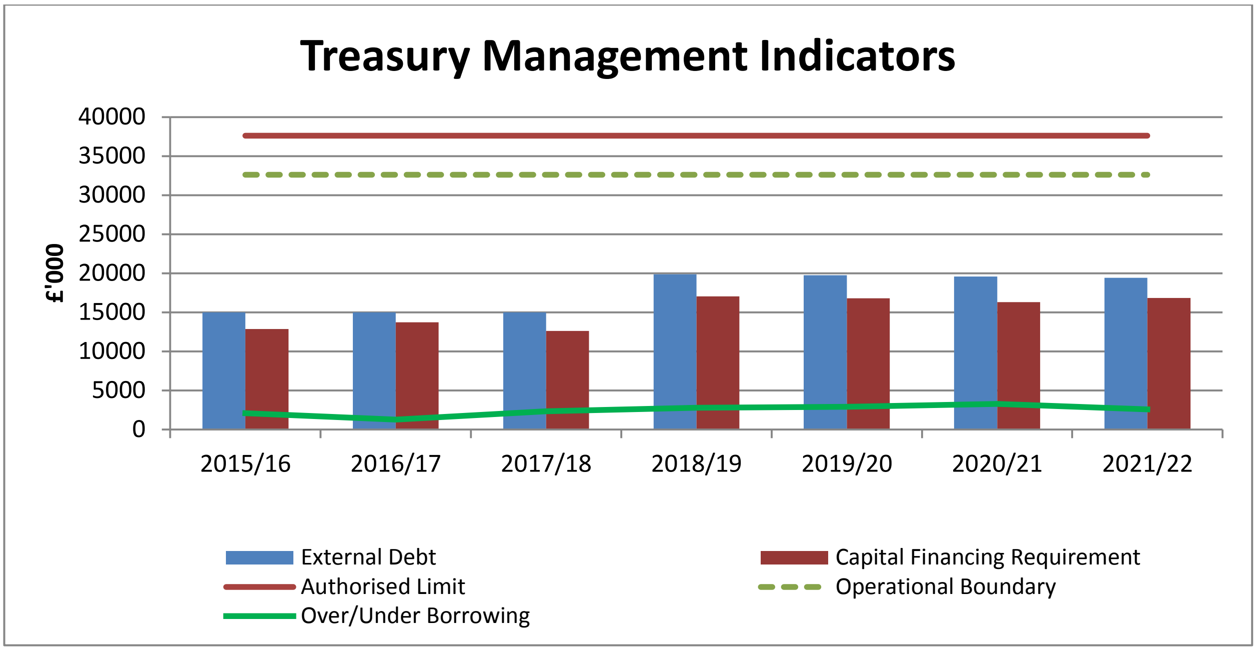
5.1 The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2017/18 to 2019/20. The Council has ensured that future years' capital programmes have been set in accordance with the principles contained within the City Council's Capital Strategy and Asset Management Plan.

PRUDENTIAL INDICATOR AFFORDABILITY INDICATORS	2015/16 actual £000	2016/17 revised estimate £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000
Capital Expenditure	7,969	10,515	3,182	7,463	2,478
Ratio of financing costs to net revenue stream	11.74%	12.81%	13.58%	14.61%	15.48%
Net borrowing requirement in year	0	0	0	5,000	0
Capital Financing Requirement as at 31 March	12,897	13,741	12,645	17,069	16,803
Annual change in Cap. Financing Requirement	3,596	844	(1,096)	4,424	(266)
Incremental impact of capital investment decisions Increase in council tax (band D) per annum (£)	4.55	1.05	(1.36)	5.48	-0.33

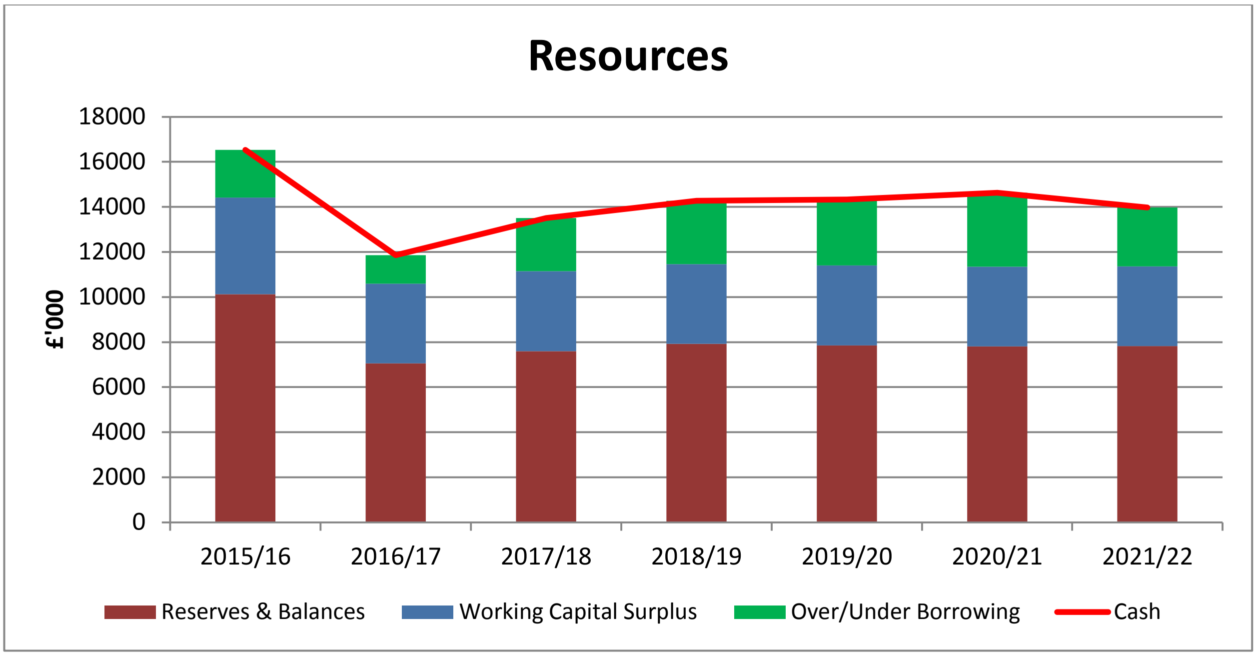
5.2 The estimates of financing costs include both current capital commitments and the draft capital programme as presented elsewhere on the agenda. In the case of this authority, it is assumed that any support from central government towards the costs of capital expenditure programmes in the next three years will be by means of a capital grant.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2015/16 actual £000	2016/17 revised estimate £000	2017/18 estimate £000	2018/19 estimate £000	2019/20 estimate £000
Authorised Limit for External Debt:					
- Borrowing	37,500	37,500	37,500	37,500	37,500
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	**37,600**	**37,600**	**37,600**	**37,600**	**37,600**
Operational Boundary for external debt:					
- Borrowing*	32,500	32,500	32,500	32,500	32,500
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	**32,600**	**32,600**	**32,600**	**32,600**	**32,600**
Upper Limit for fixed interest rate exposure: - Net principal re. Fixed rate borrowing/investments	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit for variable rate exposure - Net principal re. Variable rate borrowing/investments	**100%**	**100%**	**100%**	**100%**	**100%**
Upper Limit for total principal sums invested for over 1 year	**50%**	**50%**	**50%**	**50%**	**50%**

5.3 The graph below shows the level of external debt currently forecast against the Capital Financing Requirement. This shows that the Council will be in an over borrowed position for the next five years with actual debt carried being higher than the CFR.



5.4 This over-borrowed position is reflected in the level of cash resources the Council is anticipated to hold over the same period. This shows that the level of cash held as investments is as a result of the level of cash-backed reserves, working capital surpluses and the amount of over borrowing being carried.



Maturity structure of any fixed rate borrowing during 2016/17	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

5.5 In respect of its external debt, it is recommended that the Council approves the above authorised limit for its total external debt, gross of investments, for the next three financial years. The limit separately identifies borrowing from other long term liabilities such as finance leases. The Council will be asked to approve these limits and to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities in accordance with option appraisal and best value for money. Any such change would be reported to the next available Council meeting.

5.6 The authorised limit is consistent with the authority's current commitments, plans and proposals for capital expenditure and it's financing. **However the overall authorised limit is not to be exceeded without prior Council approval.**

5.7 The operational boundary is based upon the same estimates as the authorised limit but without the headroom included within the authorised limit to allow for unusual cash movements. As with the authorised limit, the Council is asked to delegate authority to the Chief Finance Officer to effect movement between the separately agreed limits for borrowing and other long-term liabilities. The operational boundary can be exceeded in exceptional circumstances without prior Council approval providing that it remains within the authorised limit.

5.8 The City Council's current limits for maximum levels of fixed and variable rate funding are both 100% and this is as recommended by the treasury advisers.

5.9 Prudence and Sustainability
The City Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and adopted the 2011 version of the Code in February 2012.

The current minimum level of specified investments is set at 50%. It is recommended that this level be continued into 2017/18.

5.10 Monitoring of the Prudential Indicators will be incorporated into the quarterly Treasury Transaction reports presented to the Executive.

6. PROSPECTS FOR INTEREST RATES

6.1 The Council has appointed Capita Asset Services Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives the Capita Asset Services view although it should be noted that there are some very differing views among the various economic forecasters regarding the future pattern of these rates:

	Dec'16	Mar'17	Jun'17	Sep'17	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%

6.2 The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

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

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

Apart from the above uncertainties, **downside risks to current forecasts** for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Major national polls:
- Italian constitutional referendum 4.12.16;
- Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
- Dutch general election 15.3.17;
- French presidential election April/May 2017;
- French National Assembly election June 2017;
- German Federal election August – October 2017.
- A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
- Weak capitalisation of some European banks, especially Italian.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.

- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

- Investment returns are likely to remain low during 2017/18 and beyond;
- Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. 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 capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost - the difference between borrowing costs and investment returns.

7. BORROWING STRATEGY

7.1 The Capita Asset Services forecast for the PWLB new borrowing rate (repayment at Maturity) is as follows:

	Dec'16	Mar'17	Jun'17	Sep'17	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19
5 Yr PWLB	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%
10Yr PWLB	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%
25Yr PWLB	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
50Yr PWLB	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%

7.2 The Council is, as stated above, not currently expecting to have any recourse to borrowing externally in 2017/18 and although significant capital expenditure on new leisure facilities is anticipated in 2018/19 with this to be funded from borrowing, the use of internal resources, i.e. surplus investment balances may be more affordable in the short term with low investment returns forecast until 2019/20. Approval was given as part of the Capital Strategy approved in September 2016, for the Section 151 Officer to undertake external borrowing at a time it was felt to be most appropriate, taking into account forecasts for potential rises in interest rates and utilising any favourable borrowing rates. It is anticipated that a combination of capital grants and internal resources will be used to meet most, if not all, capital commitments in the new financial year. Nevertheless, the use of external borrowing is planned for future years. This is particularly the case in respect of future major capital projects which are planned to require an element of external borrowing as a part of the total funding package. The Chief Finance Officer will therefore continue to monitor the interest rate market as regards borrowing opportunities as well as in respect of investment policy.

7.3 Policy on borrowing in advance of need

7.3.1 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. As part of the Capital Strategy approved by Council in September, approval in principle was given to borrowing in advance of need for the re-financing of the stock issue loan if interest rates were favourable and would be cost effective over the term of any new loan.

7.4 External v. Internal Borrowing

7.4.1 This Council currently has a difference between gross debt and net debt (after deducting cash balances). This is shown in the graphs at 5.3 and shows an over-borrowed position with the surplus invested in cash balances.

7.4.1 The general aim of this treasury management strategy is to reduce the difference between the two debt levels over the next three years in order to reduce the credit risk incurred by holding investments. However, measures taken in the last year have already reduced substantially the level of credit risk (see paragraph 9) so another factor which will be carefully considered is the difference between borrowing rates and investment rates to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

7.4.2 The next financial year will continue to be one of historically abnormally low Bank Rate. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.

7.4.3 Over the next three years, investment rates are therefore expected to be below long term borrowing rates and so value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing). This would maximise short term savings.

7.4.4 However, short term savings by avoiding new long term external borrowing in 2017/18 will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be significantly higher.

7.4.5 Against this background caution will be adopted with the 2017/18 treasury operations. The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to the appropriate decision making body at the next available opportunity.

8. DEBT RESCHEDULING

8.1 There is unlikely to be much scope for debt rescheduling in either the current financial year or in 2017/18. Only one substantial sum of long term debt remains on the authority's books. This is the £15m stock issue which dates from 1995 and is not due to mature until 2020. The current view is that a premature repayment is not recommended because of the size of the premium payment that would be incurred. The position remains under review, however, if circumstances should change and may become more favourable the closer it gets to natural maturity dates.

9. INVESTMENT STRATEGY

9.1 Principles

9.1.1 The City Council will have regard to CLG's Guidance on Local Government Investments and the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").

9.1.2 The Council's investment priorities are:

- The security of capital
- The liquidity of its investments

9.1.3 The Council will also endeavour to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Security of principal will always be the primary consideration. The risk appetite of this Council is low in order to give priority to security of its investments.

9.1.4 The borrowing of monies purely to invest or to on lend and make a return is unlawful and the Council will not engage in any such activity. Any borrowing in advance of need will only be undertaken after a full financial assessment of the costs and benefits of drawing down any such funding.

9.1.5 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non Specified' Investment categories. Individual counterparty limits will be set through the Council's Treasury Management Practices – Schedules which will be authorised by the Chief Finance Officer.

9.1.6 Total investments with any one counterparty or group currently will not exceed £4m to ensure a reasonable spread of investments in terms of counterparties. Investments with HSBC shall not exceed £6m. However, Lloyds group and RBS Group will not exceed £8m as these establishments are currently funded by a majority shareholding by the UK Government.

9.1.7 This Annual Investment Strategy states which instruments the Council may use for the prudent management of its treasury balances during the financial year under the headings of **Specified Investments** and **Non Specified Investments**. These are listed in **Appendix B**. Essentially, specified investments are those with a maturity of up to one year which have a suitable credit rating or are otherwise guaranteed e.g. by HM Government. All other investments are non-specified.

9.1.8 Credit ratings will be used as one means of assessing the credit quality of rated counterparties although it is recognised that reliance should not be placed on credit rating alone. The minimum short term rating for a bank will be either F1 (Fitch) or P1 (Moody's). For a rated UK building society, a similar rating would be anticipated although the proposed criteria do give authority to the Chief Finance Officer to approve, if considered appropriate, the addition of other building societies with both a F2 (Fitch) and a P2 rating (Moody's). This is still a high quality credit rating but recognises the very strong record of the UK building society movement over many years in protecting the capital of all depositors. The Strategy already allows discretion to the Chief Finance Officer to include as counterparties non credit rated building societies whose assets total at least £1bn. There are some six societies in this category. Any such investment would be subject to an assessment of such a society as a suitable counterparty. There are, for example, good reasons why many building societies do not have a credit rating but there are other means of making an appropriate financial judgment.

9.1.9 Following approval in 2014/15, the Council now makes use of the CCLA Property Fund for longer term investments, and at present has invested £3m into this fund. The anticipated yield from this investment is assumed to be 4.75% in the MTFP.

9.1.10 Any investments with institutions that do not have a credit rating e.g. many smaller building societies or investments for periods over one year would be classed as non specified investments**. However it is important to stress that both the specified and non specified investments in Appendix B are perfectly legal instruments in which the City Council may invest.** This includes for example many building societies as only the larger societies have an individual credit rating although there are other criteria by which a judgement can be made as to their credit quality.

9.1.11 The minimum percentage of its overall investments that the Council will hold in specified investments is 50%.

9.2 Investment Strategy

9.2.1 With bank base rate at 0.25% and not generally expected to fluctuate significantly from this level until at least the middle of 2019, investment conditions will continue to be difficult. The view of Capita Asset Services is that bank rate will be at the following levels:

	Dec'16	Mar'17	Jun'17	Sep'17	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%

9.2.2 Clearly, these projections can only be best estimates at this stage and the risk is to the downside i.e. if the economic recovery is slower than expected, then interest rates are like to rise more slowly. At this stage, the budget for 2017/18 has assumed an average yield of 0.46% on its investments (excluding CCLA Property Fund) in the next financial year. This allows for the fact that there are some higher value, longer term investments placed. This forecast will, however, be reviewed further during the budget cycle. Every 0.1% fall in average yield will cost the Council approximately £35,000. The anticipation of interest yielded from investing in the Property Fund is estimated at 4.75% in the MTFP.

9.2.3 In this situation, the authority will continue to try and seek value in its investments by placing them out for longer periods where possible e.g. six months to one year, to meet future cash flow needs, subject to retaining some sums for shorter periods to meet liquidity requirements and also to take advantage of any particular investment opportunities. Much of the basic framework of the authority's cash flows is already known for the next financial year and use will be made of this information in determining investment periods. The money market is monitored daily and use will be made of a plurality of sources of financial information in determining investment opportunities. All investments will be placed only with institutions that conform to the criteria set out in the Investment Strategy.

9.2.4 The investment income budget will, as ever, be carefully monitored in the coming financial year and reported to members via the regular Treasury Transactions reports.

9.3 End of Year Investment Report

In line with current practice, the Council will receive a report on its investment activity as part of the Annual Treasury Report at the end of the financial year. It should also be noted that best practice now requires a mid year report on the treasury function. This has long been the practice within the City Council where quarterly reports are presented to the Executive. In addition, the Audit Committee has taken on the role of the 'strategic committee' that oversees treasury matters.

10. THE MINIMUM REVENUE PROVISION STRATEGY

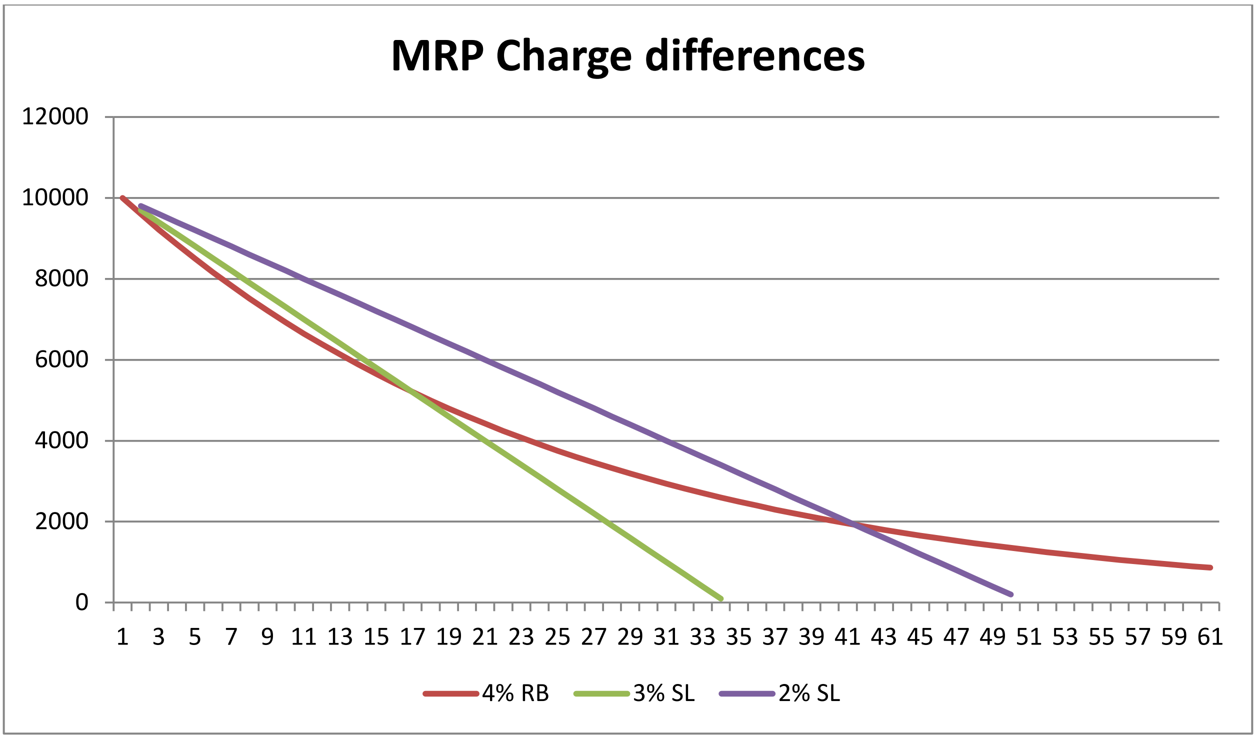
10.1 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09, and will assess their MRP for 2017/18 in accordance with the main recommendations contained within the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.

10.2 No requirement is currently anticipated to undertake any long term borrowing in either 2016/17 or 2017/18 although the authority will need at this stage to keep its options open and there are plans for borrowing to support future capital investment in leisure facilities in 2018/19. This is particularly so if any major capital project requires an element of long term borrowing as part of the overall funding package.

10.3 Notwithstanding this possibility, the City Council is still obliged to make proper provision for the repayment of its outstanding debt. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. land, buildings, vehicles etc. It would usually be impractical to charge the entirety of such expenditure, which is often funded by borrowing, to the revenue account in the year it was incurred. Instead, this is spread over a longer period to try and match the years over which these assets will benefit the community. The manner of spreading these costs is through the Minimum Revenue Provision (MRP). Until recently, the MRP was calculated according to detailed and complex regulations. It is now determined under Guidance.

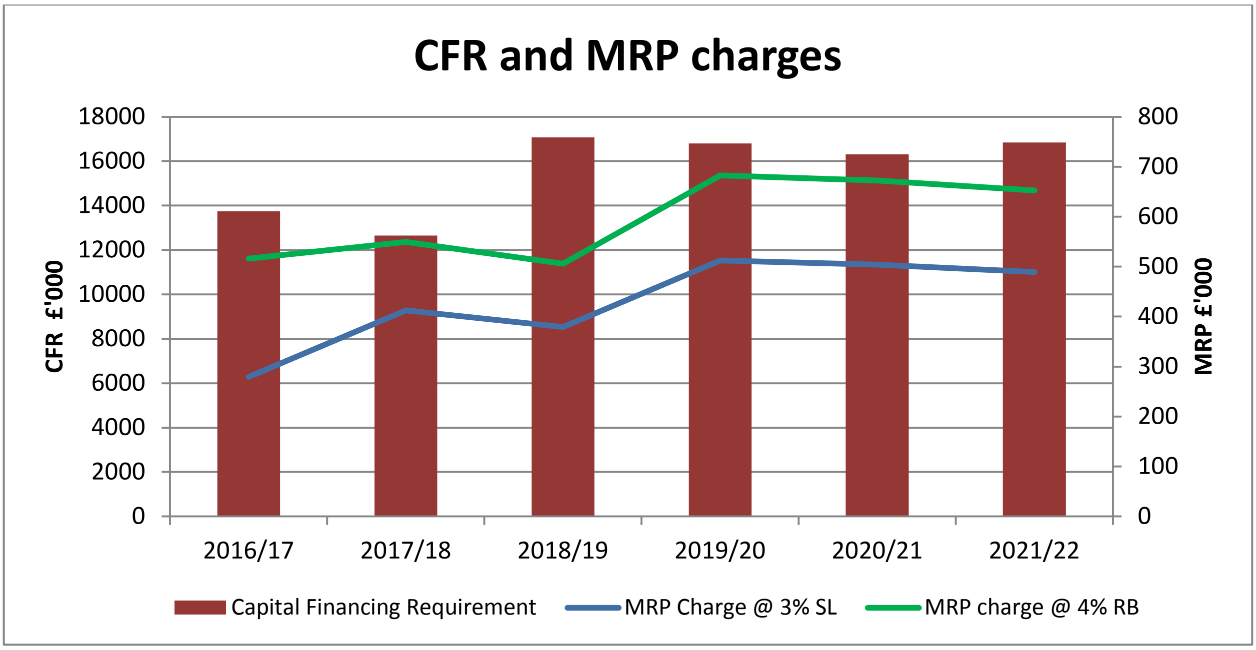
10.4 The only statutory duty that a local authority has under the new MRP regime is *'to determine for the current financial year an amount of minimum revenue provision that it considers to be prudent'*. The Guidance, which authorities must 'have regard to' provides four options for calculating the MRP as set out below. It is important to realise, however, that there is no obligation to follow any of these options and that it is up to each authority to decide upon the most appropriate method of making a prudent provision, having had regard to the Guidance.

10.5 With the guidance in mind, the Council commissioned Capita Asset Services to review its MRP policy. This was completed earlier in 2016 and the recommendation from the report is to move from a 4% reducing balance method of MRP charge to a 3% or 2% Straight Line method. One of the points highlighted in the report is that a 4% reducing balance method, never actually extinguishes the debt liability entirely, and debt is continued to be repaid even some 70 years later. Switching to a straight line method of applying MRP charges would match the debt liability to an average asset life and would see the liability repaid at a definite point in time. The differences are shown in the illustrative chart below:



10.6 A 3% charge would more reflect an average life of Council assets of 33 years and since it has a mix of short life assets such as vehicles (typical life 5-10 years) and long life assets such as land and buildings (typical life 40-50 years) this is deemed to be a prudent approach to take.

10.7 In 2016/17, the opening CFR was £12.897million which will result in an MRP of £516,000 (4% of the CFR) in this financial year. The chart below shows the anticipated CFR in future years as well as the MRP charge based on a 3% straight Line method.


CFR and MRP charges
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
CFR £'000
800
700
600
500
400
300
200
100
0
MRP £'000
2016/17
2017/18
2018/19
2019/20
2020/21
2021/22
Capital Financing Requirement
MRP Charge @ 3% SL
MRP charge @ 4% RB

APPENDIX B

APPROVED INVESTMENT INSTRUMENTS

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. **A maximum of £4m of the investment portfolio** will be placed with any one counterparty or banking group, or a maximum of **£8m of the investment portfolio for Lloyds Group banks and RBS Group Banks and £6m with HSBC Bank (with £2m being limited to investments less than 1 month in duration)** whether by way of specified or non-specified investments except for building societies without a credit rating where **the limit will be £2m.**

Fixed Term Deposits with fixed rates and maturities:-	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Chief Finance Officer	In-house
Term Deposits – Non UK Banks	Sovereign Rating AAA Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Chief Finance Officer	In-house
Fixed term deposits with variable rate and variable maturities: -	**Minimum 'High' Credit Criteria**	**Use**
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or PI (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -	**Minimum 'High' Credit Criteria**	**Use**
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Non-Specified Investments:

A maximum of 50% will be held in aggregate in non-specified investments

1. Maturities of ANY period.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with non credit rated UK Building Societies	As approved by the Chief Finance Officer. Minimum asset base of £1bn	In-house	50	364 days

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moodys)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moodys)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	**Minimum Credit Criteria**	**Use**	**Max % of total investments**	**Max. maturity period**
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

3. Approved Property Funds

	Use	Max % of total investments	Max. maturity period
CCLA Property Fund	In-house as determined by the Chief Finance Officer	50	No maximum

The Council uses Fitch (primarily) or Moody's ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Sector 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.

APPENDIX C

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by Capita Asset Services and Capital Economics. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views. Revised forecasts will be provided when they become available.

1. INDIVIDUAL FORECASTS

Capita Asset Services Interest Rate View	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.80%	1.90%	1.95%	2.05%	2.20%	2.30%	2.40%	2.60%	2.80%	3.20%	3.30%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
Capital Economics	2.30%	2.35%	2.45%	2.50%	2.55%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.60%	3.70%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
Capital Economics	2.90%	3.00%	3.05%	3.10%	3.15%	3.25%	3.30%	3.35%	3.45%	3.55%	3.75%	4.15%	4.35%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Capital Economics	2.80%	2.85%	2.95%	3.00%	3.05%	3.10%	3.15%	3.20%	3.30%	3.50%	3.70%	4.10%	4.20%

TREASURY MANAGEMENT POLICY STATEMENT

Carlisle City Council defines treasury management as:

> "The management of the organisation's 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."

Carlisle City Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the authority.

Carlisle City Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

CARLISLE
CITY COUNCIL
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# Report to Audit Committee	Agenda Item: **A.7**

Meeting Date:	22 December 2016
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	Yes
Public / Private	Public

Title:	TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD34/16

Purpose / Summary:
This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2016/17 and budgetary projections for 2017/18 to 2021/22, was received by the Executive on 21 November 2016. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter although it will be noted from the report that this was a relatively quiet period in treasury terms. The Committee is otherwise asked to note the report.

Recommendations:
That the report be noted.

Tracking

Executive:	**22 December 2016**

Report to Executive	Agenda Item:

Meeting Date:	21 November 2016
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD21/16
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD34/16

Purpose / Summary:

This report provides the regular quarterly report on Treasury Transactions together with an interim report on Treasury Management as required under the Financial Procedure Rules.

The report also discusses the City Council's Treasury Management estimates for 2017/18 with projections to 2021/22. Also included is information regarding the requirements of the Prudential Code on local authority capital finance.

Recommendations:

That this report be received and that the projections for 2017/18 to 2020/21 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	**21 November 2016**
Overview and Scrutiny:	**6 December 2016**
Audit Committee:	**22 December 2016**
Council:	**n/a**

1. INTRODUCTION

1.1 The purpose of this report is to inform Members on various Treasury Management issues. The report is set out as follows:

(i) **Appendix A** sets out the schedule of Treasury Transactions for the period to September 2016

- **Appendix A1 –** Treasury Transactions July to September 2016
- **Appendix A2 –** Investment Transactions July to September 2016
- **Appendix A3 –** Outstanding Investments at September 2016 and

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2016/17:

- **Appendix B1 – Prudential Code background**
- **Appendix B2 – Prudential Indicators**

(iii) **Appendix C** sets out the base Treasury Management estimates for 2017/18 with projections to 2021/22 which are included as potential budget pressures elsewhere on the agenda. Treasury Management projections are reviewed annually to ensure that current interest rate forecasts are updated and that current and future spending implications are built into the cash flow forecasts model. As interest rates are not forecast to rise in the medium term, revisions have been made to the interest achievable. Average cash balances will need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and this will adjust the final pressure/saving requirement from treasury management.

2. CONSULTATION

2.1 Consultation to Date.
None.

2.2 Consultation proposed.
The Resources Overview and Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 That this report be received and that the projections for 2017/18 to 2021/22 be incorporated into the budget reports elsewhere on the agenda.

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 To ensure that the Council's investments are in line with the appropriate policies including the Treasury Management Strategy Statement.

Contact Officer:	**Steven Tickner**	**Ext: 7280**
Appendices attached to report:	**Appendix A1 – Treasury Transactions July to September 2016** **Appendix A2 – Investment Transactions July to September 2016** **Appendix A3 – Outstanding Investments at 30 September 2016** **Appendix B1 – Prudential Code background** **Appendix B2 – Prudential Indicators** **Appendix C – Treasury Projections 2017/18 – 2021/22**	

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Deputy Chief Executive – not applicable

Economic Development – not applicable

Governance – The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

Resources – Contained within the report

APPENDIX A1

TREASURY TRANSACTIONS
JULY 2016 to SEPTEMBER 2016

1. LOANS (DEBT)

1.1 Transactions July to September 2016

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	0	0
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	0		**0**	

This provides a summary of any loans that have been raised or repaid, analysed by type, since the previous report. New procedures have been put in place to map the cash flow more accurately to enable better forecasting and to limit the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at September 2016

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	13,300
	15,013,300

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 30 September 2016 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	13,300
			13,300

1.5 Interest Rates

Capita are forecasting a further reduction in interest rates to 0.10% before the end of the year with rates not rising again until Quarter 2 of 2018.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	29,725,000	0.38 - 0.62	26,230,000	0.38 - 0.80
	29,725,000		**26,230,000**	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 30 September 2016.

3 REVENUES COLLECTED

To: 30 September 2016		Collected £	% of Amount Collectable %
2016/17	Council Tax	29,944,677	56.27
	NNDR	26,320,394	57.94
Total		**56,265,072**	**57.04**
2015/16	Council Tax	29,418,449	56.99
	NNDR	25,123,526	57.30
Total		**54,541,975**	**57.13**
2014/15	Council Tax	28,505,557	57.14
	NNDR	24,614,168	57.76
Total		**53,119,724**	**57.43**

Collection levels have been fairly stable in each of the past three years.

4 BANK BALANCE

At 30 September 2016 £48,775.43 in hand.

This records the Council’s bank balance at the end of the last day covered by the report.

5 PERFORMANCE ON TREASURY MANAGEMENT TRANSACTIONS TO SEPTEMBER 2016

April –September 2016

	Estimate £000	Actual £000	Variance £000
Interest Receivable	(128)	(150)	(22)
Interest Payable	191	190	(1)
Less Rechargeable	0	0	0
	191	**190**	**(1)**
Principal Repaid	673	516	(157)
Debt Management	15	12	(3)
NET BALANCE	**751**	**568**	**(183)**

The estimate column is the profiled budget to 30 September 2016.

Interest receivable is still exceeding budgeted projections even though average investment returns have fallen slightly against that forecast when the budget was set. This fall in returns is partly due to the reduction in bank base rates 0.25% although investment rates have not yet seen the same 0.25% reduction. The CCLA property investment saw a decrease in the capital value to the end of June, but has steadied since in the second quarter with the valuation remaining at a similar level. Dividends and yield remain at over 4.89%

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO SEPTEMBER 2016

	£			£
Standard Life	2,000,000.00		Bank of Scotland	1,000,000.00
Federated Investors	3,750,000.00		Barclays	1,000,000.00
Bank of Scotland	1,000,000.00		Handelsbanken	2,050,000.00
Barclays	1,000,000.00		Handelsbanken	1,650,000.00
Handelsbanken	1,700,000.00		Federated Investors	145,000.00
Handelsbanken	2,100,000.00		Nationwide	1,000,000.00
Nationwide	1,000,000.00		Standard Life	2,290,000.00
Standard Life	4,000,000.00		Handelsbanken	100,000.00
Federated Investors	1,045,000.00		Federated Investors	900,000.00
Handelsbanken	680,000.00		Standard Life	115,000.00
Handelsbanken	2,170,000.00		Standard Life	165,000.00
Handelsbanken	1,150,000.00		Standard Life	1,700,000.00
HSBC	4,375,000.00		Standard Life	190,000.00
Federated Investors	1,375,000.00		Standard Life	1,830,000.00
HSBC	415,000.00		Federated Investors	1,325,000.00
HSBC	465,000.00		Handelsbanken	3,645,000.00
Bank of Scotland	1,500,000.00		Handelsbanken	355,000.00
			Federated Investors	50,000.00
			Federated Investors	1,165,000.00
			Federated Investors	1,105,000.00
			HSBC	1,220,000.00
			Federated Investors	1,730,000.00
			Bank of Scotland	1,500,000.00
TOTAL	**29,725,000**			**26,230,000**
			Bfwd	19,821,180
			Paid	29,725,000
			Repaid	26,230,000
			Total	**23,316,180**
			CCLA Change	**-118,521**
			Total	**23,197,659**

Outstanding Investments as at 30 September 2016

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
O	HSBC Bank Plc	4,035,000	0.40%					0
R	Bank oF Scotland Plc	2,000,000	0.80%	01/04/2016	03/10/2016	3	185	8,110
R	Barclays Bank Plc	1,000,000	0.64%	05/04/2016	05/10/2016	5	183	3,209
R	Bank oF Scotland Plc	1,000,000	0.80%	07/04/2016	07/10/2016	7	183	4,011
R	Bank oF Scotland Plc	1,500,000	0.80%	15/04/2016	14/10/2016	14	182	5,984
R	Nationwide Building Society	1,000,000	0.71%	19/05/2016	21/11/2016	52	186	3,618
R	Nationwide Building Society	1,000,000	0.71%	24/05/2016	23/11/2016	54	183	3,560
R	Barclays Bank Plc	1,000,000	0.63%	27/05/2016	27/11/2016	58	184	3,176
R	Bank oF Scotland Plc	1,000,000	0.80%	31/05/2016	30/11/2016	61	183	4,011
R	Nationwide Building Society	1,000,000	0.66%	21/06/2016	21/12/2016	82	183	3,309
R	Nationwide Building Society	1,000,000	0.46%	22/07/2016	22/12/2016	83	153	1,928
R	Barclays Bank Plc	1,000,000	0.59%	29/06/2016	03/01/2017	95	188	3,039
R	Bank oF Scotland Plc	1,000,000	0.80%	04/04/2016	04/01/2017	96	275	6,027
R	Barclays Bank Plc	1,000,000	0.51%	05/07/2016	05/01/2017	97	184	2,571
R	Bank oF Scotland Plc	1,500,000	0.65%	30/09/2016	30/03/2017	181	181	4,835
R							0	0
	Total Investments	**£20,035,000**	**0.63%**			**63**	**176**	**£57,387**

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) [1]	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	**3,162,659**	**4.89%**	31/07/2014	3,000,000	(163,104)	2,836,896	**162,659**

1. Entry Costs were charged against Treasury Management Budget in 2014/15

N.B Interest is recognised in the appropriate financial year in which it is due.

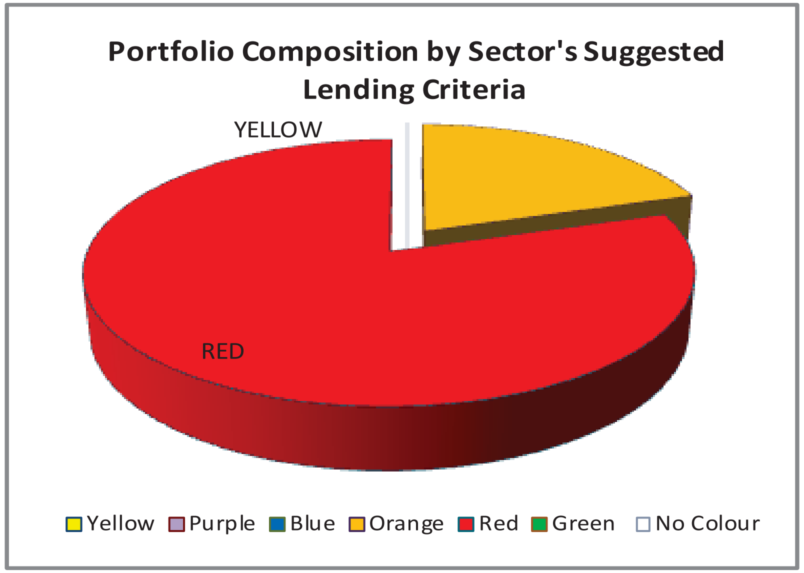
The category colour represents the duration of investment recommended by Sector, the Council's Treasury Advisors. Those investments with No colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	Weighted Average Rate of Return WARoR	Weighted Average Days to Maturity WAM	Weighted Average Dats to Maturity from Execution WAM at Execution
Yellow	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Purple	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Blue	0.00%	-	0.00%	-	0.00%	0.00%	0	0
Orange	20.14%	4,035,000	100.00%	4,035,000	20.14%	0.40%	0	0
Red	79.86%	16,000,000	0.00%	-	0.00%	0.69%	62	187
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.00%	**20,035,000**	**23.88%**	**4,035,000**	**20.14%**	**0.63%**	**75**	**132**

Risk Score for Colour (1 = Low, 7 = High)	Sep 2016	Jun 2016	Mar 2016	Sep 2015
1	0.0	0.3	0.2	0.3
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	0.8	0.0	0.2	0.0
5	4.0	0.9	3.8	3.5
6	0.0	3.2	0.0	0.0
7	0.0	0.0	0.0	0.0
	4.8	**4.2**	**4.2**	**3.8**
Normal' Risk Score	**3.5**	**3.5**	**3.5**	**3.5**

	Capita's Suggested Criteria
Y	Up to 5 Years
P	Up to 2 Years
B	Up to 1 Year
O	Up to 1 Year
R	Up to 6 months
G	Up to 3 months
N/C	No Colour



APPENDIX B1

THE PRUDENTIAL CODE AND PRUDENTIAL BORROWING

1. Introduction

1.1 The Local Government Act 2003 brought about a new borrowing system for local authorities known as the Prudential Code (the Code). This gives to Councils much greater freedom and flexibility to borrow without government consent so long as they can afford to repay the amount borrowed.

1.2 The aim of the Code is to support local authorities when making capital investment decisions. These decisions should also be in line with the objectives and priorities as set out in the Council's Corporate Plan.

1.3 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable, or if appropriate, to demonstrate that they may not be. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. These objectives are consistent with and support local strategic planning, local asset management planning and proper option appraisal. They also encourage sound treasury management decisions.

2. Prudential Indicators

2.1 To demonstrate that the Council has fulfilled these objectives, the Code sets out indicators that must be used. It is for the council to set any indicative limits or ratios. It is also important to note that these indicators are not designed to be comparative performance figures indicators but to support and record the Council's decision making process.

2.2 Appendix B2 sets out the latest performance indicators for the current year.

3. Supported and Unsupported (or Prudential) Borrowing

3.1 Local authorities have always funded a substantial element of their capital programme via borrowing. This continues to be the case but until the introduction of the Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Differing types of government control operated over the years but since 1990 these had been termed credit approvals. The level of an authority's previous years' credit approvals is also included in the revenue support grant (RSG) allocation so that ultimately any borrowing is 'supported' via RSG.

3.2 This element of supported borrowing is still part of the RSG system although the City Council has previously resolved that its capital borrowing would be limited to its level of supported borrowing. In 2016/17 this is estimated to be Nil.

3.3 However, there may be circumstances in which the City Council will wish to undertake some prudential borrowing and the issues surrounding unsupported and supported borrowing are discussed below.

3.4 Authorities are permitted to borrow in excess of their supported borrowing allocation. This is referred to as prudential or unsupported borrowing. This can be undertaken so long as the Council can demonstrate that the revenue consequences of such borrowing (i.e. the cost of the debt) are sustainable, affordable and prudent in the medium to long term.

APPENDIX B2

PRUDENTIAL INDICATORS

Central to the operation of the Prudential code is the compilation and monitoring of prudential indicators covering affordability, prudence, capital expenditure, and treasury management. Set out below are the indicators for 2016/17 to date as detailed in the Treasury Management Strategy Statement for 2016/17.

(a) Affordability

	2016/17 Original Estimate £	2016/17 Revised Estimate £
(i) Capital Expenditure	4,595,000	10,440,000
(ii) Financing Costs		
Total Financing Costs	1,736,000	1,579,000
(iii) Net Revenue Stream		
Funding from Govt Grants/Local Taxpayers	12,235,000	12,235,000
(iv) Ratio of Financing Costs to Net Revenue Stream	14.19%	12.91%
The figures monitor financing costs as a proportion of the total revenue stream from government grants and local taxpayers. The increase in the ratio of financing costs is mainly attributable to the forecast reduction in investment income.		
(v) Incremental Impact on Council Tax	20.91	16.06
This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.		
(vi) Authorised Borrowing Limit	37,600,000	37,600,000
Maximum Level of Borrowing and Other Long term Liabilities	15,013,300	15,013,300
The authorised borrowing limit is determined by Council prior to the start of the financial year. The limit must not be altered without agreement by Council and should not be exceeded under any foreseeable circumstances.		

	2016/17 Original Estimate £	2016/17 Revised Estimate £
(vii) Operational Borrowing Limit	32,600,000	32,600,000
Maximum Level of Borrowing and Other Long term Liabilities	15,013,300	15,013,300
The operational borrowing limit is also determined by Council prior to the start of the financial year. Unlike the authorised limit, it may be breached temporarily due to cashflow variations but it should not be exceeded on a regular basis.		
(viii) Capital Financing Requirement (CFR)	10,800,000	15,649,000
As at 31 March		
The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.		

(b) Prudence and Sustainability

	2016/17 Original £
(i) New Borrowing to Date	0
No Long Term Borrowing has been taken in 2016/17 to date	
(ii) Percentage of Fixed Rate Long Term Borrowing	
at September 2016	100%
(iii) Percentage of Variable Rate Long Term Borrowing	
at September 2016	0%
Prudent limits for both fixed and variable rate exposure have been set at 100%. This is due to the limited flexibility available to the authority in the context of its overall outstanding borrowing requirement.	
(iv) Minimum Level of Investments Classified as Specified	50.00%
Level of Specified Investments as at September 2016	100.00%
As part of the Investment Strategy for 2016/17, the Council set a minimum level of 50% for its specified as opposed to non specified investments. The two categories of investment were defined as part of the Strategy but for the City Council non specified investments will presently refer mainly to either investments of over one year in duration or investments placed with building societies that do not possess an appropriate credit rating. These tend to be the smaller building societies.	

APPENDIX C

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

Set out below are the base treasury management estimates for 2016/17 and 2017/18 with projections to 2021/22

TREASURY MANAGEMENT BUDGET

Carlisle City Council	2016/17 Revised £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Interest Payable	1,319	1,320	1,436	1,433	561	558
Core MRP	516	554	474	623	579	525
Principal Repayments	0	0	0	0	0	0
Debt Management						
Sector	15	15	16	16	16	17
Publications	1	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(23)	(21)	(21)	(21)	(21)	(21)
Total Expenditure	**1,827**	**1,869**	**1,905**	**2,051**	**1,136**	**1,079**
Interest Receivable	(232)	(214)	(236)	(333)	(469)	(582)
Other Interest Recharged	3	3	3	3	3	3
Total Income	**(229)**	**(211)**	**(233)**	**(330)**	**(466)**	**(579)**
Treasury Management Net Expenditure	**1,598**	**1,658**	**1,672**	**1,721**	**669**	**500**
Council Resolution Budget 16/17	**1,734**	**1,471**	**1,684**	**1,559**	**854**	**853**
Difference to Council Resolution Position	**(136)**	**187**	**(12)**	**162**	**(185)**	**(353)**
Cumulative Difference to Council Resolution Position	**(136)**	**51**	**40**	**202**	**17**	**(335)**

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 21 NOVEMBER 2016

EX.105/16 TREASURY MANAGEMENT SEPTEMBER 2016 AND FORECASTS FOR 2017/18 TO 2021/22
(Key Decision – KD.21/16)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.34/16 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2017/18 with projections to 2021/22, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Since interest rates were not forecast to rise in the medium term, revisions had been made to the interest achievable. Average cash balances would need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and that would adjust the final pressure/saving requirement from treasury management. The base Treasury Management estimates for 2017/18 with projections for 2021/22 were set out at Appendix C.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder then formally moved the recommendation set out in the report, which was duly seconded by the Leader.

Summary of options rejected None

DECISION

That Report RD.34/16 be received and the projections for 2017/18 to 2021/22 be incorporated into the Budget reports considered elsewhere on the Agenda.

Reasons for Decision

To receive the report on Treasury Management and refer it as part of the budget process

EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 6 DECEMBER 2016

ROSP.92/16 BUDGET 2017/18

(f) Treasury Management September 2016 and Forecasts for 2017/18 to 2021/22

The Chief Finance Officer submitted report RD.34/16 providing the regular quarterly report on Treasury Transactions, together with an interim report on Treasury Management as required under the Financial Procedure Rules. The report also discussed the City Council's Treasury Management estimates for 2017/18 with projections to 2021/22, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Since interest rates were not forecast to rise in the medium term, revisions had been made to the interest achievable. Average cash balances would need to be amended to reflect revised forecasts for anticipated capital receipts, capital expenditure and use of revenue reserves and that would adjust the final pressure/saving requirement from treasury management. The base Treasury Management estimates for 2017/18 with projections for 2021/22 were set out at Appendix C.

The Executive had on 21 November 2016 (EX.104/16) received the report and resolved that Report RD.34/16 be received and the projections for 2017/18 to 2021/22 be incorporated into the Budget reports considered elsewhere on the Agenda.

RESOLVED – That the Treasury Management September 2016 and Forecasts for 2017/18 to 20121/22 (RD.34/16) be noted.

Report to Audit Committee	Agenda Item:

Meeting Date:	22nd December 2016
Portfolio:	Cross Cutting
Key Decision:	No
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	CORPORATE RISK MANAGEMENT
Report of:	DEPUTY CHIEF EXECUTIVE
Report Number:	SD 32/16

Purpose / Summary:

Members are asked to note the contents of the attached report, SD 20/16, which was considered at a meeting of the Resources Overview & Scrutiny Panel on 20th October 2016. The purpose of this report is to update Members on the Council's risk management arrangements.

Recommendations:

The Committee is asked to note the contents of the report as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management.

1. BACKGROUND

1.1 In accordance with the Council's Risk Management Policy, the Corporate Risk Register (CRR) has been submitted to the Resources Overview & Scrutiny Panel (ROSP) for monitoring and Audit Committee for independent assurance. Both reports are submitted on a six monthly basis.

This report contains the Risk Register (in Appendix One) presented to ROSP on 20th October 2016.

2. PROPOSALS

2.1 Corporate Risk Register
The Corporate Risk Register was reviewed by the Corporate Risk Management Group (CRMG) and SMT in September/October 2016.

At the September meeting of the CRMG it was agreed that this Group would meet twice a year, once in February following the meeting of full Council that agrees the budget for the next financial year and again in October to review the actions and position from the earlier meeting. Special meetings will be called by the Chair should risks be escalated and require an intervention from the CRMG or Senior Management Team.

3. CONCLUSION AND REASONS FOR RECOMMENDATIONS

3.1 The Committee is asked to note the contents of the report as evidence of the continuing commitment to and culture of sound governance arrangements for corporate risk management

4. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

4.1 The Corporate Risk Register is reviewed quarterly, it is the strategic risk assessment for the Carlisle Plan.

Contact Officer:	**Darren Crossley**	**Ext:**	**7120**
Appendices attached to report:	**Appendix One: Copy of report SD 20/16 presented to ROSP on 20th October 2016.**		

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

Appendix One

CARLISLE CITY COUNCIL www.carlisle.gov.uk	**Resources Overview and Scrutiny Panel**	**Agenda Item:** **A.4**

Meeting Date:	20 October 2016
Portfolio:	Cross Cutting
Key Decision:	No
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	CORPORATE RISK MANAGEMENT
Report of:	Deputy Chief Executive
Report Number:	SD 20/16

Purpose / Summary:

The purpose of this report is to update members of the Resources Overview and Scrutiny Panel on the Corporate Risk Register.

Recommendations:

The Panel is asked to scrutinise and comment on the Corporate Risk Register, as set out in Appendix 1, and to note the results of a recent internal audit as evidence of effective governance in the area of risk management.

Tracking

Executive:	
Overview and Scrutiny:	
Council:	

1. BACKGROUND

1.1 In accordance with the Council's Risk Management Policy, the Corporate Risk Register (CRR) has been submitted to the Resources Overview and Scrutiny Panel (ROSP) for monitoring on a six monthly basis.
This report contains the Corporate Risk Register in Appendix 1.

2. PROPOSALS

2.1 Corporate Risk Register – progress since last report to the Panel

The Corporate Risk Register was reviewed by the Corporate Risk Management Group (CRMG) and Senior Management Team (SMT) in both May and September 2016.
Significant progress has been made in terms of managing the Council's corporate risks and managing the emerging risks discussed with Members at the April Panel meeting.
Updates of the risks and control strategies are detailed in Appendix 1.

2.2 Internal Audit of Risk Management

A recent audit of risk management was undertaken. The agreed scope areas was for consideration of the management arrangements in place to ensure that:

- Risks to deliver Carlisle Plan key priorities and service objectives are identified.
- Operational risks are appropriately identified and relevant action taken to manage these risks.
- Adequate systems and processes are used to capture information and report on risks and related mitigating controls.

The following areas of good practice were identified during the course of the audit:

- Risk management policy/strategy has been recently reviewed and updated in accordance with the ISO31000:2009 Risk Management principles and guidelines.
- Risk workshops to identify corporate risks relating to the new Carlisle Plan and Service objectives have been held and were well attended by senior management and service managers.
- Risk management training sessions to raise awareness of the Council's risk management arrangements and responsibilities for managing risks have been held and were well attended by members, senior management and service managers.
- The Corporate Risk Management Group's "CRMG" has continuously reviewed Directorates risk registers to obtain assurance that these comply with the Risk Management policy/strategy.
- With the introduction of Project Server, effective arrangements are now in place for managers to identify, document, assess, manage and report risks in a consistent format and in accordance with the Council's risk appetite.

The Audit concluded that there is a *reasonable* system of internal control in place which should ensure that system objectives are generally achieved, but areas were found where controls were not effectively applied and/or not sufficiently developed.

The recommendations made are no greater than medium priority.
Improvements in the following areas were considered necessary in order to strengthen existing control arrangements. These have now been actioned.

- The Senior Management Team's (SMT) review and decisions that relate to the Risk Management policy/strategy and quarterly review of the corporate risk register are not recorded in the minutes of SMT meetings. It is not clear what documentation is reviewed by SMT. The policy has not been aligned or cross referenced to other related policies such as the project managers' handbook and partnership policy.
- Within Directorates there were not always effective arrangements in place to evidence managers' review of their service risk registers in accordance with the Risk Management policy/strategy.

One advisory issue was identified: No timescale has been set to update the existing e-learning module on risk management which is currently out of date to reflect current working practice and to provide refresher training once the staff restructure is finalised in July 2016.
The e-learning module is currently being updated and will be complete by mid-October.

3. CONSULTATION

Corporate Risk Management Group 28 September 2016
Senior Management Team by email September 2016

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

4.1 The Panel is asked to scrutinise and comment on the Corporate Risk Register, as set out in Appendix 1, and to note the results of a recent internal audit of risk management.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

The Corporate Risk Register is reviewed quarterly; it is the strategic risk assessment for the Carlisle Plan.

Contact Officer: **Sarah Mason** **Ext: 7053**

Appendices attached to report: Appendix 1 Corporate Risk Register

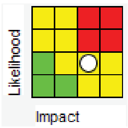
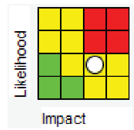
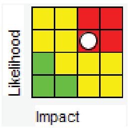
Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

Appendix 1

Corporate Risk Register September 2016

Note: Amendments in the last quarter are marked in red italics. The inclusion of the previous and current risk matrices shows the effect that the control strategies have had on risk ratings since the last update. A target risk matrix shows the risk level that the Council is aiming to achieve from the successful implementation of the control strategies and the date for when this will be achieved.

Delivering the current Carlisle Plan
'There is a risk that we don't have the optimum balance of resources targeted to deliver the activities and projects delivering the Carlisle Plan'

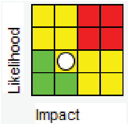
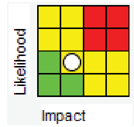
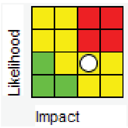
<table>
<tr><th>Present and Previous Matrices</th><th>Assessment Dates</th><th>Present and Previous Risk Scores</th><th>Current Action Status / Control Strategy</th><th>Target Risk Matrix</th></tr>
<tr><td></td><td>27-Sept-2016</td><td>6</td><td rowspan="2">Recent progress and further mitigating action to be taken
Resources continue to be placed appropriately to best meet the Council's overall aims and objectives as set out in the Carlisle Plan. Service standards and progress against the Carlisle Plan continue to be monitored and reported quarterly to each Overview and Scrutiny Panel.
Review of Directorates and SMT responsibilities and service areas has taken place.
The development and operation of a new Strategic Financial Planning Group.
The 2016/17 budget has taken account of budget pressures and the implications for transformational savings going forward. Total savings of £3.475m have been identified for the period 2016/17 to 2018/19. 98% or £1.176m of the 2016/17 savings have been achieved with further savings of £2.274m being required in future years. Of the £2.274m savings identified, £0.141m have been achieved. Savings will be made to protect services and avoid compulsory redundancies as far as possible.
The Local Government Finance Settlement confirmed that all Revenue Support Grant Funding will be lost by 2019/20 and this has been factored into the Council's budget considerations for 2016/17 and into the MTFP up until 2020/21.
The risk has reduced to the target level. It is considered that effective control strategies are in place. However until the identified savings have been delivered the risk will continue to be closely monitored.</td><td rowspan="2"></td></tr>
<tr><td></td><td>22-Mar-2016</td><td>9</td></tr>
</table>

Current Impact Description	High
Current Likelihood Description	Reasonably probable
Risk Score	9

Target Risk Date	01-Apr-2017
Target Risk Score	6

Lead Officer	Jason Gooding
Portfolio Holder	Leader's
Overview and Scrutiny Panel	All

Council's Income Targets
'There is a risk that the Council's income from chargeable services eg car parking does not meet MTFP projections and that the Council does not take advantage of other commercial opportunities'

Present and Previous Matrices	Assessment Dates	Present and Previous Risk Scores	Current Action Status / Control Strategy	Target Risk Matrix
	28-Sept-2016	*4*	***Recent progress and further mitigating action to be taken*** *The Corporate Risk Management Group recommends that this risk be removed from the Corporate Risk Register and kept under review in each Directorate. If income concerns become apparent as part of the budget process, the corporate nature of this risk will be revisited.* Income budgets have been reset as part of the 2015/16 budget and income against targets is currently broadly on track with no income pressure included in the 2016/17 budget. The impact of reduced charges in car parks is being evaluated and further proposals to improve income will come forward, including other measures in addition to price changes. Car parking charges have been frozen (or reduced) in 2016/17. The Directorate individual charging reports which are produced in accordance with the Council's corporate charging policy should address any commercial opportunities for Member consideration. The digital banner income has exceeded initial expectations. Further opportunities will be developed in a new commercial strategy for consideration by SMT and Executive later in the year.	
	22-Mar-2016	6		

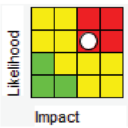
Current Impact Description	High
Current Likelihood Description	Reasonably probable
Risk Score	9

Target Risk Date	01-Apr-2016
Target Risk Score	4

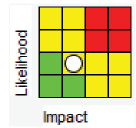
Lead Officer	Jason Gooding
Portfolio Holder	Finance, Governance & Resources
Overview and Scrutiny Panel	Resources

Title
~~Reliance on future economic growth in the City~~ *Preparing for the future funding of local government from 2019*

Description
~~There is a risk that as the Council becomes more reliant on income generated via local economic growth and on the state of the national economy it fails to generate sufficient revenue to deliver its services and meet corporate objectives. This risk could also be seen as an opportunity and have a favourable impact on Council finances.~~ *There is a risk that the Council fails to properly take account of the government changes to future local government funding and does not effectively prepare for these changes.*

Present Matrix	Assessment Date
	~~April~~ *September* 2016

Impact Description	3
Likelihood Description	3
Risk Score	9

Control Strategy	Target Risk Matrix
Review of this risk has highlighted specific area of uncertainty which will be addressed in the amended description and assessment. *Close analysis of developing government policy for the retention of business rates and any resultant new burdens, the impact of tariffs, levies and top ups on the Cumbria Pooling arrangements, new homes bonus, Council tax capping/referendum limits and Business Rates Revaluation 2017.* *Financial modelling of these policy changes via the Strategic Financial Planning Group.* 1. *Development of effective economic growth and income generation plans via the relevant Directorates.*	

Target Risk Date	30-Sept-2017
Target Risk Score	4

Lead Officer	~~Jane Meek~~ *Jason Gooding*
Portfolio Holder	~~Economy, Enterprise & Housing~~ *Finance, Governance & Resources*
Overview and Scrutiny	~~Environment & Economy~~ *Resources*

On 28th September 2016 CRMG gave further consideration of the risks identified in the risk workshops held earlier in the year (March – May 2016)
These are not considered corporate risks for the reasons given below.

Asset Management and Maintenance (There is a risk that lack of capital reserves will significantly impact on the maintenance of and the investment in operational and revenue generating assets ie. building, ICT equipment and vehicles)
This is not considered a specific risk at the moment (CRMG Sept 2016) The budget for asset maintenance is adequately resourced. Risk of capital reserve provision is managed through Financial Services operational risk register.
This will therefore not appear on Corporate Risk Register at this time.

Workforce capacity and capability (There is a risk that the future workforce has insufficient capacity and capability to deliver service/customer requirements)
CRMG Sept 2016 recommends that this risk not be developed as a corporate risk at this time. Policies and procedures are in place to deliver workforce capacity and capability.

Flood damage to key leisure facilities (There is a risk that flood damage to the key leisure facilities (and unknown future resilience) may have a negative impact on

1. Potential partner interest
2. Increased capital requirements to deliver the sports facility strategy
3. Council's MTFP to achieve a zero subsidy on leisure provision)

There has been significant development since this risk was initially identified. Robust plans are now in place to reinstate the key leisure facilities affected by the flood.
The risk will therefore continue to be managed at an operational level.

Rethinking Waste
Risks associated with the Rethinking Waste project are being effectively managed through a refreshed business case and project plan, and the risk will not appear on the Corporate Risk Register.

Car Parking strategy (There is a risk that the Council fails to maximise income generation and the commercial development of its car parking assets and this will impact on the Council's budget and MTFP)
Income from car parks have levelled out and the risk will continue to be managed at an operational level.

Addressing Housing needs (There is a risk that the housing needs of Carlisle, identified as 70% affordable rental housing, cannot be met)
The risk is that affordable housing secured on development proposals through the planning system, does not meet need identified in the 2014 SHMA. The 2014 Strategic Housing Market Assessment (SHMA) identified that 70% of Carlisle's needs is for social / affordable rented housing.
The impact of this risk is not yet determined. It will continue to be assessed and managed at an operational level.

Future employment (There is a risk that the threat of a significant reduction in the working age population of Carlisle plus the threat of large scale investment projects in the West and South Cumbria impact on the availability of skilled employment in Carlisle)
This is not a specific risk of the City Council. Although it is clearly a key consideration for work programme planning.

EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 20 OCTOBER 2016

ROSP.80/16 CORPORATE RISK MANAGEMENT

The Deputy Chief Executive presented report SD.20/16 which provided an update on the Corporate Risk Register.

The Deputy Chief Executive reported that significant progress had been made in terms of managing the Council's corporate risks and managing the emerging risks. An update of the risks and control strategies were set out in appendix 1 of the report. The Deputy Chief Executive detailed each of the current action statuses as detailed in the appendix and drew Members' attention to the risks which had been identified in the risk workshop which had not been considered corporate risks. The risks and the reasons for not including them as corporate risks were set out in appendix 1.

A recent audit of risk management had been undertaken and the scope for the consideration of the management arrangements had been agreed along with areas of good practice and recommendations details of which were set out in section 2 of the report.

RESOLVED – That the Corporate Risk Management update (SD.20/16) and the results of the recent internal audit as evidence of effective guidance in the area of risk management be noted.