AGENDA

Audit Committee

Friday, 12 January 2018 AT 10:00
In the Flensburg Room, Civic Centre, Carlisle, CA3 8QG

The External Auditors will undertake a private briefing for Members of the Committee commencing 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.

Minutes **5 - 12**

To approve and sign the Minutes of the meeting held on 27 September 2017.

[Copy Minutes in Minute Book Volume 44(3) / herewith]

PART A

To be considered when the Public and Press are present

A.1 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL **13 - 40**

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 14 September, 26 October and 5 December 2017 are submitted for information.
(Copy Minutes herewith)

A.2 EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE **41 - 56**

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

A.3 2016/17 ANNUAL CERTIFICATION LETTER **57 - 60**

Grant Thornton to present their Annual Certification Letter.
(Copy Letter herewith)

A.4 FINAL ACCOUNTS PROCESS 2017/18 **61 - 82**

The Chief Finance Officer to submit a report updating Members on the final accounts process. Also included are the accounting policies that will be used in the closedown of the 2017/18 accounts.
(Copy Report RD.38/17 herewith)

A.5 INTERNAL AUDIT PROGRESS QUARTER 3 - 2018/19 **83 - 104**

The Chief Finance Officer to submit a report providing an overview of the work carried out by Internal Audit in the third quarter of 2017/18, together with information on progress against the agreed audit plan, performance indicators and previous audit recommendations.
(Copy Report RD.39/17 herewith)

The undernoted Final Audit Reports are submitted for consideration:

Audit of Section 106 Agreements **105 - 118**

Audit of Talkin Tarn and Boathouse Tea Rooms **119 -**

134

Audit of Public Health and Safety / Enforcement 135 - 154

Audit follow up of Housing Improvements (Homelife Scheme) 155 - 170

Audit follow up of Carlisle Enterprise Centre 171 - 186

(Copy Reports herewith)

A.6 DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2018/19 187 - 216

The Chief Finance Officer to submit a report setting out the Council's Treasury Management Strategy Statement for 2018/19 in accordance with the CIPFA Code of Practice on Treasury Management. The Executive considered the matter on 18 December 2017. *The Business and Transformation Scrutiny Panel will consider it on 4 January 2018.
(Copy Report RD.37/17 and Minute Excerpts herewith / *to follow)

A.7 TREASURY MANAGEMENT SEPTEMBER 2017 AND FORCASTS FOR 2018/19 TO 2022/23 217 - 234

The Chief Finance Officer to submit a report providing the regular quarterly summary of Treasury Management Transactions, together with budgetary projections for 2018/19 - 2022/23. The matter was considered by the Executive and the Business and Transformation Scrutiny Panel on 20 November and 5 December 2017 respectively.
(Copy Report RD.30/17 and Minute Excerpts herewith)

PART B

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

- NIL -

Members of the Audit Committee

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

Labour – Mrs Birks, Bowditch (Vice-Chairman), Patrick (Chairman), S Sidgwick, Alcroft (sub), Ms Williams (sub), Wilson (sub)

Enquiries to:

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AUDIT COMMITTEE

WEDNESDAY 27 SEPTEMBER 2017 AT 10.00 AM

PRESENT: Councillor Patrick (Chairman), Councillors Mrs Birks, Bowditch, Earp (as substitute for Councillor Mrs Mallinson), Higgs, Shepherd and Sidgwick S

OFFICERS: Corporate Director of Governance and Regulatory Services
Deputy Chief Finance Officer and Designated Head of Internal Audit
Principal Auditor

ALSO PRESENT: Audit Manager (Grant Thornton)

AUC.43/17 WELCOME

The Chairman welcomed all those present to the meeting.

The Chairman reminded Members that the Committee had on 14 July 2017 decided that, moving forward, the private preparatory / briefing meetings for Members held immediately prior to each meeting of the Audit Committee would be used as a training session (Minute AUC.32/17 referred). That had not happened on this occasion but she gave an assurance that, in future, discussions would take place prior to the despatch of the agenda and reports to identify items appropriate for training.

AUC.44/17 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Mrs Mallinson; the Associate Director (Grant Thornton) and the Chief Finance Officer.

AUC.45/17 DECLARATIONS OF INTEREST

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

AUC.46/17 PUBLIC AND PRESS

RESOLVED – That the Agenda be agreed as circulated.

AUC.47/17 MINUTES OF PREVIOUS MEETINGS

The Minutes of the meetings of the Audit Committee held on 14 and 31 July 2017 were submitted.

RESOLVED – That the Minutes of the meetings of the Audit Committee held on 14 and 31 July 2017 be agreed as a correct record and signed by the Chairman.

AUC.48/17 MINUTES OF THE BUSINESS AND TRANSFORMATION SCRUTINY PANEL

The Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 3 August 2017 were submitted for information.

RESOLVED – That the Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 3 August 2017 be noted and received.

AUC.49/17 ANNUAL AUDIT LETTER 2016/17

The Audit Manager (Grant Thornton) presented, for information, the Annual Audit Letter, the purpose of which was to summarise the key findings arising from the work carried out at Carlisle City Council for the year ended 31 March 2017. Members were reminded that the detailed findings arising from their audit work had been reported to the Committee in Grant Thornton's Audit Findings Report on 31 July 2017; the Letter contained no new information.

The Letter recorded that Grant Thornton had given an unqualified opinion on the Council's financial statements on 31 July 2017, a full two months ahead of the statutory deadline of 30 September 2017; that they were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in the use of its resources during the year ended 31 March 2017; and that the audit of the accounts had been completed in accordance with the requirements of the Code on 31 July 2017.

The Audit Manager (Grant Thornton) congratulated the Financial Services Team on that achievement, which placed the authority in a very good position in terms of meeting the earlier deadline for next year.

The Audit Manager (Grant Thornton) then gave a brief overview of the key messages / risks identified as set out within the Annual Audit Letter. In so doing, she highlighted the fact that Grant Thornton's work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions was not yet complete. It would be finalised by the statutory deadline of 30 November 2017 and the results reported to the Committee in their Annual Certification Letter.

Attention was further drawn to the issues arising from the audit of the accounts and the very comprehensive response to the Action Plan.

In terms of reports issued and fees, Members were asked to note that the grant certification fee was still an estimate and would not be finalised until the November 2017 deadline.

The Chairman welcomed submission of the Annual Audit Letter and the good work undertaken.

RESOLVED – That the Audit Committee noted and received the Annual Audit Letter for 2016/17.

AUC.50/17 CODE OF CORPORATE GOVERNANCE AND GOOD GOVERNANCE PRINCIPLES

The Deputy Chief Finance Officer reported (RD.22/17) that the Audit Committee had responsibility to consider arrangements for Corporate Governance and agreeing necessary actions to ensure compliance with best practice.

The CIPFA/SOLACE document 'Delivering Good Governance in Local Government: Framework' was updated in 2016 and at its core was the principle that local government developed and shaped its own approach to governance. The Framework was intended to assist authorities in reviewing and accounting for their own unique approach.

The Council had therefore reviewed its Code of Corporate Governance to ensure it fitted in with the revised Framework and reflected the current governance arrangements of the Council; the revised Code being attached at Appendix A.

The Deputy Chief Finance Officer further explained that the Annual Governance Statement (AGS) demonstrated how the Council complied with the Code of Corporate Governance and was approved at the same time as the annual Statement of Accounts. The Good Governance Principles provided a further layer behind the AGS which demonstrated how the Council's governance structures were underpinned by the principles set out in the framework, together with the effectiveness thereof. Those Principles and the evidence to show compliance were outlined at Appendix B for the Committee's information.

The Chairman commented upon the quality and clarity of the Code of Corporate Governance and associated appendices. She noted that Appendix B made reference to the Resources Overview and Scrutiny Panel (which was now known as the Business and Transformation Scrutiny Panel) and questioned whether that would be amended moving forward.

In response, the Deputy Chief Finance Officer confirmed that the issue highlighted would be addressed when the Code was updated during the financial year.

RESOLVED – That the Audit Committee:

(1) Approved the Code of Corporate Governance, attached at Appendix A to Report RD.22/17.

(2) Noted the manner by which the Council was complying with the Good Governance Principles, as outlined at Appendix B.

AUC.51/17 INTERNAL AUDIT PROGRESS QUARTER 2 – 2017/18

The Designated Head of Internal Audit submitted report RD.21/17 providing an overview of the work carried out by Internal Audit in the second quarter of 2017/18.

Details of progress against the 2017/18 Audit Plan were as shown at Appendix 1.

Three audit reviews and two follow up reviews had been completed in the second quarter: Audit of Corporate Charge Card; Audit of Gifts and Hospitality; Audit of National Non Domestic Rates; Audit follow up of Housing Benefit Overpayments; and Audit follow up of Workforce Development and Training. The Internal Audit resource had also been utilised on the work detailed at paragraph 2.3 of the report.

The Designated Head of Internal Audit advised that the Audit Plan, as prepared in March, assumed that the Internal Audit service would be fully resourced from 1 April 2017 with all positions being filled and an allowance for leave entitlement. Although the two auditors TUPE transferred on 1 April, the Principal Auditor was not appointed until mid-May. That together with the completion of work for the 2016/17 Audit Plan for the Shared Service meant that the Audit Plan needed to be revised to reflect the available resources and the additional workload from completion of the 2016/17 Audit Plan.

The original Audit Plan identified 550 direct audit days for Internal Audit in 2017/18. Taking into account the delays in recruitment, actual working hours and actual leave entitlement the revised total audit days was now 536 days. It was therefore proposed to revise the allocated days across the work of Internal Audit as identified at paragraph 2.6. Details of the changes to the Plan were also recorded at paragraph 2.7.

Those amendments addressed the resource pressures placed on the Internal Audit team, predominantly due to the work required to complete the 2016/17 Shared Service Plan (and vacancies), while ensuring the core risk-based reviews included in the 2017/18 plan would still be delivered. If there was a call within the year for Internal Audit to deliver additional work (such as the VFM Reviews) further review of the Audit Plan would be necessary.

In order to provide an effective Internal Audit service, there needed to be an effective measure of the performance it achieved. It was proposed to set the same indicators reported in 2016/17 as measures of the performance of Internal Audit.

Speaking on the issue of audit recommendations, the Designated Head of Internal Audit informed Members that Appendix 3 showed a summary position of outstanding audit recommendations and progress made against implementation thereof. The recommendations were colour coded to aid understanding, and a colour key would be included within future reports to highlight progress.

Once the agreed implementation date had passed, Internal Audit would ask the responsible officer for an update on progress. The responses would then be reported to the next available Audit Committee meeting and, if implemented, would then be removed from the list so that only outstanding recommendations remained. Where the recommendations related to a partial assurance audit, those would be subject to a formal follow up and would be reported back to Audit Committee separately. New recommendations would be added to the list once final reports were agreed.

The Designated Head of Internal Audit indicated that the Principal Auditor would provide an overview of those audits which had received a reasonable or substantial assurance opinion; before focussing in greater detail on the audit with a partial assurance opinion.

The Principal Auditor then outlined the above mentioned audits highlighting, in particular, the key points / concerns and associated recommendations.

Members raised the following questions and observations during their consideration of the completed audit reviews:

<u>Audit of Corporate Charge Card (Partial Assurance Level)</u>

- *Audit Finding 5.2.3 recorded that examples were noted where cards had been used to purchase rail fares, hotels and car parking; and that cardholders needed to ensure expenditure of that nature was in line with the general travel and subsistence scheme and the Council's approved rates. To what extent was the system being abused?*

The Principal Auditor replied that the audit recognised that the transactions alluded to were relatively low value. The issue was not around abuse of the system, rather that expenditure was not strictly in line with the policy.

- *A Member noted that work was planned to review an existing contract to see if a more cost effective system could be identified for the procurement of travel and accommodation expenses, and also to see how the cards would work alongside the e-procurement system. Was that now being undertaken to ensure value for money?*

In response, the Designated Head of Internal Audit outlined the process adopted on occasion by Officers with a view to obtaining better value for money for the authority. Internal Audit had asked for those instances where it was cheaper to go directly to the supplier to be logged, and they would look to raise the issue with the existing contractor under the review of the contract.

- *Section 4.4 - areas for improvement recorded that consideration should be given to cancelling the two corporate charge cards that were not being used. Had they been cancelled?*

  Another Member questioned whether the five corporate charge cards related to one account.

The Designated Head of Internal Audit explained why those particular cards had not been in use and confirmed that they had now been cancelled.

On the latter point he stated that the Council had an overall credit limit with the Bank and there was no prescribed number of cards. The financial exposure was very low when compared to the overall budget, however, the reputational risk to the authority may be greater.

- *A Member asked whether the reduction in corporate charge cards had been incorporated within the Business Continuity Plan.*

The Designated Head of Internal Audit did not anticipate that an emergency card would be required, but contingency arrangements were in place should the need arise.

- *A Member questioned what had prompted the audit review.*

The Designated Head of Internal Audit indicated that the audit had arisen as part of the normal audit planning process. The particular area had not been looked at before and it was agreed by the Chief Executive that it should form part of the Audit Plan for this year.

The Designated Head of Internal Audit further advised that, in his capacity as Deputy Chief Finance Officer, he too wished the area to be audited. The audit review had highlighted areas of best practice from which confidence could be taken. A follow-up review would be undertaken in six months' time to ensure that the guidance was being addressed.

The Corporate Director of Governance and Regulatory Services reminded Members that the Internal Audit Shared Service arrangement had terminated on 31 March 2017. Much of the discussions prior to the decision to bring the service back in house had focussed upon the authority's ability to demonstrate independence.

The Corporate Director highlighted the fact that the audit had been given a partial assurance opinion; and that in his capacity as Deputy Chief Finance Officer the Designated Head of Internal Audit was recorded as being the responsible manager for undertaking the agreed actions.

The Chairman felt that the audit review constituted a good piece of audit work, the areas for improvement identifying how the authority could improve and tighten procedures. To that end she looked forward to submission of the follow-up review in due course.
The Designated Head of Internal Audit gave an assurance that the recommendations had all been actioned.

<u>Audit of Gifts and Hospitality (Substantial Assurance Level)</u>

The Chairman noted that there were no recommendations emanating from the audit review which had been given a substantial assurance opinion.

Audit of National Non Domestic Rates (Reasonable Assurance Level)

In response to a Member's question, the Designated Head of Internal Audit explained that 'DMTs' meant Directorate Management Teams.

The Chairman welcomed the clear and dynamic nature of the audit recommendations.

The Chairman did, however, note that Recommendation 1 included an implementation date of '6 months', and requested that Action Plans should in future include specific implementation dates.

Audit follow up of Housing Benefit Overpayments (Substantial Assurance Level)

- *A Member referenced the considerable concerns expressed in the past as part of the original audit, adding that he was reassured by the follow-up presented today. The Member commended the Revenues and Benefits Operations Manager for his excellent work in response to the audit.*

- *A Member highlighted the importance of succession planning, adding that members of staff should be able to cover jobs one level above / below their current role.*

The Chairman replied that the issue had been addressed as part of the positive follow-up review.

Audit follow up of Workforce Planning and Development (Substantial Assurance Level)

- *Referencing page 149, a Member questioned why the relevant Chief Officer had not commented upon the follow-up review.*

  The Chairman commented upon the contentious nature of the initial audit review which had been the subject of much debate. She too would have welcomed the Chief Officer's comments.

The Designated Head of Internal Audit confirmed that verbal agreement had been received from the Chief Executive, but it was not possible to include written confirmation within the report due to reporting deadlines. He undertook to take that point on board.

- *A Member was pleased to note that the issue of succession planning had been highlighted as part of the review.*

The Designated Head of Internal Audit reminded Members that the Internal Audit Progress Quarter 1 report – RD.11/17 (considered by the Committee on 14 July 2017) proposed a new report template. Any comments Members may wish to make on the format thereof would be welcomed.

A Member considered the new reports to be very well presented and easier to read / understand.

The Audit Manager (Grant Thornton) sought clarification of the position regarding the Grant Thornton follow up review in relation to IT General Controls.

In response, the Designated Head of Internal Audit stated that the follow up was planned for the third quarter and, if necessary, would form part of an Internal Audit review.

The Chairman concluded by commenting upon the very positive nature of the follow-up review.

Referencing Appendix 1 – progress against revised audit plan 2017/18, a Member noted that the directorate review into Safeguarding (including DBS) had been postponed due to a staffing change. She wished to be assured that the authority was not being put at risk by the delay.

In response, the Designated Head of Internal Audit indicated that although the Manager had changed the safeguarding process was ongoing.

RESOLVED – That the Audit Committee:

(1) Noted the progress against the Audit Plan for 2017/18 set out within Report RD.21/17.

(2) Received the completed audit reviews / follow up reviews identified at Appendix 2, subject to the following:

- The Committee looked forward to submission of a follow-up review on the Corporate Charge Card at a future meeting;
- Members' appreciation of the good work undertaken be conveyed to the Revenues and Benefits Operations Manager; and
- The position with regard to the outstanding audit recommendations be noted.

(3) Welcomed and was pleased with the revised format of the audit reports which aided understanding thereof.

(4) Noted that a key to colour coding in respect of outstanding audit recommendations would be included in future reports.

(5) Considered that the Internal Audit function was working well under the new in-house arrangement.

AUC.52/17 TREASURY MANAGEMENT: APRIL TO JUNE 2017

The Deputy Chief Finance Officer submitted report RD.20/17 providing the regular quarterly report on Treasury Transactions including the requirements of the Prudential Code.

The report recorded 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 2016/17 as a result of the final capital outturn position.

The Deputy Chief Finance Officer highlighted, in particular, the outstanding investments as at 30 June 2017. He added that the dividends received from the Property Fund had maintained an income of approximately £38,000 per quarter, with the yield to the end of June being 4.50%. The valuation of the investment at the end of June was £3,255,415.

The Deputy Chief Finance Officer then responded to a Member's question.

The Executive had on 29 August 2017 (Minute EX.88/17) received report RD.20/17 and noted the Prudential Indicators as at the end of June 2017.

RESOLVED – That Audit Committee noted and received Report RD.20/17; also noting the good return on the Property Fund.

[The meeting ended at 10.39 am]

BUSINESS AND TRANSFORMATION SCRUTINY PANEL

THURSDAY 14 SEPTEMBER 2017 AT 2.00PM

PRESENT: Councillor Mrs Riddle (Chairman), Councillors Allison, Mrs Birks, Mrs Bowman, Mrs Glendinning, Mallinson J, Shepherd (as substitute for Councillor Robson), and Sidgwick S (as substitute for Councillor Watson).

ALSO PRESENT: Councillor Dr Tickner – Deputy Leader, and Finance, Governance and Resources Portfolio Holder

OFFICERS: Town Clerk and Chief Executive
Deputy Chief Executive
Deputy Chief Finance Officer
Strategic Asset Investment Services Manager
Policy and Communications Manager
Policy and Performance Officer

BTSP.18/17 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillor Robson and Councillor Watson.

BTSP.19/17 DECLARATIONS OF INTEREST

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

BTSP.20/17 PUBLIC AND PRESS

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

BTSP.21/17 MINUTES OF PREVIOUS MEETINGS

RESOLVED – That the minutes of the meeting held on 3 August 2017, which had been approved by Council on 11 September 2017, be signed by the Chairman.

BTSP.22/17 CALL - IN OF DECISIONS

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

BTSP.23/17 OVERVIEW REPORT AND WORK PROGRAMME

The Policy and Communications Manager presented report OS.20/17 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel.

The Notice of Executive Key Decisions had been published on 25 August 2017 and the item which fell within the Panel's remit had been included on the agenda (KD.21/17 – Bitts Park Lodge Flood Reinstatement).

The Panel's work programme was attached to the report as appendix 1 and the Chairman asked for a brief update on the work being undertaken on the Community Asset Transfer Policy.

The Policy and Performance Officer reported that development work for the Policy had begun and included comparison work with other authorities and consideration of the requests that the City Council had received to date.

The Chairman proposed that the Panel undertake a small task and Finish Group comprised of the Chairman, Vice Chairman and Councillor Allison to support officers in shaping and developing the Community Asset Transfer Policy with a view to providing the Panel with an update on their work in October.

In reviewing the work programme the Chairman asked that a report from the Transformation and Business Management Development SMT Sub Groups, which gave an overview of their work, be submitted to the October meeting of the Panel.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel (OS.20/17) be noted.

2) That a Community Asset Transfer Policy Task and Finish Group be established comprising of the chairman and Vice Chairman of the Business and Transformation Scrutiny Panel and Councillor Allison That the Task and Finish Group provide an update on their work to the Panel in October.

3) That a report from the Transformation and Business Management Development SMT Sub Groups, which gave an overview of their work, be submitted to the October meeting of the Panel.

BTSP.24/17 REVENUE BUDGET OVERVIEW AND MONITORING REPORT – APRIL TO JUNE 2017

The Deputy Chief Finance Officer presented report RD.18/17 which provided an overview of the Council's overall budgetary position for the period April to June 2017 for revenue schemes only. The revenue report included details of balance sheet management issues, bad debts written off in the period and progress against the transformation savings was also provided.

The Deputy Chief Finance Officer drew the Panel's attention to section 3 of the report which summarised the budgetary position as at June 2017 and highlighted the main income and expenditure variances as summarised at Section 3.3 of the report.

The matter had been considered by the Executive on 29 August 2017 (EX.86/17 refers) and they decided:

"That the Executive:

1. Noted the budgetary performance position of the Council to June 2017.
2. Noted the action by the Chief Finance Officer to write-off bad debts as detailed in paragraph 6 of Report RD.18/17.
3. Noted the virements and release of reserves as set out in paragraph 2.1 and Appendix A."

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

- How confident were officers that the £1million additional income from the Council's assets would be achieved from 2018/19?

The Deputy Chief Finance Officer explained that the £1million additional income would be in the budget from 1 April 2018 and almost half of the additional income had been already been achieved.

The Panel asked that an update on the progress being made with rent reviews be circulated to the Members.

- How would Chancerygate be paid and what affect would it have on the income from rent reviews?

The Deputy Chief Finance Officer explained that Chancerygate were paid on a fee basis which had been covered from the reserves this year but it was anticipated that the future fee would be covered from the increase in income as a result of their work.

- Had the backdating of shortfall in the Lanes income been dealt with and had the budget for the Lanes income been reduced to reflect the reduction in income?

The Deputy Chief Finance Officer confirmed that the backdating of the shortfall in the Lanes income had been completed and the budget had been reduced to take account of the lower level of income received, however, the income was still not achieving the lower target.

- What were the implications of the ICT Strategy and the reported overspend?

The Deputy Chief Finance Officer explained that work was being undertaken to realign the profiles of expenditure budgets for the implementation of the ICT Strategy and it was not envisaged that there would be an overspend by the end of the year.

- Had the increase in Garden Waste income come from the expansion of the service?

The Deputy Chief Finance Officer responded that the increase had been the result of additional recycling credits from Cumbria County Council.

- What were the contractual arrangements for the garden waste service and when were the rates last agreed?

The Deputy Chief Finance Officer agreed to circulate a written response to Members.

- A Member had concerns that the debtors balance was very high and asked how this would be reduced and monitored.

The Deputy Chief Finance Officer reported that the majority of the figure was made up of overpayments to housing benefits and officers would look to recover the monies as part of their ongoing work. He added that the debtors figure remained constant throughout the year. Some of the amount would be written off but the debt was not forgotten and could be written back on.

- What was the reason for the reduction in the investment balance?

The Deputy Chief Finance Officer reminded the Panel that the Council had made the decision to pay the pension costs up front as a one off payment and the investment balance would be back up by the end of the three years.

- Was the Council looking to recover all of the shortfall in income from the closure of John Street Accommodation from the insurers?

The Deputy Chief Finance Officer confirmed that the Council was looking to recover all of the lost income and the final settlement would not be agreed until the final accounts had been received.

- The Panel congratulated officers for the work that had been undertaken to receive the “write on” credits.

RESOLVED – 1) That the Panel note the overall budgetary position for the period April to June 2017 (RD.18/17).

2) That an update on the progress being made with rent reviews be circulated to all Members of the Panel.

3) That details of contractual arrangements for the garden waste service be circulated to all Members of the Panel.

BTSP.25/17 CAPITAL BUDGET OVERVIEW AND MONITORING REPORT – APRIL TO JUNE 2017

The Deputy Chief Finance Officer presented report RD.19/17 which provided an overview of the budgetary position of the City Council's capital programme for the period April to June 2017.

Members’ attention was drawn to the Capital Budget Overview and details of the budget monitoring position as set out in sections 2 and 3 of the report.

The matter had been considered by the Executive on 29 August 2017 (EX.87/17 refers) and they decided:

“That the Executive:

1. Noted the budgetary position and performance aspects of the capital programme for the period April to June 2017.
2. Noted adjustments to the 2017/18 capital programme for ICT Strategy (£49,600), Harraby Cycle Track (£41,500) and Public Realm (£25,000) to account for all external funding available towards the projects as detailed in paragraph 2.1 of Report RD.19/17.”

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

- What was the reason for the underspend on Disabled Facilities Grants (DFGs)?

The Deputy Chief Finance Officer reminded the Panel that the City Council received a higher grant allocation from the Better Care Fund and as a result there was more money available to the authority. A discretionary scheme had been introduced to allow some of the additional monies to be spent in different ways and work was being undertaken to look at County wide schemes.

The Town Clerk and Chief Executive added that the City Council had approved the Discretionary Policy which gave the Council the discretion to pay additional money above the statutory limit for DFGs. If the money allocated was not spent it would be carried over to future years.

The Town Clerk and Chief Executive reported that he was leading on collaborative work across the six districts for better use of the monies beyond DFGs. Senior officers were keen to work together but there were issues with different processes on how DFGs were awarded across the districts. It would be a continuing piece of work but there was other work being carried out using the funding in the meantime.

In response to a Member’s question the Chief Executive confirmed that one option being looked at was the employment of Occupation Health officers to speed the DFG process up. The Regulatory Services Manager had a timetable of work that would use the funding which would be circulated to Members to enable them to determine if any of the projects required further scrutiny.

RESOLVED – 1) To note the overall budgetary position for the period April to June 2017 (RD.19/17)

2) That the timetable of works using the Better Care Funding be circulated to Members of the Panel to enable them to identify any potential areas for Scrutiny.

BTSP.26/17 QUARTER 1 PERFORMANCE REPORT 2017/18

The Policy and Communications Manager presented the 1st quarter performance by exception list against the current Services Standards and a summary of the Carlisle Plan 2015-18 actions as defined in the 'plan on a page'. Proposed new Service Standards and Key Performance Indicators (KPIs) were also included (PC.16/17).

Details of the current standards were set out in section 1 of the report and a set of proposed new Service Standards and KPIs were presented in section 2 of the report. Section 3 detailed updates against actions in the Carlisle Plan.

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

- The Panel supported the new report layout, new services standards and agreed that they would have service standards reported to them on an exception only basis.

- In response to a Member's request the Deputy Chief Executive agreed to circulate the proposed timeframe for the new leisure contract to Members of the Panel.

- Would the cycle track at Harraby be operational by October 2017 as originally planned?

The Deputy Chief Executive confirmed that the track would not be operational by October, a revised timescale for the track was being developed.

RESOLVED – 1) That the Panel supported the new layout of the Performance report (PC.16/17) and the proposed new service standards and agreed that services standards would be reported to the Panel on an exception only basis.

2) That the Deputy Chief Executive circulate the timescales for the new leisure contract to Members of the Panel.

BTSP.27/17 BITTS PARK – FLOOD REINSTATEMENT

The Strategic Asset Investment Services Manager presented report GD.54/17 which outlined proposals for the reinstatement of flood affected assets in Bitts Park.

The Strategic Asset Investment Services Manager played a short flythrough of the proposals for Bitts Park and reminded the Panel of the damage which had occurred to Councils buildings in Bitts Park during the 2015 flood. He explained that officers had worked closely with WYG to review all flood affected assets in the park and it was established that the Pavilion was beyond repair. The depot and public toilets had suffered substantial damage and the park keepers lodge had escaped with only minor flooding to the basement areas.

It became clear that the flood presented an opportunity to redevelop the park facilities to provide an enhanced offer. Consultations with service users allowed plan and proposals to be developed and they were presented in section 2 of the report.

The Strategic Asset Investment Services Manager reported that having considered the location and user requirements of the previous Pavilion and the former lodge plans were devised to redevelop the lodge into a new pavilion facility. The plans included a new single storey addition, enhanced café area with decked area and integrated toilet facility.

The new pavilion would deal with all bookings for the tennis courts and provide basic changing rooms with back office accommodation and storage. Flood resilience measures would be incorporated into the design along with security measures.

In addition to the pavilion the Strategic Asset Investment Services Manager reported that a basic reinstatement of the ground floor of the depot was proposed to reflect the current use of the facility.

The report detailed the proposed timescales along with the financing proposals and the Panel was asked to consider the proposals and provide observations and comments for consideration by the Executive on 25 September. The Strategic Asset Investment Services Manager added that further reports would be considered by Members to gain approvals as necessary throughout the project.

The Chairman commended officers for using the unfortunate circumstances as an opportunity to rebuild in an imaginative way.

The Panel had a detailed and in depth discussion with regard to the security arrangements for the building and, in particular, the toilet facilities. They were concerned that the toilet facilities would only have limited opening hours and leave the Park without facilities early evening or when other activities were taking place. The old toilets had suffered from anti-social behaviour and there were concerns that the Lodge would not be secure at night.

The Deputy Chief Executive agreed that there had been issues with the previous toilets and the Lodge would be designed with flood resilience and security included. He added that the proposals were the first step in the process and the final design and details would go back through the Executive process. There were many details that needed to be addressed in more detail and these included the toilet facilities, who would run the proposed facilities, opening hours, access to the toilets and changing rooms and the final design of the building.

Members highlighted issues with opening hours at the facilities at Talkin Tarn and Hammonds Pond and were concerned that similar issues would arise in Bitts Park especially during the winter months. They wanted to see the income from the facilities maximised and suggested that officers investigate the facilities other authorities offered in their parks and consider evening corporate events.

The Chairman asked who the stakeholders were with regard to consultation and whether the final design would be available for the Panel to scrutinise. The Deputy Chief Executive explained that the stakeholders included the Parks and Greenspaces Team, the Leisure Contract provider and Planning Services. The final design and request for release of monies would go through the Executive process.

RESOLVED – 1) That the Panel note report GD.54/17 Bitts Park Flood Reinstatement;

2) That the Panel support the proposed design in particular the re-use of the Lodge and look forward to see the final designs at a future meeting;

3) That the comments and concerns of the Panel as detailed above be forwarded to the Executive.

(The meeting ended at 3.25pm)

BUSINESS AND TRANSFORMATION SCRUTINY PANEL

THURSDAY 26 OCTOBER 2017 AT 10.00AM

PRESENT: Councillor Mrs Riddle (Chairman), Councillors Allison, Mrs Birks, Mrs Bowman, Mrs Glendinning, Mallinson J, Robson and Watson.

ALSO PRESENT: Councillor Dr Tickner – Deputy Leader, and Finance, Governance and Resources Portfolio Holder

OFFICERS: Deputy Chief Executive
Corporate Director of Governance and Regulatory Services
Chief Finance Officer
Policy and Communications Manager

BTSP.28/17 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of the Town Clerk and Chief Executive.

BTSP.29/17 DECLARATIONS OF INTEREST

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

BTSP.30/17 PUBLIC AND PRESS

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

BTSP.31/17 MINUTES OF PREVIOUS MEETINGS

RESOLVED – That the minutes of meeting held on 14 September 2017 be approved.

BTSP.32/17 CALL - IN OF DECISIONS

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

BTSP.33/17 OVERVIEW REPORT AND WORK PROGRAMME

The Policy and Communications Manager presented report OS.20/17 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel.

The Notice of Executive Key Decisions had been published on 22 September 2017. The following items included in the Notice fell within the Panel's remit:

Items which have been included in the Panel's Work Programme:
KD.23/17 – Budget Process 2018/19 (December meeting)

Items which have not been included in the Panel's Work Programme:
KD.22/17 – ICT Replacement Programme 2017/18 – Release of Capital Scheme Monies
KD.28/17 – Polling Station Review 2017/18
KD.29/17 – Land and Property Transaction – Land at Low Harker Dene

The Chairman gave a verbal update on the progress made through the Community Asset Transfer Policy Task and Finish Group. She explained that the Group had met with the Policy and Performance Officer and had compared various policies from other authorities. It was felt that a simpler, plain English policy was the best way forward.

The Chairman proposed that a draft Policy be submitted to the Panel at their meeting on 5 December with recommendations from the Panel being made to the Executive on 18 December. It was recognised that the Community Asset Transfer was a cross cutting matter and it was proposed that the Task and Finish Group be opened up to the other Scrutiny Panels and membership would be sought through the November meeting of the Scrutiny Chairs Group.

The Panel's work programme was attached to the report as appendix 1. The Panel discussed the heavy agenda for the December meeting and agreed to move the Customer Services report and the Flood Update report to January 2018. They also agreed that the Community Asset Transfer Policy be added to the work programme for December.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel (OS.20/17) be noted.

2) That the update on the Community Asset Transfer Policy Task and Finish Group be welcomed and that the Task and Finish Group be opened up to Members of the Health and Wellbeing Scrutiny Panel and the Economic Growth Scrutiny Panel.

3) That the Business and Transformation Scrutiny Panel's work programme be amended as follows:

- Community Asset Transfer Policy be added on the 5 December 2017
- Customer Services moved from 5 December 2017 to 4 January 2018
- Flood Update report moved from 5 December 2017 to 4 January 2018

BTSP.34/17 SMT SUB GROUPS

(a) Transformation

The Deputy Chief Executive presented report CE.14/17 which detailed the work of the Business and Transformation Board which was a sub group of the Senior Management Team (SMT).

The Deputy Chief Executive informed the Panel that the purpose of the Business and Transformation Board was to oversee corporate programme management, corporate standards for project management, the progress of Smarter Service Delivery, ICT projects and other related works as determined by SMT.

The Board was chaired by the Town Clerk and Chief Executive and the terms of reference and membership had been attached to the report for Members' information. The report set out the work which was being undertaken by the Board and information on which projects were due to be scrutinised by the Panel at a future date.

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

- When would the new Corporate Plan and the Competency Framework be available for scrutiny by the Panel?

The Deputy Chief Executive responded that both areas of work were at an early stage and a timescale had not yet been established.

- Members felt that the report was difficult to understand, had too much jargon, was complicated and there was concern that the core membership was top heavy. Members asked for clarity with regard to the Corporate Programme Board and the Smarter Services Delivery Board.

The Deputy Chief Executive clarified that the two Boards had been replaced with the Business and Transformation Board. He took on board comments regarding the use of jargon language in the document. The intention of the new SMT Sub Groups was to include service managers and draw together work so opportunities were not missed and work was not duplicated.

- How would the Management Competency Framework be used and monitored?

The Deputy Chief Executive responded that the Framework was already monitored through performance appraisals and used by managers to identify opportunities and training needs. The Framework provided Managers with a variety of skills for good leadership, motivation and to equip them in dealing with change within the organisation.

- Would it be possible for the Council's Project Managers Handbook to be scrutinised by the Panel in December alongside the Corporate Programme report.

The Policy and Communications Manager reported that the Handbook was being updated and if a draft of the document was ready in time for the December meeting it would be submitted to the Panel. If it was not ready it would be included in the Panel's Work Programme for a future meeting.

- The report stated that a Targeting Operating Model (TOM) was not suitable for the authority; however the Terms of Reference for the Transformation Board included designing a TOM as one of their initial tasks.

This observation was gratefully received and the terms of the reference will be amended.

RESOLVED – 1) That the SMT Sub Group – Transformation report (CE.14/17) be noted;

2) That the following matters be added to the Panel's work Programme:

- Council's Project Handbook on 5 December 2017 if available
- Customer Services Charter on 4 January 2018

(b) Business Management and Development

The Corporate Director of Governance and Regulatory Services presented report GD.70/17 which detailed the work of the Business Management and Development Senior Management Team (SMT) Sub Group.

The Corporate Director reported that he chaired the Sub Group which was primarily tasked with taking care of operational matters, looking for improvements where possible and considering commercial opportunities for the Council. The report set out the membership of the Sub-Group, the Task Groups and their remits which came under the sub group and the work areas which were being undertaken.

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

- The Panel thanked the Corporate Director for his clear, well set out report which had given the Panel the information they needed to consider their future work programming.

- A Member asked for further information with regard to the electronic voting system and how it would deal with recorded votes. He felt that any system should allow those watching Council meetings to be able to see clearly, as they do now, who had voted.

The Corporate Director responded that there were many options available for voting systems and they could be tailored to the Council's requirements. Any system which was considered would have to be able to deal with recorded votes as it was a legislative requirement for the budget meeting.

- It had been previously recommended that a review of the budget process be undertaken to simplify the process where possible and make the information easier to understand, Members asked for an update on this work.

The Chief Finance Officer responded that work had been undertaken with the Communications Team on the consultation documents to make them easier to understand how money comes into the authority and where money was spent. It was hoped that a presentation would be given to the Panel in December utilising the work that had been carried out. Officers were still working on the budget monitoring process.

- A Member asked for further information regarding the potential for Crowd Funding.

The Corporate Director explained that the SMT Sub Group was encouraged to be free thinking and make suggestions for further investigation. The feasibility of Crowd Funding would be considered and if there was the potential for a project it would be brought to the Panel for Members scrutiny and input.

- Members understood that income from Building Control was ring fenced but it had been included in the Commercial Strategy/Income/Savings section of the table.

The Corporate Director confirmed that the income from Building Control was ring fenced but there were opportunities for the Service to increase their income and grow the service they delivered and move to becoming self-funding.

In discussing the tasks in the report the Panel agreed that it would be most beneficial for Officers to submit reports on tasks and projects at the point that they were ready for Members input and would not be scheduled into the Work Programme at this time.

RESOLVED – 1) That the Corporate Director of Governance and Regulatory Services be thanked for his clear, well-structured and informative report on the SMT Sub Group – Business Management and Development (GD.70/17);

2) That reports on individual projects from the Business Management and Development Sub Group be submitted to the Panel at the appropriate time for Members input.

BTSP.35/17 CORPORATE RISK REGISTER

The Deputy Chief Executive presented report CS.39/17 which provided an update on the Corporate Risk Register.

The Deputy Chief Executive reminded the Panel that the Corporate Risk Management Group (CRMG) was responsible for delivering and reviewing the Risk Management Strategy, maintaining and improving risk management processes and monitoring and advising on the Council's Corporate Risk Register.

It was recognised that the City Council's Risk Management Policy and Risk Management Strategy both needed to be reviewed and updated. The review was underway and was being considered alongside work being led by internal audit which focused on the Council's approach to assurance.

The Deputy Chief Executive informed the Panel that there was a Risk Management sub group of the Business Management Board which met monthly and focused on risks at an operational/directorate level. Issues raised at the sub group could be escalated to the CRMG when deemed appropriate. Following discussions at the Risk Management sub group additional training had been arranged for officers, through the City Council insurers and the training would take place in October and November.

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

- The Panel asked that amendments to the Register, within the previous quarter, be clearly identified in each report.

- Was the Regeneration Strategy being aligned with the Medium Term Financial Plan and Budget? If so would this take place before or after the approval of the Strategy?

The Deputy Chief Executive explained that the Regeneration Strategy was under development and would not be fully aligned with the forthcoming Budget. The MTFP was updated on an annual basis and it would be aligned with the Strategy once it was agreed.

- The Panel asked for an update on the Economic Strategy and its process through the committee structure and the withdrawal of the University of Cumbria from the Business Interaction Centre.

The Deputy Chief Executive responded that the Economic Strategy had been substantially refreshed and the committee process for the adoption of the Strategy would be a matter for Members determination.

With regard to the Business Interaction Centre (BIC), the Corporate Director informed the Panel that the University of Cumbria would cease to operate within the BIC in December and the Council would, in the short term, lease space to the existing tenants. Work was being undertaken on the future of the BIC and information was being gathered on the operating costs and potential income. There had been significant interest in the BIC and it was an important part of the economic growth of Carlisle. The matter was being closely scrutinised and monitored by the Economic Growth Scrutiny Panel.

- Was the new Leisure Contract tied to the development of new facilities at the Sands Centre or was there room for negotiations?

The Deputy Chief Executive clarified the current status as set out in the report explaining that the previous contract with GLL ended in November 2017 and the new contract took full account of the Sands project and closure of the Pools. The matter had been discussed in some detail at the previous meeting of the Health and Wellbeing Scrutiny Panel and had centred on the new Leisure Contract. Further work on the proposals and design would need to be undertaken and then considered by the Executive. Full costings and designs would go through the committee process at the appropriate time.

The Chairman asked if the risks, as set out in the Risk Register, had been considered by the Health and Wellbeing Panel. The Deputy Chief Executive explained that all of the information within the risk had been included in the Health and Wellbeing report but it had not been set out in the same format as the Risk Register report.

RESOLVED – 1) That the Corporate Risk Register (CS.39/17) be noted;

2) That future Corporate Risk Register reports clearly identified amendments to the Register which had happened within the previous quarter.

3) That future reports to all Scrutiny Panels include the relevant risk register information in the same format as presented in the Risk register report where appropriate.

(The meeting ended at 11.01am)

BUSINESS AND TRANSFORMATION SCRUTINY PANEL

TUESDAY 5 DECEMBER 2017 AT 10.05AM

PRESENT: Councillor Mrs Riddle (Chairman), Councillors Allison, Bainbridge (as substitute for Councillor Robson), Mrs Bowman, McDonald (as substitute for Councillor Mrs Birks), McNulty (as substitute for Councillor Mrs Glendinning), Shepherd (as substitute for Councillor J Mallinson).

ALSO PRESENT: Councillor Dr Tickner – Deputy Leader, and Finance, Governance and Resources Portfolio Holder

OFFICERS: Town Clerk and Chief Executive
Corporate Director of Governance and Regulatory Services
Chief Finance Officer
Deputy Chief Finance Officer
Policy and Performance Officer x2
Policy and Communications Manager

BTSP.36/17 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Mrs Birks, Mrs Glendinning, J Mallinson, Robson and Watson.

BTSP.37/17 DECLARATIONS OF INTEREST

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

BTSP.38/17 PUBLIC AND PRESS

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

BTSP.39/17 MINUTES OF PREVIOUS MEETINGS

RESOLVED – 1) That the minutes of the meeting held on 14 September 2017, which had been approved by Council on 7 November 2017, be signed by the Chairman.

2) That the minutes of the meeting held on 26 October 2017 be approved.

BTSP.40/17 CALL - IN OF DECISIONS

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

BTSP.41/17 OVERVIEW REPORT AND WORK PROGRAMME

The Policy and Communications Manager presented report OS.24/17 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel.

The Notice of Executive Key Decisions had been published on 17 November 2017. The following items included in the Notice fell within the Panel's remit:

Items which had been included in the Panel's Work Programme:
KD.23/17 – Budget Process 2018/19

KD.33/17 – Sands Centre Redevelopment (January 2018)

Items which had not been included in the Panel's Work Programme:
KD.28/17 – Polling Station Review 2017/18

The Chairman reminded the Panel a special joint Scrutiny Panel with Health and Wellbeing, would take place on Monday 29 January 2018 to scrutinise the Sands centre Redevelopment.

The Policy and Communications Manager reported that the Scrutiny Chairs Group had agreed that the Overview Reports for all Panels would include tracking information on Scrutiny resolutions. Section 3 of the report set out the Business and Transformation Panel's resolutions and status. The Town Clerk and Chief Executive noted that the first action stated pending, this was no longer a pending action as it would be normal practice to bring such reports to the Panel.

The Panel's Work Programme had been attached as appendix 1 to the report for the Panel's consideration.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel (OS.24/17) be noted.

2) That the status for action 1, in section 3 of the report, be changed to ongoing.

BTSP.42/17 BUDGET 2018/19

(a) Minutes of the Health and Wellbeing Scrutiny Panel and Economic Growth Scrutiny Panel

The excerpts of the minutes of the meetings of the Health and Wellbeing Scrutiny Panel and Economic Growth Scrutiny Panel held on 23 November 2017 and 30 November 2017 respectively were submitted for consideration.

(b) Budget Update - Revenue Estimates 2017/18 to 2021/22

The Chief Finance Officer submitted report RD.31/17 providing a summary of the Council's revised revenue base estimates for 2017/18, together with base estimates for 2018/19 and forecasts up to 2022/23 for illustrative purposes. The base estimates had been prepared in accordance with the guiding principles for the formulation of the budget over the next five year planning period as set out in the Medium Term Financial Plan (MTFP) and Charging Policy; Capital Strategy; and Asset Management Plan approved by Council on 12 September 2017.

The report set out known revisions to the MTFP projections, although there were a number of significant factors affecting the budget that were currently unresolved, details of which were recorded at Section 1.3. A summary of the outstanding key issues, together with the resource assumptions was also provided at Section 4.

Turning to the issue of savings and additional income proposals, the Chief Finance Officer added that the current MTFP included a savings requirement to be found by 2018/19 of £3.475 million. Further savings / additional income had already been identified in the budget process for 2018/19, details of which were set out at Section 6 of the report.

The Executive had on 20 November 2017 (EX.117/17) received the report and resolved:

“That the Executive:

1. Noted the revised base estimates for 2017/18 and base estimates for 2018/19.
2. Noted the current Medium Term Financial Plan projections, which would continue to be updated throughout the budget process as key issues became clearer and decisions were taken.
3. Noted the initial budget pressures / savings needing to be taken into account as part of the 2018/19 budget process.
4. Noted the review of the earmarked reserves as outlined in paragraph 9 and Appendix G to Report RD.31/17”

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

- A Member asked for further information regarding the Apprenticeship Levy and the £60,000 recurring pressure.

The Chief Finance Officer explained that the Council paid a percentage of its payroll into the Apprenticeship Levy and could then access the Levy for the training of apprenticeships. The £60,000 recurring pressure supported the recruitment for apprenticeships to fund salary costs.

- The Land Charges income showed a recurring £30,000 pressure, would it be possible to review the charges to make the service more competitive against other providers?

The Corporate Director of Governance and Regulatory Services confirmed that the charges were reviewed but there were regulations that had to be considered regarding the provision of the service. It was difficult to be competitive as the Council were obligated to provide free access to the databases which the authority maintained; this meant that the Council carried the cost of competitors business. In addition, in 2021, the Land Charges function would transfer to the Land Registry and it was unclear at this point what services, if any, would remain with the Council.

- A Member highlighted the proposed Leisure Contract Subsidy and asked how the new facility would be funded.

The Chief Finance Officer explained that the borrowing figures were indicative figures of the likely cost and were for illustrative purposes. She reminded the Panel that the decision process for the Sands Centre Redevelopment had not yet been made.

- The report had detailed a potential £300,000 savings to the subsidy the Council gave to the Tullie House Trust, what scope would the Council have for achieving this saving if the service came back in house?

The Town Clerk and Chief Executive reported that the Tullie House Productivity Review had been commissioned jointly by the City Council and Tullie House and had identified potential savings. Discussions were ongoing with the Tullie House regarding the potential savings and there was no indication that the Board no longer wanted to run the Trust.

- Who monitored how the grant for the Sexual Assault Referral Service was used?

The Town Clerk and Chief Executive informed the Panel that he and the Leader had received a letter from the Police and Crime Commissioner (PCC) asking if the City Council would be prepared to continue their contribution to support the Service. The Chief Executive had responded by requesting details on how the grant was used. The budget was allocated in principle subject to the details from the PCC.

The Health and Wellbeing Scrutiny Panel had requested details of the Service for scrutiny and the Chief Executive agreed to circulate the information to the Business and Transformation Panel for information.

- How would the proposed changes to Universal Credit arrangements affect the Council's budget?

The Chief Finance Officer explained that recent guidance had delayed the roll out date for the City Council to July 2018. There was no information on the Housing Benefit Admin Grant at this stage. In response to a further question she reported that due to the uncertainty of TUPE arrangements as a result of the introduction of the Universal Credit, a Welfare Reform reserve had been retained within the budget.

- Why would the Project Reserve, as detailed in appendix F, increase so significantly by 2021?

The Chief Finance Officer responded that the information had been included in the Medium Term Financial Plan which had been approved by Council in September. Appendix F showed the current position before the consideration of any 2018/19 pressures but was based upon making the transformation savings highlighted in the report.

RESOLVED – 1) That the Budget Update – Revenue Estimates 2018/19 to 2022/23 (RD.37/17) be received.

2) That information on the use of the grant to the Sexual Assault Referral Service be circulated to the Panel Members for information.

(c) Review of Charges

The Chief Finance Officer presented the Review of Charges reports informing the Panel that there was a 3% increase on the overall level of income in line with the Corporate Charging Policy.

Community Services

Report CS.33/17 was submitted setting out the proposed fees and charges for 2018/19 relating to those services falling within the Community Services Directorate.

The charges highlighted within the report would result in an anticipated income level of £2,903,300 against the MTFP target of £2,903,300 which represented the income target being met. The Panel were asked to consider the areas which were in their remit as set out on the agenda.

The Executive had on 20 November 2017 (EX.113/17) received the report and resolved:

"That the Executive agreed for consultation the changes, as set out in the body of Report CS.33/17 and relevant appendices with effect from 1 April 2018; noting the impact those would have on income generation within the report".

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

- A Member asked if it would be possible to increase the charges to reduce the cost of supporting the Old Fire Station.

The Town Clerk and Chief Executive responded that the proposed charges had been detailed in appendix 1 of the report and reflected the use of the building. The Panel were free to scrutinise the commercial running of the Old Fire Station if they so wished.

A Member felt uncomfortable that the budget proposed a reduction to charges for the Old Fire Station and proposed an increase in the charges for Bereavement Service. She felt it would be useful for the Panel to receive information on the commercial use of the Old Fire Station which had informed the Executive's decision.

The Finance, Governance and Resources Portfolio Holder assured Members that all of the charges were considered individually. It was hoped that the proposed reduction to some charges at the Old Fire Station would increase footfall to meet income targets.

- Why had the proposed charges against the Dog Fouling Order stated N/A for 2018/19?

The Corporate Director explained that the Dog Fouling Order would be subsumed by the new Public Space Protection Order and therefore would be charged in a different way in 2018/19.

- The Chairman asked officers to consider providing charging reports on an exception approach in future to enable Panels to only scrutinise the charges which were above or below the 3% increase.

The Chief Finance Officer reminded the Panel that formerly a summary report was circulated as part of the budget process and she would reconsider this going forward.

- The Panel had considered the minutes of the Economic Growth Scrutiny Panel and supported the recommendation to remove the proposed reduction in the level of charge levied for the 4 – 9.5 hour period in the Civic Centre Car Park.

RESOLVED – 1) That the Review of Charges 2018/19 – Community Services (CS.33/17) be received.

2) That the Panel support the recommendation made to the Executive by the Economic Growth Scrutiny Panel and recommend to the Executive that the proposed reduction in the level of charge levied for the 4 – 9.5 hour period in the Civic Centre car Park be removed from the Executive Budget proposals.

3) That information on the commercial use of the Old Fire Station be circulated to Panel Members for information.

4) That the Panel recommend that the Chief Finance Officer consider changing the Charges Reports to an exception approach in future budget processes.

Economic Development

Report ED.38/17 was submitted setting out the proposed fees and charges for areas falling within the responsibility of the Economic Development Directorate.

The proposed charges in relation to Planning Services included Development Control income; Building Control income; and Local Plan income.

Acceptance of the charges highlighted within the report, with the exception of Building Control which was self-financing, would result in an anticipated level of income of £705,500 against the Medium Term Financial Plan target of £682,500.

The Executive had on 20 November 2017 (EX.114) received the report and resolved:

"That the Executive agreed for consultation the charges, as set out in Report ED.38/17 and accompanying Appendices, with effect from 1 April 2018; noting the impact those would have on income generation as detailed within the report."

A Member commented that, although she understood that the remits for Directorates had changed, she had missed the details in the reports on some areas such as the Enterprise Centre and Assembly Rooms.

RESOLVED – That Charges Review Report 2018/19 – Economic Development (ED.38/17) be noted.

Governance and Regulatory Services

Report GD.66/17 was submitted concerning the proposed fees and charges for areas falling within the responsibility of the Governance and Regulatory Services Directorate.

The report set out the proposed charges relative to Environmental Health and Housing; Homeless, Prevention and Accommodation Services; and Legal Services. The introduction of the proposed charges was forecast to generate income of £909,700 in 2018/19 as summarised in the table at Section 5.10 of the report.

The Executive had on 20 November 2017 (EX.115/17) received the report and resolved:

"That the Executive agreed for consultation the charges as detailed within Report GD.66/17 and accompanying appendices, with effect from 1 April 2018; and noted the impact thereof on income generation as detailed within the report."

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

- Why had the Homelife charge for key safes and the Homelife hourly rate risen?

The Corporate Director explained that the changes to the Homelife charges brought all charges for minor measures in line. The service was discretionary and the Council had to cover its costs to retain the service. He assured Members that applicants did not receive a reduction in their grant as a result of the changes. With regard to the hourly rate he explained that some of the Homelife work was carried out by different teams within the same department, the change to the rate meant that the same charge was being applied across the teams.

- How would the proposed changes to cap the rent for benefit claimants impact on the budget with regards to homeless accommodation?

The Chief Finance Officer responded that the Homeless Accommodation rental charges had been increased by 2.5% because any figure higher would not be covered by housing benefit as the charges would be above the Local Housing Allowance.

The Chief Executive informed the Panel that he had requested a piece of work be undertaken that analysed the impact of John Street Homeless Accommodation's closure for the two years following the flood. The matter was complicated and had to balance the social impact and the wish to provide the service against the business considerations for the Council. When the work had been completed it would be reported to Scrutiny.

- The Panel thanked the Corporate Director and all of the services involved for producing a well written and clear report.

RESOLVED – 1) That the Review of Charges 2018/19 – Governance and Regulatory Services (GD.66/17) be noted.

2) That a report detailing the impact of the closure of John Street Homeless Accommodation following the flood be added to the Panel's future Work Programme.

Governance and Regulatory Services - Licensing

Report GD.68/17 was submitted setting out the proposed fees and charges for areas falling within the responsibility of the Licensing Section of the Governance and Regulatory Services Directorate. The Corporate Director of Governance and Regulatory Services advised Members that the Regulatory Panel had responsibility for determining the licence fees, with the exception of those under the Scrap Metal Dealers Act 2013, which fell to the Executive.

The Executive had on 20 November 2017 (EX.116/17) received the report and agreed:

"That the Executive:

1. Noted the charges which were considered by the Regulatory Panel on 15 November 2017.
2. Noted that the fees under the Scrap Metal Dealers Act 2013 had been determined by the Executive for a three year period on 1 August 2016."

RESOLVED – That the Governance and Regulatory Services - Licensing Review of Charges 2018/19 report (GD.58/17) be noted.

(d) Revised Capital Programme 2017/18 and Provisional Capital Programme 2018/19 to 2022/23

The Chief Finance Officer submitted report RD.32/17 detailing the revised Capital Programme for 2017/18, now totalling £9,010,700, together with the proposed method of financing. The report summarised the proposed programme for 2018/19 to 2022/23 in light of the new capital proposals identified, together with the estimated capital resources available to fund the programme.

Section 4 provided details of the current commitments and new spending proposals. Any capital scheme for which funding had been approved by Council may only proceed after a full report, including business case and financial appraisal, had been approved.

A summary of the estimated resources compared to the proposed programme year on year was also provided.

The Executive had on 20 November 2017 (EX.117/17) received the report and resolved:

"That the Executive:
(i) Noted the revised capital programme and relevant financing for 2017/18 as set out in Appendices A and B to Report RD.32/17;
(ii) Had given initial consideration and views on the proposed capital spending for 2018/19 to 2022/23 given in the report in the light of the estimated available resources;
(ii) Noted that any capital scheme for which funding had been approved by Council may only proceed after a full report, including business case and financial appraisal, had been approved."

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

- How would the Business Interaction Centre proposed capital spending be used?

The Chief Finance Officer responded that the capital would be used for the refurbishment and development of the building following the expiry of the lease to the University of Cumbria. The expenditure would be partly funded from an application to the European Regional Development Fund and dilapidation settlement.

In response to a Member's question the Corporate Director reminded the Panel that the Enterprise Centre was no longer a business incubation facility and had been moved into the Council's property portfolio as a commercial asset.

- A number of the capital scheme projects were reliant on external funding, how would the projects and budget be impacted if the applications were not successful?

The Chief Finance Officer responded that projects would be reviewed should applications for external grants be unsuccessful and most cases the projects would not progress.

Members asked for a list of grant/funding applications which the Council had submitted and information on their success.

- In response to a question the Chief Finance Officer confirmed that the capital scheme for the work at Fairy Beck within Carlisle Cemetery was in addition to other budget pressures within the budget pack.

- The Panel discussed the wording in section 6.2 of the report which suggested that no new major one-off schemes unless fully funded from grants or external funding be considered as part of the budget process. The Panel felt that this line should be removed as any additional expenditure outside of the budget framework would have to go to full Council for a decision.

- The Disabled Facilities Grants had been underspent, was there any flexibility as to how the money could be spent?

The Corporate Director reminded the Panel that the Disabled Facilities grant allocation was awarded via the County Council's Better Care Fund and the City Council had an obligation to work with partners to produce a programme of work for the grant. Full Council had approved a discretionary policy which afforded the Council some flexibility. In addition Central Government had circulated information regarding the availability of an additional grant which would not be covered by Better Care Funding; the additional grant could only be accepted if the Council could spend it before March 2018.

The Panel noted that the Disabled Facilities Action Plan had been completed and requested that it be added to their work programme.

- The available Capital Resources indicated a deficit for 2017/18, how would this be addressed?

The Chief Finance Officer responded that the level of deficit was manageable and could be funded from internal borrowing from cash resources with minimum impact on the level of investment income.

RESOLVED – 1) That the Revised Capital Programme 2017/18 and Provisional Capital Programme 2018/19 to 2022/23 (RD.32/17) be noted.

2) That an update on grant/funding applications which the Council had submitted and information on their success be circulated to Members of the Panel;

3) That the Disabled Facilities Action Plan be added to the Panel's work programme.

4) The Panel recommend that the following line be removed from Section 6.2 of the Revised Capital Programme 2017/18 and Provisional Capital Programme 2018/19 to 2022/23:

> No major one-off schemes unless fully funded from grants or external funding

(e) Corporate Assets – 3 Year Repair and Maintenance Programme 2018/19 – 2020/21

The Corporate Director of Governance and Regulatory Services presented report GD.72/17 setting out the repair and maintenance programme budget proposals for the Council's corporate property assets for the three year period 2018/19 -2020/21, required to ensure that the legal responsibilities of the City Council were met.

The Corporate Director reminded Members that local authorities had a duty to manage their property assets, particularly operational assets, in a safe and efficient manner which contributed to the quality of service delivery. The maintenance strategy was fully integrated with the Asset Management Plan and environmental policy. In addition, the Council followed good practice by, where practical, allocating its budget 70% planned maintenance and 30% reactive maintenance.

He added that the maintenance budgets for the year and those for the next 3 years (as set out in the Medium Term Financial Plan) were included as Appendix A. Whilst that allocation was necessary for budget purposes the Building Maintenance and Projects Manager (authorised by the Corporate Director of Governance and Regulatory Services) could re-distribute those funds to meet specific or emergency needs. That flexibility was essential to avoid any service disruption.

The Executive had on 20 November 2017 (EX.118) received the report and resolved:

"That the Executive approved:
1. The three year revenue maintenance programme set out in Appendix A to Report GD.72/17 as part of the budget process.
2. The 2018/19 capital budget of £150,000 as part of the budget process.
3. The list of capital projects selected to meet the allocated capital budget of £150,000."

RESOLVED – That the Corporate Assets – 3 Year Repair and Maintenance Programme 2018/19 – 2020/21 be noted.

(f) Treasury Management Quarter 2 2017 and Forecasts for 2018/19 to 2022/23

The Chief Finance Officer submitted report RD.30/17 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 2018/19 with projections to 2022/23, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The base Treasury Management estimates for 2018/19 with projections for 2022/23 were set out at Appendix C.

The Executive had on 20 November 2017 (EX.119/17) received the report and resolved that Report RD.30/17 be received and the projections for 2018/19 to 2022/23 be incorporated into the Budget reports considered elsewhere on the Agenda.

A Member commented that the figures set out in a previous report would take the Council above the Authorised Borrowing Limit as set out in Appendix B2 of the report. The Chief Finance Officer explained that the limit in Appendix B2 was the 2017/18 limit and the revised figure 2018/19 would be submitted to the Panel for scrutiny in January.

RESOLVED – That the Treasury Management Quarter 2 2017 and Forecasts for 2018/19 to 2022/23 (RD.30/17) be noted.

(g) Local Taxation 2018/19 – 2022/23

The Chief Finance Officer submitted report RD.33/17 considering aspects of Local Taxation decisions which needed to be made as part of the Budget process for 2018/19 onwards.

The Chief Finance Officer outlined the various considerations, including the levels of Council Tax for the City Council (including Parish Precepts), Council Tax Surplus calculations, Council Tax Base calculations, Local Support for Council Tax (LSCT), and Business Rate Retention (including Pooling arrangements). A summary of the assumptions made was also provided at Section 4.

The Executive had on 20 November 2017 (EX.120/17) received the report and resolved:

" That the Executive:
(i) Noted the contents of Report RD.33/17 including the current assumptions built into the MTFP with regard to local taxation issues;
(ii) Approved, for recommendation to Council as part of the budget process, the 2018/19 Local Support for Council tax Scheme as set out in paragraph 2.4.
(iii) Approved the continuation of involvement in the Cumbria Business Rate Pool arrangements for 2018/19, subject to the continuing involvement of the other partners which would be formally agreed in January 2018 with the final decision on participation being delegated to the Chief Finance Officer; that being subject to the outcome of the Business Rate Retention pilot bid for 100% retention in 2018/19."

A Member asked when the care leavers discretion would be considered by the Executive and Chief Finance Officer responded that it was hoped to be ready for consideration in January.

RESOLVED – That the Local Taxation 2018/19 – 2022/23 report (RD.33/17) be noted.

The Panel adjourned for a short break at 11.25am and reconvened at 11.30am.

(h) Budget Monitoring Reports

The following reports had been circulated to the Panel by way of background information:

- RD.28/17 – Revenue Budget Overview and Monitoring Report: April to September 2017
- RD.29/17 – Capital Budget Overview and Monitoring Report: April to September 2017

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

Revenue Budget Overview and Monitoring Report: April to September 2017

- Was the shortfall in income from the Lanes set against the reduced estimate?

The Chief Finance Officer confirmed that the shortfall had been set against the reduced estimate and reminded the Panel that the report was up to September and the figures could change as part of the outturn position.

- Had the improved levels of income for car parking been taken into account when the car parking charges were being reviewed?

The Finance, Governance and Resources Portfolio Holder confirmed that the increase had been considered as part of the charges review adding that previously car park charges only changed once a year, now with the aid of new technology, the Council was able to be reactive to trends when setting the charges.

- The ICT Strategy regularly showed an overspend, why was this and could the Panel see the ICT Strategy?

The Chief Executive reported that the overspend was a re-profiling issue rather than a forecast of overspend. A new ICT Strategy was being drafted along with a review of the mobile technology within the Council. The Strategy would be submitted for scrutiny when it had been drafted.

- Why did the Rethinking Waste have such a large shortfall in savings?

The Chief Executive reminded the Panel that the proposals for charging for Garden Waste Collections had been removed and had resulted in the £400,000 shortfall.

RESOLVED –That the Revenue Budget Overview and Monitoring Report, RD.28/17, be received;

2) That the new ICT Strategy be added to the Panel's Work Programme.

Capital Budget Overview and Monitoring report: April to September 2017

A Member sought assurance that the Harraby Cycle Track was at the end of the project and no further issues would arise. The Town Clerk and Chief Executive responded that there were still outstanding issues with the contractor and therefore he was unable to give such assurances until the project was signed off and completed. He agreed to provide the Panel with an update on the project.

A Member asked for information on the use of the additional contributions to the Public Realm Scheme and Chief Finance Officer agreed to circulate information to the Panel.

RESOLVED – 1) That the Capital Budget Overview and Monitoring report, RD.29/17, be received;

2) That the Town Clerk and Chief Executive provide the Panel with an update on the Harraby Cycle Track project.

3) That the Chief Finance Officer provide Panel Members with information on the use of additional contributions to the Public Realm Scheme

BTSP.43/17 COMMUNITY ASSET TRANSFER

The Policy and Performance Officer submitted report OS.21/17 which presented the work of the Community Asset Transfer Task Group.

The Policy and Performance Officer reminded the Panel that a task and finish group had been established to support officers in shaping and developing the Community Asset Transfer Policy. The Group was comprised of Councillor Mrs Riddle, Councillor Mrs Bowman and Councillor Allison.

The Policy and Performance Officer informed the Panel that Community Asset Transfer (CAT) was the transfer of management and/or ownership of public land and buildings from its owner to a community organisation for less than market value to achieve a local social, economic or environmental benefit. The report detailed the current position at the City Council including the Asset Management Plan which was supportive of the potential for development in this area.

The Task Group had developed a draft Community Asset Transfer Policy and supporting documents to enable the Council to implement the Policy. The documents were based on research and consultation undertaken by the Task Group. Members identified that that a CAT Policy should be clear and concise and flexible. They also recognised the need for a clear process for asset transfers to be considered within the Council, to ensure that an officer had responsibility for each stage of the process, Members were informed and decision making was transparent.

Members felt that an application form would assist groups in applying and would provide clarity in their understanding of what was required of them. The assessment matrix aligned to the application form enabled an initial assessment of an application to determine if it should proceed to be considered further. The CAT Policy and processes provided a clear framework for asset transfers, helped identify the resources required to implement the process and who would lead on each stage.

The Task Group had identified further work regarding the Council's asset list and opened up the Task Group to the other Scrutiny Panels.

The Chairman commented that there had been no clear process and the new policy clarified the whole process and provided a clear framework and criteria.

The Panel asked how CAT opportunities would be promoted to stakeholders in particular Parish Councils. The Policy and Performance Officer responded that opportunities would be advertised to all groups equally if the Policy was approved. The Town Clerk and Chief Executive added that the Deputy Chief Executive would be attending an Annual General Meeting of the Cumbria Association of Local Councils (CALC) in February and it would be a good opportunity to promote the Policy.

RESOLVED – That the Panel recommend to the Executive the approval and adoption of the Community Asset Transfer Policy (OS.21/17).

BTSP.44/17 CORPORATE PROJECT STATUS REPORT

The Town Clerk and Chief Executive presented report CE.15/17 which provided an update on the work of the Transformation Board and projects being undertaken in the Council.

The Town Clerk and Chief Executive reminded the Panel that the Transformation Board had subsumed the work of the Corporate Programme Board. The role of the Transformation board was to ensure that there were effective governance arrangements in place for the projects that the Council undertook. A refresh of the Council's Project Managers' Handbook was also being carried out, the Handbook set out the corporate standards and methodology for project management in the Council. The Handbook had been attached to the report and Members were asked for their comments and input before it was finalised.

The report set out the status of current projects within the Council and the key achievements and achievements per project in the last six months.

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

- A Member was concerned that the Local Plan no longer reflected the changes to retail trading and asked if there was a process for reviewing parts of the Plan.

The Town Clerk and Chief executive responded that the Local Plan had been adopted and suggested that the Member discuss the matter with the Corporate Director of Economic Development.

- There was some concern that e-purchasing would be a barrier to local smaller businesses.

The Town Clerk and Chief Executive agreed that there should a risk identified in the register which included the implications of e-purchasing on local suppliers and how the risk could be mitigated along with evidence of how the risk had been addressed.

- Where would the new public realm signage be placed?

The Finance, Governance and Resources Portfolio Holder explained that the signage would replace existing finger posts and include more detail on attractions within the City.

- A Member commented that the Castle Way crossing had been very successful.

- The Panel asked for an update on the Community Infrastructure Levy and the Town Clerk and Chief Executive agreed to circulate a response to Members.

- Why had the Asset Recovery Programme not included details on John Street Homeless Accommodation and Adriano's?

The Town Clerk and Chief Executive reported that the physical work had been completed at the Homeless Accommodation and would re-open following staff recruitment and training. Adriano's had issues with the kitchen and a new contractor had to be appointed. Both projects had been delayed due to the contractors and both buildings were on their way to being completed.

With regard to the cost implications to the authority due to the closure of Adriano's the Chief Executive agreed to circulate a written response.

- The Panel thanked the Chief Executive for the Handbook and requested that Portfolio Holders were added to the progress reports for the management of projects.

RESOLVED – 1) That the Corporate Project Status report (CE.15/17) be welcomed;

2) That an update on the Community Infrastructure Levy be circulated to the Panel.

3) That the Town Clerk and Chief Executive provide the Panel with information on the cost implications to the authority due to the closure of Adriano's.

BTSP.45/17 2017/18 SICKNESS ABSENCE QUARTER 2

The Town Clerk and Chief Executive submitted the authority's sickness absence levels for the period April 2017 to September 2017 and other sickness absence information (CE.16/17).

The Town Clerk and Chief Executive reported that the 2016/17 levels of sickness absence decreased by approximately 14% to 7.4 days lost per full time equivalent (FTE) employee compared to 2015/16. 2015/16 had also decreased by 29% so there had been an overall reduction of 39% over the last years. The percentage of sickness which was long term also decreased as HR continued to work with managers to ensure support for their staff was available and accessible.

The table in appendix 1 provided sickness absence levels split by the new directorates. Authority wide, compared to quarter 2 of 2016/17, 2017/18 levels had increased by nearly 9% to 3.7 days lost per FTE employee. The last four consecutive months had been higher than the corresponding months in the previous year mainly due to an increase in long term absences.

The report set out the sickness absence reasons split by directorate; it also reported that "Other musculo-skeletal problems" was the highest reason for absence. Quarter 2 also showed that 99% of return to work interviews ad been completed.

He added that the sickness absence figures for the authority had become volatile as the Council size reduced, a small number of long term absences had a significant impact on the sickness absence figures.

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

- A Member noted the initiatives and training which was provided to improve health and wellbeing and asked if any of the initiatives could be targeted to address the top reasons for sickness absence.

The Chief Executive reminded the Panel that the health and wellbeing initiatives were funded in part from staff purchasing extra annual leave. The initiatives were deliberately mixed to ensure staff engagement. There was a training programme in place which targeted directorates; however, the Chief Executive would welcome any suggestions in this area.

- A Member asked what type of absences were covered by "Other" and if it had to remain in the reasons for absence.

The Policy and Performance Officer explained that the categories were defined by the Health and Safety Executive and 'Other' covered a variety of illnesses which included cancer.

- The second highest absence was caused by stress, depression, mental health and fatigue syndromes and it was noted that Doncaster Council had manged to reduce their absences in this category. Had the Council investigated how this had been achieved?

The Chief Executive had been aware of the reduction; however, their programme was similar to Carlisle's. He reminded the Panel that the City Council had recently signed the Time to Change pledge which was a commitment to change how the Council thought and acted about mental health at every level of the Council.

- How did the City Council benchmark against other authorities?

The Policy and Performance Officer responded that the most up to date benchmarking figures had not been received, however, previously the City Council had been better than the County

Council and half way compared to the other North West District Councils. There had been a vast improvement on sickness absence figures.

RESOLVED – That the 2017/18 Sickness Absence Quarter 2 report (CE.16/17) be noted.

BTSP.46/17 QUARTER 2 PERFORMANCE REPORT 2017/18

The Policy and Performance Officer submitted the 2nd quarter performance against the current Service Standards and a summary of the Carlisle Plan 2015-18 actions as defined in the 'plan on a page'. The new Service Standards and Key Performance Indicators (KPIs) were also included (PC.18/17).

Details of the standards were set out in section 1 and section 2 contained the Council's delivery of the Carlisle Plan within the Panel's remit. A new dashboard showing performance against the new KPIs (also within the Panel's remit) was appended.

The Town Clerk and Chief Executive informed the Panel that work had been undertaken with regard to Land Charges service standard and the next report would include details of the Land Charges performance.

RESOLVED – That the Quarter 2 Performance Report 2017/18 (PC.20/17) be welcomed.

(The meeting ended at 12.30pm)

Audit Progress Report and Sector Update

Carlisle City Council
Year ending 31 March 2018

December 2017

Contents

Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes).

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Our website address is www.grant-thornton.co.uk.

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 2017

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit, and we will issue a detailed audit plan for the audit of the Council's 2017/18 financial statements for consideration at the 19 March 2018 Audit Committee.

We are due to commence our interim audit in January and February 2018. Our interim fieldwork visit will include:

- updated review of the Council's control environment;
- updated understanding of financial systems, including walkthrough testing;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues; and
- early substantive testing.

We will report any findings from the interim audit to you in our Progress Report at the 19 March 2018 Audit Committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin on the 01 June 2018, with findings reported to you in the Audit Findings Report in time for the 30 July 2018 Audit Committee, to comply with the earlier deadline of July 2018

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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 guidance confirmed the overall criterion as: "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 criteria 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.

Our Audit Plan will include the outcome of our initial risk assessment to determine our approach.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

Since our last update report we have completed the audit of the housing benefit subsidy claim for 2016/17. The audit certificate was given on 20 November 2017, in advance of the 30 November 2017 deadline. We are presenting the annual certification letter for 2016/17 to the Audit Committee on 12 January 2018.

At this stage, unless there are additional queries from Department of Works and Pensions, the indicative scale fee for the certification work is £14,093.

The work on the housing benefit subsidy claim for 2017/18 will be completed by the national deadline of November 2018.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Accounts Audit Plan We are required to issue detailed accounts audit plans for the Council to the Audit Committee. The plan sets out our proposed approach in order to give an opinion on the Council's 2017/18 financial statements. Our initial value for money risk assessment for the Council will be included in the Council audit plan.	February 2018	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit for the Council within our progress report.	March 2018	Not yet due
Audit Findings Report The Audit Findings Reports for the Council will be reported to the 30 July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, and the public sector as a whole. Links are provided to the detailed report to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Commercial Healthcheck: commercial investments and governance

Our latest health-check report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a health-check diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach.

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is the not the only major area of investment activity).
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising.
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas.
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less.

Click on the report cover to download and read more

Grant Thornton Publication

The Board: creating and protecting value

In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

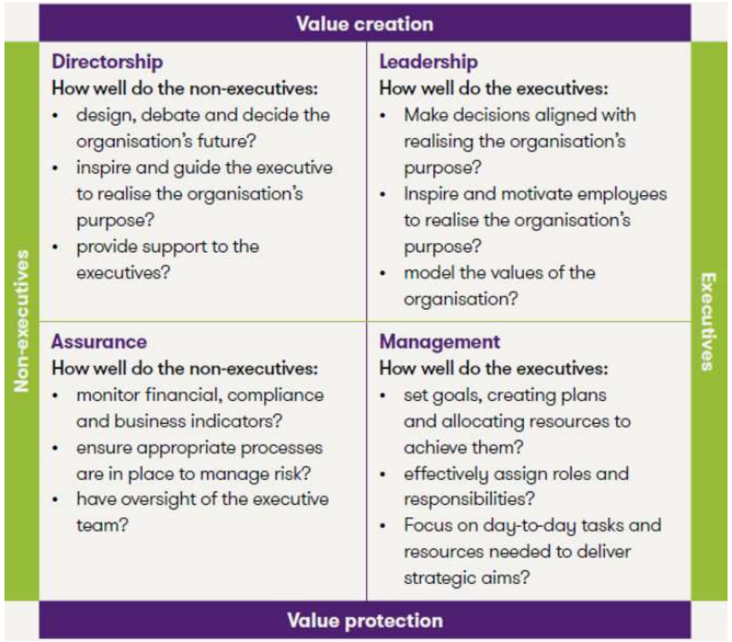
Grant Thornton's new report 'The Board: creating and protecting value' is a cross-sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance.

This powerful tool provides a framework with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

Click on the report cover to download and read more



Source: The Board: Creating and protecting value, 2017, Grant Thornton

Grant Thornton Publication

Code of Practice on Local Authority Accounting and IFRS 9 and IFRS 15

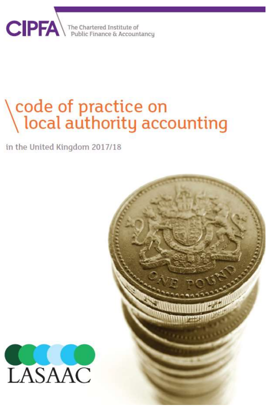
CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18 which specifies the principles and practices of accounting required to prepare a Statement of Accounts.

The main changes to the Code include:

- amendments to section 2.2 for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date;
- amendment to section 3.1 to introduce key reporting principles for the Narrative Report;
- updates to section 3.4 covering the presentation of financial statements to clarify the reporting requirements for accounting policies and going concern reporting;
- changes to section 3.5 affecting the Housing Revenue Account, to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities;
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements); and
- amendments to section 6.5 relating to the Accounting and Reporting by Pension Funds, to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Alongside the Code, CIPFA has also published Guidance Notes for Practitioners and a Disclosure Checklist for 2017/18 Accounts.

These publications may be obtained from CIPFA and are available here.



CIPFA/LASAAC has issued a companion publication 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'.

Looking further ahead, this sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 establishes a new comprehensive framework for revenue recognition and replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

An Early Guide for Local Authority Practitioners covering IFRS 9 Financial Instruments is to be published in December 2017.

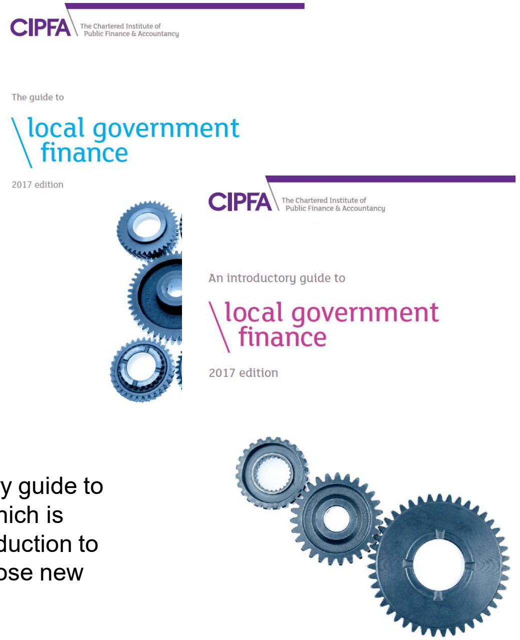
CIPFA Publication

CIPFA publications

CIPFA has published ‘The guide to local government finance’ 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance;
- budgeting and financial reporting;
- treasury management;
- auditing;
- governance;
- education;
- housing;
- police; and
- social care.



CIPFA has also published ‘An introductory guide to local government finance’ 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.

CIPFA has updated their guidance on the key considerations in setting up and managing a pooled budget in the publication ‘Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies’ (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA’s guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

CIPFA Publication

DCLG Consultation

DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed here.

Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy;
- disclose the contribution that investment activities make to their core functions;
- use indicators to assess total risk exposure;
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets);
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income;
- disclose additional information where authorities borrow to invest in revenue generating investments;
- disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP;
- confirmation that a charge to the revenue account cannot be a credit;
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively; and
- introduces maximum useful economic lives for MRP calculations based on asset life.

DCLG consultation

Local Authority 2016/17 Revenue Expenditure and Financing

DCLG has produced a summary of Local Authorities' 2016/17 final outturn for revenue spending and financing. It notes that local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure.

The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.6 billion for all local authorities in England in 2016-17. This was 1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. The 2016-17 financial year was the first year where local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.75 billion (2.2%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.4 billion of this increase is due to the Greater London Authority.

The full report is available here.

Did you know….

This data set and many others are included in CFO Insights.

CFO Insights, is the Grant Thornton and CIPFA online analysis tool.

It gives those aspiring to improve the financial position of their organisation, instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

http://www.cfoinsights.co.uk/

Overview of General Data Protection Regulation (GDPR)

What is it?

GDPR is the most significant regulatory data protection development in 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators.
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law.

Notifications and Rights

- Organisations must notify relevant incidents to regulators within 72 hours.
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected.

Claims and Fines

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations.
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights.

GDPR

Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?

You can see and hear what delegates thought on our website

Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/

http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/

http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/

http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/

http://www.cfoinsights.co.uk/

CIPFA website links

http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice

http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online

http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online

http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition

DCLG website links

https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance

https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn

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20 December 2017

Dear Alison

Certification work for Carlisle City Council for year ended 31 March 2017
We are required to certify the Housing Benefit subsidy claim submitted by Carlisle City Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2016/17, which had £27.2 million of subsidy claimed. Further details are set out in Appendix A.

We identified two errors in the income testing from our certification work, which we wish to highlight for your attention, and these are noted in Appendix A. A qualification letter was required to report the income testing errors to the Department of Works and Pensions, but as one error identified resulted in an underpayment, and another had nil impact on benefit, no extrapolation table of the potential error was required. The DWP may require the Council to undertake further work or provide assurances on the errors we have identified.

There were other areas of error noted in 2015/16, so we were required to carry out extended testing in 2016/17. The areas related to an incorrect rent value in an assessment, and incorrect overpayment classifications. We are pleased to report our initial and extended testing in 2016/17 did not raise any issues in these two areas. Therefore, we will not have to carry out any specific testing on these in the coming year.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 was £14,093. As the work to certify the 2016/17 was broadly similar to the level of work required in 2014/15, there is at this stage no additional fee required. We may revisit this if the Department for Work and Pensions require us to undertake additional work in any areas noted in our qualification letter. Details of the fee are set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2016/17

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£27,199,198	No	£0	Yes	See below

Findings from the certification of the 2016/17 housing benefits subsidy claim

Incorrect income in assessments was a qualification letter reporting issue in 2015/16, so an additional random sample of forty cases were tested during 2016/17. Testing of the initial sample in 2016/17 did not identify any income errors. From the forty extended cases, two errors were identified. One case where benefit had been underpaid by £264 due to a monthly earned income being incorrectly recorded as a 4 weekly income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore been classified as an error for subsidy purposes. There was also one other case which had no effect on benefit or subsidy. This was due to the Council inputting the claimant's working and child tax credit incorrectly. Similar findings have been included in our qualification letters to Department of Works and Pensions for the last five years.

In our 2015/16 qualification letter we reported a cell 102 error due to an incorrect rental used in the assessment. We also reported various cell 114 overpayment errors. There were no matters arising in 2016/17 from the initial testing and the 40 extended cases tested for both these areas.

Appendix B: Fees for 2016/17 certification work

Claim or return	2014/15 fee (£)	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£18,790	£14,093	£14,093	nil	Although there is no variance between the indicative and actual fee, the reduction from 2014/15 to 2016/17 represents the 25% reduction nationally applied to audit fees by Public Sector Audit Appointments Ltd (PSAA).
Total	£18,790	£14,093	£14,093	nil	

Report to Audit Committee	Agenda Item: A.4

Meeting Date:	12 January 2018
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	Yes
Public / Private	Public

Title:	FINAL ACCOUNTS PROCESS 2017/18
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD38/17

Purpose/Summary:

This report provides information regarding the 2017/18 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 2017/18 accounts.

Recommendations:

Members are asked to note the report and to consider the accounting policies to be used in the preparation of the 2017/18 accounts.

Tracking

Audit Committee:	**12 January 2018**

1. BACKGROUND

1.1 The Accounts and Audit Regulations 2015 require that the City Council's Statement of Accounts for 2017/18 be submitted to a relevant body of the Council (the Audit Committee) for approval by 31 July 2018. Prior to formal approval, the S151 Officer is required to sign the accounts off by 31 May. Members should note that these accounts are based upon information contained within the provisional out-turn reports which are presented to the Executive and Business and Transformation Scrutiny Committee in early June.

1.2 The External Auditors (Grant Thornton) will commence its audit of the Accounts in early June, which must be completed by 31 July. 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 meeting at the end of July. 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 2016/17 Annual Audit Findings Report considered by the Audit Committee on 31 July 2017 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. **Provide external audit with the Authority's rationale and workings for the proposed 2017/18 MRP 'payment holiday' for previously charged MRP. This will enable external audit to obtain a technical view on the accounting treatment proposed.**

   This was provided in July 2017 and discussions are currently underway with the Auditors with a formal response on their technical view still awaited.

2. **Conduct a review of the Local Code of Governance to include the new principles in the CIPFA/SOLACE 2016 'Delivering Good Governance in Local Government Framework'.**

   This review was considered by the Audit Committee in September 2017.

3. **Conduct a review of the leases working paper to source documentation, with issues noted in both 2015/16 and 2016/17.**

   This was conducted prior to the conclusion of the 2016/17 audit with lease information confirmed back to source documents.

4. **Carry out calculation checks in the draft set of financial statements prior to their submission for audit.**

   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. **Ensure that the 'new borrowing rate' is the rate used for the financial instruments note for the long-term borrowing, as the same issue was noted in both 2015/16 and 2016/17.**

   The Council will instruct its treasury advisors to only provide the new borrowing rate report in future.

6. **Re-profile the capital programme at regular intervals during the financial year.**

This will form part of the capital programme monitoring reported through Executive

3. CHANGES ARISING FROM THE 2017 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

3.1 There are no significant changes to the 2017 Code of Practice on Local Authority Accounting.

4. ACCOUNTING POLICIES

4.1 The existing Accounting Policies will be reviewed to reflect the changes in the 2017 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 2017/18 Accounts. Any changes required to Accounting Policies following review will be reported to the Committee in March.

4.2 To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2017 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 2017/18 accounts.

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

Appendices attached to report: **Appendix A – Draft Accounting Policies 2017/18**

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:

Corporate Support and Resources – contained within body of the report

Economic Development – not applicable

Governance & Regulatory Services – 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.

Community Services – not applicable contained within body of the report

Draft Accounting Policies 2017/18

4.0 Accounting Policies

4.0.1 General Principles
The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. 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 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

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 3% 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 2.5%.

- 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 77% 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 4.46 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 2017/18 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 de-recognition 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 2017/18 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 4.38 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 2016 - 2019 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 2017/18* (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.

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 / Non Domestic Rates (NDR) 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 Non Domestic Rates (NDR). 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 2017/18 the Council collected and distributed NDR 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.

CARLISLE CITY COUNCIL
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Report to Audit Committee	Agenda Item: **A.5**

Meeting Date:	12 January 2018
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	INTERNAL AUDIT PROGRESS QUARTER 3 – 2018/19
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD39/17

Purpose / Summary:

This report provides an overview of the work carried out by internal audit in the third quarter of 2017/18. The report also includes information on progress against the agreed audit plan, performance indicators and previous audit recommendations

Recommendations:

The Committee is requested to

(i) note the progress against the audit plan for 2017/18; and

(ii) receive the final audit reports as outlined in paragraph 2.2

Tracking

Audit Committee:	**12 January 2018**
Overview and Scrutiny:	**Not applicable**
Council:	**Not applicable**

1. BACKGROUND INFORMATION

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 period from April to December 2017.

2. PROGRESS AGAINST AUDIT PLAN

2.1 Progress against the 2017/18 Audit plan is shown at **Appendix 1**.

2.2 There have been 3 audit reviews completed in the third quarter and 2 follow ups completed. These are detailed below and reports are provided.

Review Area	Assurance Level
Section 106 agreements	Reasonable
Talkin Tarn & Boathouse Tea Room	Reasonable
Public Health & Safety/enforcement	Reasonable
Homelife (Follow Up)	Substantial
Enterprise Centre (Follow Up)	Substantial

2.3 Internal Audit resource was also utilised on the following during Q3:

- Internal Investigation – 30 days of audit time has been spent on an internal investigation, which is still live. Members will be given further details once the relevant internal procedures have completed.

- Shopmobility – as a result of a management request, an advice note was prepared following a review of the processes in place to administer the Council funded Shopmobility store.
  The note included a number of suggested improvements to the controls around administrative procedures, cash handling and ensuring personal data is held securely.

3 PERFORMANCE INDICATORS

3.1 In order to provide an effective internal audit service, there needs to be an effective measure of the performance it achieves. The table below shows progress against the indicators agreed for 2017/18.

Indicator	Target	Actual (Q3)	Commentary
Planned Audits Completed	95% (Annual)	46% (To Date)	14/30 reviews finalised (4 further reviews at late testing stage, due to conclude January).
Audit Scopes Agreed	100%	100%	14 Scopes issued (all agreed)
Draft Reports issued by agreed deadline	80%	*	No information available (Specific deadlines currently not set)
Timely issue of Final Reports (within 8 days of management response)	80%	90%	
Recommendations agreed	95%	100%	All recommendations agreed.
Assignment completion within allocated resource	50%	64%	9/14 reviews within budget (Overall 163 audits days have been utilised against 162 planned days).
Quality Assurance checks completed	100%	100%	Audit Control Sheets completed for all finalised reviews.
Customer satisfaction survey feedback (scored as good)	80%	100%	3 returns received to date
Efficiency (Chargeable time)	80%	86%	As at 22/12/17

3.2 There have been some delays in completing planned audits due to the unplanned investigation and staff absence. However, a number of reviews are in the advanced stage of testing and are expected to be completed in January.

4 AUDIT RECOMMENDATIONS

4.1 **Appendix 2** shows a summary position of outstanding audit recommendations and progress made against implementing these. Once the agreed implementation date has passed, internal audit will ask the responsible officer for an update of progress. The responses will then be reported to the next available Audit Committee meeting and, if implemented, will then be removed from the list so that only outstanding recommendations remain. Where the recommendations relate to a partial assurance audit, these will be subject to a formal follow up and will be reported back to Audit Committee separately. New recommendations will be added to the list once final reports are agreed.

4.2 A response is overdue for the follow-up review of Development Management. This will continue to be pursued in Q4.

5 EXTERNAL QUALITY ASSESSMENT

5.1 In accordance with the Public Sector Internal Audit Standards the Internal Audit department is required to have a full external assessment of compliance with the Audit Standards. Assessments must be done at least once every five years by a qualified, independent assessor from outside the organisation.

5.2 The last review was performed in 2013 by Grant Thornton, covering the Shared Internal Audit Service. Results were reported to the Audit Committee on 24 January 2014.

5.3 Members of the Audit Committee also requested that a review be undertaken on the provision of the internal audit service following the termination of the Audit Shared Service arrangements.

5.4 Following a procurement exercise the City Council have appointed CIPFA to carry out a review in 2018. A preliminary readiness review has been arranged for late January 2018. At this stage the assessor will identify and report to the Council areas for improvement and identify any gaps in the audit process. A full assessment will then be performed in April 2018. Findings from the review will be reported to the Audit Committee in 2018/19.

6. CONSULTATION

6.1 not applicable

7. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

(i) note the progress against the audit plan for 2017/18; and

(ii) receive the final audit reports as outlined in paragraph 2.2

8. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

8.1 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: **Steven Tickner** **Ext: 7280**

Appendices attached to report:

Appendix 1 – Progress against Audit Plan and Timeline of audits

Appendix 2 – Audit Reports issued in Quarter 1

Appendix 3 – Progress against previous Audit Recommendations

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:

Community Services – not applicable

Economic Development – not applicable

Governance & Regulatory Services –.In accordance with the terms of reference of the Audit Committee, Members must consider a summary of internal audit activity and summaries of specific internal audit reports. This report fulfils that requirement.

Corporate Support and Resources – Contained within the report

APPENDIX 1

CARLISLE CITY COUNCIL
PROGRESS AGAINST REVISED AUDIT PLAN 2017/18

Service Area	Review Type	Audit Area	Allocated Days	Days Taken	Status	Audit Committee Date	Assurance Evaluation	Comments
Various	2016/17	Contribution to Shared Service c/f	52	52	Finalised	Jul 2017	Various	
Policy & Communications	Follow Up	Records Management	5	4	Finalised	Jul 2017	Partial	
Corporate	MFS	Internal Control Questionnaires - Non Audited Systems	0	0	Finalised	Sep 2017	N/A	2 hours in 17/18
Corporate	Corporate	Corporate Governance - Compliance with Local Code	20	14	Finalised	Mar 2018	N/A	
Financial Services	Directorate	Corporate Charge Card	20	16	Finalised	Sep 2017	Partial	
Democratic Services	Directorate	Gifts and Hospitality	7	7	Finalised	Sep 2017	Substantial	
Revenues and Benefits	Follow Up	Benefit Overpayments	5	2	Finalised	Sep 2017	Substantial	
Organisational Development	Follow Up	Workforce Development and Training	5	4	Finalised	Sep 2017	Substantial	
Revenues & Benefits	Directorate (16/17)	NNDR	20	21	Finalised	Sep 2017	Reasonable	
Counter Fraud	Fraud	National Fraud Initiative	10	14	Finalised	Sep 2017	N/A	
Environmental Health	Directorate	Public health & safety/enforcement	20	24	Finalised	Jan 2018	Reasonable	
Housing	Follow Up	Home Life	5	6	Finalised	Jan 2018	Substantial	
Business & Employment	Follow Up	Enterprise Centre	5	4	Finalised	Jan 2018	Substantial	
Development Control	Directorate	Section 106 agreements / CIL	20	20	Finalised	Jan 2018	Reasonable	

Service Area	Review Type	Audit Area	Allocated Days	Days Taken	Status	Audit Committee Date	Assurance Evaluation	Comments
Green Spaces	Directorate	Talkin Tarn & Boathouse Tea Room	20	26	Finalised	Jan 2018	Reasonable	
Service Support	Directorate	Flexitime and TOIL	20	14	In progress	Mar 2018		Testing Underway
Service Support	Directorate	Salary Sacrifice & Holiday Purchase Schemes	0	0	Scoped	Mar 2018		Incorporated with payroll audit
Arts, Culture and Sports	Directorate	Arts Centre	20	13	In Progress	Jan 2018		Testing Underway
Housing	Directorate	Supporting People (grant income, Hostels & Homeshares)	5	1	Scoped	Jan 2018		Reduced scope
Garage Services	Directorate	Garage incl. Driver checks	20	2	Scoped	Jan 2018		Postponed (Staff absence)
Financial Services	MFS	Income Management & Cash Collection	20	1	Scoped	Mar 2018		
Financial Services	MFS	Payroll	20	3	Scoped	Mar 2018		
Revenues and Benefits	MFS	Housing and Council Tax Benefits	20	9	In progress	Mar 2018		
Financial Services	MFS	Debtors	20	0		Mar 2018		
DIS	Follow Up	IT General Controls	5	0		Mar/Jun 2018		Grant Thornton Review
Corporate	Corporate	Business Continuity Planning	20	0		Mar/Jun 2018		Postponed (implementation of new process)
Human Resources	Directorate	Safeguarding incl DBS	20	1		Mar/Jun 2018		Postponed (staff change)
Policy & Communications	Follow Up	Records Management	5	0		Mar/Jun 2018		
Policy & Communications	Follow Up	Performance Management	5	0		Mar/Jun 2018		
Building Control	Follow Up	Physical Security of Premises	5	0		Mar/Jun 2018		

Service Area	Review Type	Audit Area	Allocated Days	Days Taken	Status	Audit Committee Date	Assurance Evaluation	Comments
Property & Facilities Mgmt	Follow Up	Building Maintenance	5	0		Mar/Jun 2018		
		TOTAL	**424**	258				
		Follow Up (General)	5	3				
		Counter Fraud	20	43				
		Advice & Guidance	12	5				
		Audit Committee	20	9				
		Planning	20	20				
		OVERALL TOTAL	**501**	**338***				

* Days taken as at 22nd December 2017 (excludes leave and training days)

N.B Audit Committee Dates are anticipated dates final reports will be presented to Audit Committee and may be subject to change depending upon completion of audit work

Audit Review					Assurance Level
2015/16 - Building Maintenance					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
Management should put in place adequate arrangements to ensure that statutory maintenance is undertaken as required at all properties and that they are assured that this is taking place. This should include: · Maintaining an up to date system to record all statutory maintenance requirements and whether these have been met; · Ensuring data in the system is supported by relevant inspection reports · Requiring regular reports from the system to be reviewed to provide assurance that the council properties remain compliant with statutory requirements	H	The database information used for recording and monitoring statutory maintenance certifications will be brought up to date. Resources will be allocated within the Property Services team restructure to ensure the database records are continually updated in the future as certifications arise. A system for monitoring the status and delivery of the statutory maintenance programme will be introduced and reports prepared on a monthly basis by the Property Technical Assistant. These will be checked by the Building and Facilities Manager to ensure properties are compliant, the system is up to date, and the supporting evidence is in place.	Building and Estates Services Manager	31/12/2016	Formal follow up to be performed Q4 2017/18
Management should ensure that appropriate arrangements are established to plan, record and monitor property condition surveys.	H	A fresh programme for undertaking condition surveys will be established for the occupational property portfolio. Reports on condition will be procured utilising the services of an external Building Surveyor. Service delivery, monitoring and recording of the condition surveys will be undertaken annually; the results will be reported upon and used to update the Asset Management Plan and inform future planned building maintenance.	Building and Estates Services Manager	31/12/2017	Formal follow up to be performed Q4 2017/18
Management should document how Council Surveyors should carry out a condition survey, what should be inspected, how it should be recorded and what should be reported.	M	Guidance on the preparation, inspection, protocol and methodology for undertaking condition surveys, and reporting the results/outcomes with appropriate documentation, will be put in place in accordance with RICS industry standard practice	Building and Estates Services Manager	31/12/2017	Formal follow up to be performed Q4 2017/18
Management should put in place adequate arrangements to be assured that statutory maintenance requirements are met in council buildings that are leased to third parties and that information on this is obtained in a timescale that will allow all certification to be brought up to date prior to handover.	M	Estate Management Practices will be put in place in order to monitor Lessee compliance with statutory maintenance and the provision of supporting certification / documentation. This will be checked annually, to make sure it's up to date, and at the end of the Lease term.	Building and Estates Services Manager	31/07/2017	Formal follow up to be performed Q4 2017/18

Audit Review					Assurance Level
2015/16 - Enterprise Centre					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
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.	**M**	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.	Investment and Policy Manager	31/03/2017	Closed (Confirmed as actioned H1703)
Management should set a timescale for the approval of the Economic Development scheme of sub-delegation.	**H**	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	Corporate Director of Economic Development	01/04/2017	Closed (Confirmed as actioned H1703)
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.	**H**	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.	Investment and Policy Manager	31/03/2017	Closed (Confirmed as actioned H1703)
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.	**H**	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.	Investment and Policy Manager	31/03/2017	Closed (Confirmed as actioned H1703)

Audit Review					Assurance Level
2015/16 - Enterprise Centre					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
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.	**M**	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 flag. 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.	Investment and Policy Manager	31/03/2017	Closed (Confirmed as actioned H1703)

Audit Review					Assurance Level
2015/16 - Homelife					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
Management should have arrangements in place to ensure that all key objectives are clearly documented and that these are then used as a basis for determining individual staff objectives.	**M**	Homelife Plan including key objectives is to be included in the Environmental Health and Housing Service Plan.	Environmental Health and Housing Manager	01/07/2016	Closed (Confirmed as actioned H1701)
Management should ensure they have arrangements in place to ensure risks are recorded, managed and reviewed in line with the Council's risk management policy.	**M**	Risk Management included in both the Service Plan and also on the operational risk register. To be updated quarterly.	Environmental Health and Housing Manager	01/08/2016	Closed (Confirmed as actioned H1701)
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.	**H**	Should Homelife continue post 2016 / 17 a clear Business Plan including funding sources will require approval. A draft options paper for 2017/18 is a target within the 2016/17 Service Plan.	Environmental Health and Housing Manager	01/09/2016	Closed (Confirmed as actioned H1701)
Management should have a mechanism in place to ensure that work is undertaken as expected after having defined requirements and clearly informed staff of these e.g. requirements regarding evidence of eligibility for funding.	**M**	HIA Team leader is producing procedures now for work areas and also coordinating the delivery of the various Homelife 2016 / 17 schemes. The Plan is confirming those reporting obligations required under the various schemes. The quarterly report for Keepsafe has been finalised and sent through to the OPCC in June 16	Environmental Health and Housing Manager	01/07/2016	Closed (Confirmed as actioned H1701)
Management should ensure that evidence to support rates charged is retained and readily available.	**M**	The fees and charging structures are being finalised and will be included in both the options paper and the annual Fees and charges reports for approval at Full Council.	Environmental Health and Housing Manager	01/09/2016	Closed (Confirmed as actioned H1701)
Management should ensure that all charges are reviewed and approved in line with Council policy.	**M**		Environmental Health and Housing Manager	01/09/2016	Closed (Confirmed as actioned H1701)
Management should have a mechanism in place to ensure the use and retention of key documents in relation to external funding applications.	**M**	Centralised filing will ensure future funding forms and approvals are easy to locate.	Environmental Health and Housing Manager	01/09/2016	Closed (Confirmed as actioned H1701)
Management should have arrangements in place to ensure a consistent approach to record retention.	**M**	Management to confirm a policy covering a consistent approach to record retention.	Environmental Health and Housing Manager	01/09/2016	Closed (Confirmed as actioned H1701)
Management should have arrangements in place to ensure that all work undertaken is billed.	**M**	Management will confirm arrangements to ensure that all work undertaken is billed.	Environmental Health and Housing Manager	01/09/2016	Closed (Confirmed as actioned H1701)
Management should ensure there is a mechanism in place to collate report and use feedback received from customers.	**A**	100% customer feedback to be sought and reported for all Keepsafe and Minor Works undertaken. To confirm in the Service Plan the remaining schemes feedback process.	Environmental Health and Housing Manager	01/08/2016	Closed (Confirmed as actioned H1701)

Audit Review					Assurance Level
2016/17 - Development Management					Reasonable
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
a) Management should prepare planning application procedures/guidance for staff to follow that focus on describing how: new planning enquiries/applications should be allocated and processed, checks and validation checklists should be completed and documented, and any amendments and updates to the Acolaid system should be entered b) A timescale should be set for the preparation of planning application procedures/guidance including the relevant approval arrangements.	M	Agreed. Started the process on preparing procedures that focus on administration, technical and professional roles and that demonstrate clearly where pressures of resources are.	Development Management manager	31/03/2017	Management statement issued 2/10/17. Response outstanding
a) Management should ensure that national and local targets are communicated to staff. b) Management should be reminded of their responsibilities to identify and progress any team training needs and to regularly undertake team appraisals c) Managers should be reminded of the need to retain a record of team meetings that support discussions made regarding performance activity and training needs. Any outcomes from such discussions should be reported and escalated where appropriate and any corrective action taken should be documented.	M	Agreed. Changed Team meeting agenda proforma to include actions required i.e. local targets etc. Team appraisal will be undertaken in the last quarter of 2016/17.	Development Management manager	31/03/2017	Management statement issued 2/10/17. Response outstanding
Managers should be reminded of the need to retain a record of discussions and outcomes from having reviewed performance reports and weekly planning lists. Any outcomes from such discussions should be reported and escalated where appropriate and any corrective action taken should be documented.	M	File notes will be stored alongside the weekly lists and performance figures confirming they have been checked and any updates.	Development Management manager	06/02/2017	Management statement issued 2/10/17. Response outstanding
Arrangements should be introduced for monitoring and reporting compliances and non-compliances with the code of conduct guidance on conflicts of interest.	M	Agreed will review and update P1 form to record where there is/is not conflict of interests or look at alternative process to record this.	Development Management manager	31/03/2017	Management statement issued 2/10/17. Response outstanding

Audit Review					Assurance Level
2016/17 - Electoral Registration					Reasonable
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
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.	M	A supplementary procedural document to be created and reviewed on a regular basis.	Electoral Services Officers	31/03/2017	Closed - confirmed as action (Man statement)

Audit Review					Assurance Level
2016/17 Car Parking Income					Reasonable
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
a) Objectives set out in the Car parking and city centre service plan would benefit from being constructed in a specific, meaningful, achievable, relevant and time bound (SMART) manner; b) Performance against the objectives in the service plan should be subject to regular review by management, using appropriate key performance indicators. c) The SWOT analysis should be carried out to inform the future car parking strategy.	**M**	The Council has introduced a new service plan template which includes the requirement to undertake a SWOT analysis and develop key performance indicators that are SMART (specific, measurable, achievable, realistic and time limited). The Car parking and city centre service plan will be completed using this template and progress against the plan will be reviewed at monthly team meetings.	Contracts and Community Services Manager	30/06/2017	Management statement to be issued Q4 2017/18
Operational risks should be considered and recorded on project server in line with the Council's Risk Management Policy.	**M**	Operational risks relating to Car Parking have now been added to the Contracts and Community Services departmental risk register.	Contracts and Community Services Manager	Immediate	Management statement to be issued Q4 2017/18
Staff procedures should be documented and regularly reviewed by management and for CEO's should include interpretation of surveillance legislation.	**M**	Procedures for the Car Parking team will be documented and then reviewed every two years.Arrangements for compliance with surveillance legislation will be reviewed and included in documented procedures.	Contracts and Community Services Manager & City Centre and Car Parking Manager	30/11/2017	Management statement to be issued Q4 2017/18

Audit Review					Assurance Level
2016/17 Flood Related Procurement					Reasonable
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
Management should have arrangements to ensure that processes / procedures put in place are adhered to and that compliance with Contract Procedure Rules is demonstrated.	**M**	A process is being developed that will allow analysis of expenditure to identify areas where procurement thresholds are potentially breached and can be used for further exploration as to whether a procurement process is required. This will be further developed in 2017/18.Although the NHS Framework was not signed in accordance with the Contract Procedure Rules (which requires 2 signatures), the framework access agreement was signed by a senior officer and the order placed with the contractor was also signed by a separate senior officer. The appointment was also approved by the Procurement Panel and reported as an Officer Decision Notices alongside all other flood related procurement.	Deputy Chief Finance Officer	30/04/2017	Closed - Confirmed as actioned (Management Statement)
Management should ensure arrangements are in place to comply with the Local Government Transparency Code and that staff are aware of their responsibilities in relation to it.	**M**	*The Council's website will be updated in line with the requirements of the Transparency Code.*	Deputy Chief Finance Officer	30/04/2017	Closed - Confirmed as actioned (Management Statement)

Audit Review					Assurance Level
2016/17 Homeworking Follow Up					Reasonable
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Implementation date**	**Status**
Documentation relating to employment and changes in working arrangements, i.e. homeworking agreements, should be held with related information on employees' personnel files.	**M**	Accepted (Director Comments)	Chief Finance Officer	None stated	Management statement to be issued Q4 2017/18
An inventory of council assets held by homeworkers should be maintained by Managers in accordance with the homeworking agreement.	**M**	Accepted (Director Comments)	Chief Finance Officer	None stated	Management statement to be issued Q4 2017/18

Audit Review					Assurance Level
2016/17 DFG					Reasonable
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
A risk assessment should be undertaken to identify all potential risks relevant to the administration of DFG and the awarding of work to contractors. Risks of fraud within the system should be identified in order that management can be assured that the current arrangements are effectively mitigating the risks to an acceptable level. Following a fraud risk assessment, consideration should be given to providing fraud awareness training and linking this to the procedures staff should follow if fraud is suspected A mechanism should be in place so that management are assured that all risks are loaded into the Project Server system.	**M**	There are four risks presently recorded in the operational risk register which are applicable to DFGs: Loss of staff or illness – 11 Major incident – loss of records- 12 Budget variance – 22 Failure to provide acceptable recording and response system – 23 Risk of fraud will be included in the risk register. An initial assessment would indicate the impact is marginal, and the likelihood extremely remote, giving a risk score of 2.	Regulatory Services Manager	01/04/2017	Closed - Confirmed as actioned (Management Statement)
Arrangements should be introduced to document the management checks carried out in order to be fully assured that there is compliance with DFG procedures. This process should also be included in the DFG procedures. Checks should include for example: · that an appropriate means test has been undertaken; · that there have been no statutory timescale breaches; · confirmation that the work has been completed to an appropriate standard; · that the appropriate procurement route has been taken; · that alternative options have been explored for the applicant; · that the officers checklist has been completed.	**M**	Files are checked by management, against the policy framework for DFG's, as the documentation required to make an application is set in law. Only when this is undertaken is the approval notice signed by the authorised manager. Agreed to ensure consistency, the file insert will beupdated, to include a checklist for managers signing off approvals, so it can be visually evidenced these checks have been undertaken, to verify the statutory information required. Statutory timescales are monitored outside individual applications and on a general performance database. The DFG Procedures document will be updated to reflect the existing monitoring of the procurement framework and timescales. Management would not be expected to undertake supervisory inspections of Officers to ensure works are signed off to an appropriate standard. This is designated to officer level. The Procurement Framework is set up by management to ensure quality of installations through use of quality contractors.	Principal Health & Housing Officer	01/04/2017	Closed - Confirmed as actioned (Management Statement)

Audit Review					Assurance Level
2016/17 Mobile Device Security					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
Senior management should ensure that governance arrangements around information security, including the security of mobile devices are clearly defined and embedded. Consideration should be given to the points raised above.	H	Responsibility for Information Security has now been subsumed into the Business Management & Development Sub-Group which, in addition to scrutinising and challenging proposed policies, will keep proper records of its deliberations. Secondly, the Council is in the process of establishing an Information Officer post (as required from 2018 by the European General Data Protection Regulations 2016) and such post will have responsibility for ensuring that we not only have relevant policies for Information Management and Security but also for embedding good practice within the organisation.	Corporate Director of Governance & Regulatory Services	01/12/2017	Full review to be performed 18/19 (inc. follow up of o/s recs)
a) Arrangements should be put in place to launch the new information security policies with appropriate training provision. b) Arrangements should be in place to give management assurance that all relevant staff have completed required mandatory training.	H	Please see management action statement for 5.1.1 re the Information Officer post. Training will be designed and delivered once the relevant policies are established.	Town Clerk & Chief Executive	01/04/2018	Full review to be performed 18/19 (inc. follow up of o/s recs)
Senior management should clarify their intentions around mobile device usage going forwards and ensure appropriate IT support; security and training arrangements are in place.	H	The introduction of Microsoft's Office 365 and Enterprise Mobility and Security technologies will improve the security of information held on mobile devices. Along with the implementation of these technologies a new framework will be implemented at the same time. Use of Office 365 across a host of devices, coupled with meeting the demand for more flexible working will define intentions around mobile device use in the future.	ICT Services Manager	01/04/2018	Full review to be performed 18/19 (inc. follow up of o/s recs)

Audit Review					Assurance Level
2016/17 - Performance Management					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
a) Corporate arrangements for assessing and monitoring the progress of delivering the Carlisle Plan 2015-18 priorities including the arrangements for having actions/projects that are SMART and performance measures/targets/indicators etc should be clearly defined and documented. A timescale should be set for documenting and implementing these arrangements. The Service Standards should be reviewed, updated and aligned to measure the success of delivering service plan objectives.	**H**	SMART actions have been set within 27 service plans submitted in May and June. These service plans cover all the key actions in the Carlisle Plan. Service planning will continue to be developed over the autumn to link the service plans to the 2018/19 budget setting process. A timescale will be set for documenting and implementing these arrangements in early August. A more detailed template for reporting progress on the Carlisle Plan key actions has been developed to ensure complete coverage of all the actions. The 27 service plans include actions to develop new service standards. As these are developed this year (2017/18), working with the relevant Overview & Scrutiny Panel, the overall number of service standards will be reviewed. Through this work Service Standards will measure the success of delivering services and specific service plan objectives.	Policy and Communications Manager	04/08/2017 27/10/17	Formal follow up to be performed Q4 2017/18
Management should ensure that the performance management arrangements re the Carlisle Plan are effectively implemented and that these are incorporated into the Performance Management Framework.	**M**	A new performance framework was agreed by SMT in April (11/4/17). This framework links the Carlisle Plan to Service Plans and the Appraisal Scheme. DMT meetings will be set to include performance management linked to the performance reporting cycle. The Performance Framework will be reviewed at the end of the year alongside the End Of Year Report. In addition new arrangements are being made for the development of a new system of monitoring and taking action on performance using Microsoft Power BI as a tool for collecting and analysing appropriate data.	Policy & Communications Manager	24/04/2018	Formal follow up to be performed Q4 2017/18
a) Management should evidence their review of risks and risks registers in accordance with the risk management policy. b) Corporate Directors should be reminded of their responsibilities for being assured that risks relating to strategic and operational performance management objectives are appropriately identified, assessed and managed.	**M**	SMT have continued to review the Corporate Risk Register on a regular cycle during this period and have more recently (6th June) reviewed the policy and management arrangements for elevating and managing emerging risks relating to all risks including performance management. Corporate Directors are aware of their responsibilities regarding performance management objectives and any risks arising.	Deputy Chief Executive / Senior Management Team	Completed	Formal follow up to be performed Q4 2017/18

Audit Review					Assurance Level
2016/17 - Performance Management					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
a) Corporate Directors should be reminded of their responsibilities for being assured that the roles and responsibilities from Executive to staff are clearly defined in the performance management framework. b) Corporate Directors should be reminded of their responsibilities for being assured that performance appraisals are undertaken to ensure that managers and staff carry out their roles and responsibilities relating to performance management effectively.	**M**	Completed via SMT.	D Crossley	Completed	Formal follow up to be performed Q4 2017/18
Management should review the performance monitoring reports to ensure that the content includes all areas of performance that impact on the monitoring and decision making on Carlisle Plan priorities in particular including those projects where no updates were available.	**M**	A more detailed template for reporting progress on the Carlisle Plan key actions has been developed to ensure complete coverage of all the actions. This template was implemented for the 2016/17 End Of Year Report and will be developed further to include the action for recommendation 1a.	Policy & Communications Manager	04/08/2017	Formal follow up to be performed Q4 2017/18
a) A timescale should be set for the implementation of the new performance management framework. b) Management should communicate and provide training on the new performance management framework to all those involved in performance management to ensure that they are aware of and understand their roles and responsibilities.	**H**	A new performance framework was agreed by SMT in April (11/4/17). This framework links the Carlisle Plan to Service Plans and the Appraisal Scheme. DMT meetings will be set to include performance management linked to the performance reporting cycle. The framework has been communicated with service managers through Management Briefing (May 2017). Service managers have received a new template for service planning and guidance on appraisals. A single site for performance management is being developed on the intranet and further developments have been requested through ICT. DMT meetings will be set to include performance management linked to the performance reporting cycle. This will ensure that all those involved in performance management are aware of and understand their roles and responsibilities.	Policy & Communications Manager	a) Complete b) 04/08/17	Formal follow up to be performed Q4 2017/18
The corporate guidance and template for service planning should be updated and the format agreed by SMT	**M**	Service planning has been introduced and completed. The approach has unique plans for service areas with detail around key areas. The service plans captures and reflects the work priorities and objectives of each service within the directorate and how these link to the Carlisle Plan.	Policy and Communications Manager	Completed	Formal follow up to be performed Q4 2017/18
Directorates' performance should be a regular item at DMT meetings and discussions and actions arising from these should be recorded.	**M**	DMT meetings will be set to include performance management linked to the performance reporting cycle.	Policy & Communications Manager / PA Support Manager	04/08/2017	Formal follow up to be performed Q4 2017/18
a) The Policy & Performance Team should perform regular data quality checks on performance reports to provide regular assurance that the performance data is accurate and reliable for decision making. b) A timescale should be set of the finalisation and implementation of the revised data quality checks.	**M**	All historic data used in performance reporting will be assessed annually to calculate variance to determine what is considered 'normal' data. Throughout the year the data will be quality checked for erroneous records e.g. missing or duplicate data or for data that falls outside of the 'normal' range.	Policy & Communications Manager	04/08/2017	Formal follow up to be performed Q4 2017/18

Audit Review					Assurance Level
2017/18 - Corporate Charge Card (B1701)					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
The Purchasing Card Procedures need to be brought up to date. Once updated all cardholders should receive a copy of the revised procedures and any future updates to legislation, processes etc. The procedures should also refer to the requirement for internet purchases to be made via secured websites only.	M	Procedures will be reviewed and brought up to date with additional details on appropriate use and completion of transaction logs.	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19
Management should ensure that cardholders never provide their card to other staff to use. A process should be implemented and documented within the procedures to cover requests by other staff for the card holder to make purchases on their behalf.	H	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19
The cardholder should complete the transaction log every time the card is used to make a purchase.	M	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19
Arrangements should be implemented to ensure that cardholders only use secure websites when making internet purchases.	M	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	31/08/2017	Formal follow up to be performed Q1 2018/19
A reminder should be sent to all cardholders and line managers to ensure: -Suitable documentation such as itemised receipts, including VAT where applicable and reason for spend should be attached to the monthly transaction logs; -Travel and subsistence is appropriately claimed. - Management are responsible for checking this when approving the transaction log	M	Reminders will be given to all cardholders about their responsibilities in using corporate purchasing cards. These will also be included in the revised procedures	Deputy Chief Finance Officer	30/08/2017	Formal follow up to be performed Q1 2018/19

Audit Review					Assurance Level
2017/18 - Record Management Follow Up (H1706)					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
The Corporate Records Management Policy should be updated. Once updated the policy should be formally approved by the Senior Management Team.	M	The Corporate Records Management Policy will be updated and formally approved by the Senior Management Team	Policy & Communications Manager	04/07/2017	Formal follow up to be performed Q4 2017/18
The Retention Schedule 2016 be should be placed on the Intranet alongside the Corporate Records Management Policy, to ensure that all staff can access this information. Both the Records Management Policy & Retention Schedule 2016 should detail the date when they are due to be reviewed and who is responsible for this review.	M	The policy and 2016 schedules will be updated with a review date and responsible reviewer. The schedules will be moved to the intranet site from Project Server. This change will be shared with Management Briefing in August and be followed up with a round of DMTs.	Policy & Communications Manager	12/7/17 Moving schedules; 4/8/17 Management Briefing; next available round of DMTs after Management Briefing	Formal follow up to be performed Q4 2017/18
The records management framework should be completed and rolled out to managers and staff as per the Corporate Records Management Policy.	M	An overarching Information Governance Policy will be developed. This policy will be rolled out to managers with guidance.	Policy & Communications Manager	January-March 2018	Formal follow up to be performed Q4 2017/18
Management should discuss and agree what information needs to be included within the Constitution with relation to records management and retention of records, once agreed the necessary amendments including relevant links should be agreed and made	M	Appendix F of the Financial Procedure Rules contain "guidelines" on how long documents should be held and these relate, predominantly, to important information from Financial Services' perspective. The view of the s151 Officer predominates here and the periods stipulated are still current. It is open to the Council, through its retention policy, to have other periods for different types of records. Ideally, they should dovetail and a review will be carried out to ensure that this happens. In short, it may not be appropriate to change the periods stated in the FPRs; if it is, they will.	Corporate Director of Governance & Regulatory Services	30/09/2017	Formal follow up to be performed Q4 2017/18
Arrangements should be implemented to give management assurance that service managers are maintaining a Retention Schedule and Disposal Log.	M	Arrangements will be implemented to give management assurance that service managers are maintaining a Retention Schedule and Disposal Log. This will be followed up with a round of DMTs and individual meetings with service managers.	Policy & Communications Manager	30/09/2017	Formal follow up to be performed Q4 2017/18
Senior management should review and delegate responsibility for records management to an appropriately trained member of staff who should be referred to (by post) within the Records Management Policy and within the associated job description.	M	Responsibility for Information Management has now been subsumed into the Business Management & Development Sub-Group of SMT under the Corporate Director of Governance & Regulatory Services. In addition, and as part of the compliance plan for the EUGDPR (the new Data Protection Regs), the Council will be appointing an Information Officer who will be responsible for creating and developing an appropriate suite of policies and documentation and also ensuring that they are embedded within our organisation.	Corporate Director of Governance & Regulatory Services	31/05/2018	Formal follow up to be performed Q4 2017/18

Audit Review					Assurance Level
2017/18 - Record Management Follow Up (H1706)					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
Responsibility for areas of NNDR should be formally delegated to the appropriate officer.	M	Revenues and Benefits operations Manager will raise at his next 1 to 1 and will ensure that the delegation is completed.	Revenues and Benefits Manager	6 Months	Management statement to be issued Q1 2018/19
Appraisal process should be followed and should be completed timely. A decision need to be made on which officer is responsible for undertaking the wider team appraisal and ensuring that staff training needs are identified.	M	The new cycle of appraisals is about to commence and a decision will be made and actioned by year end.	Revenues and Benefits Manager	Mar-18	Management statement to be issued Q1 2018/19
Management need to put into place a document retention policy for the NNDR section and to ensure that timely disposal of documents is complied with for all records, electronic and paper.	M	The document retention policy will be in place for NNDR by the end of the financial year. Testing on the two electronic systems, Academy and Civica, and the reliability of disposal to be commenced early 2018/19.	Revenues and Benefits Manager	Mar-18	Management statement to be issued Q1 2018/19

Audit Review					Assurance Level
2016/17 - Physical Security of Premises					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
a) Management should identify, clearly define and communicate to staff the aims and objectives for the physical security of premises. b) Corporate arrangements should be introduced to monitor the delivery of these objectives and regularly report progress on these to senior management. c) Arrangements should be introduced to monitor and report the progress on delivering the Building Services Action Plan.	H	The one objective in relation to the physical security of the Council's premises is to make the premises secure. Financial Procedure Rule (FPR) 4 states clearly that 'all Members and staff have a general responsibility for taking reasonable action to provide for the security of the assets under their control.' In furtherance of this recommendation, however, we have now ensured that the topic is recorded in the Building Services Action Plan and Service Plan for 2017/18 The Manager is responsible for monitoring the achievement of tasks in the action plan and these will be reported through the Directorate Management Team. FPR3.13 provides that Directors should ensure…that assets…are…securely held. To implement this requirement the Council employ an officer(s) with responsibility for security and this requirement is stated in Buildings and Estate Services Manager and Keepers' job descriptions. Section C of the FPRs clearly explains why security of assets is important and are safeguarded and C58 specifies the key controls. C65/69 restates that Directors are responsible for assets under their control – officers are employed to fulfil this responsibility.	Building & Estates Services Manager	Implemented	Formal follow up Q4 2017/18

Audit Review					Assurance Level
2016/17 - Physical Security of Premises					Partial
Recommendation	**Priority**	**Agreed action**	**Responsible Manager**	**Date**	**Status**
a) Corporate and departmental guidance should be formally documented to direct and inform staff of the Council's physical security arrangements over its premises. This guidance may consist of premises handbooks for each of the operational buildings in the Council's portfolio that detail how security arrangements are implemented including building assessments. b) Once this new guidance is in place a timescale should be set for new staff to be trained on the Council's building security arrangements.	**H**	When staff commence work at their respective places of work they receive instruction as to how to enter and leave the premises, for example, staff at the Civic Centre are allocated a fob and shown how to access the building and their individual place of work. Staff also know that the public are not allowed to enter the building outside of prescribed hours. This is a clear system which has worked faultlessly, however, we will document it as requested. Training on building security will be provided for all new staff together with updates and refresher training whenever appropriate.	Building and Estates Services Manager	30/08/2017	Formal follow up Q4 2017/18
a) A record should be retained of the Keepers' security checks on the Civic Centre premises and their results. Management should be assured that these checks are undertaken and where security issues are identified these should be escalated and investigated. b) The Building and Estates Services Manager should obtain assurance that physical security checks are performed across all Councils' premises and there is evidence to support that these are undertaken and reported	**M**	a) Noting that there has not been one breach of security other than in exceptional circumstances, we will create an administrative system to deliver this recommendation. The keepers will continue to complete the established log referred to in 5.2.2 but will also now carry out the additional task of filling in a further record sheet confirming that opening and checking the building each morning, locking front and centre side doors etc checks have been carried out. The BESM will also establish a further administrative system so that periodically she reviews the two logs. b) The BESM will cover this area within the proposed building handbooks for individual premises.	Building and Estates Services Manager	26/08/2017	Formal follow up Q4 2017/18

Key

- Recommendations reviewed by Internal Audit and evidencedas actioned (Closed)
- Recommendation not appropriate for follow up e.g. relates to one off scheme (Closed)
- Formal Audit follow up scheduled
- Management Statement scheduled to request evidence of implementation
- Recommendation not actioned - revised timescales for implementation agreed.
- Recommendation reviewed and not confirmed as actioned (no response/revised timescales have passed)

Audit of Section 106 Agreements

Draft Report Issued: **01 December 2017**
Director Draft Issued: **18 December 2017**
Final Report Issued: **22 December 2017**

Audit Report Distribution

Client Lead:	CIL, S106 & Monitoring Officer Investment & Policy Manager
Chief Officer:	Corporate Director of Economic Development Chief Executive
Audit Committee:	The Audit Committee, which is due to be held on 12th January 2018 will receive summary findings and recommendations from this audit.

1.0 Background

1.1. This report summarises the findings from the audit of Section 106 Agreements. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.

1.2 Section 106 agreements relate to the Town and Country Planning Act. They are legal agreements linked to planning permissions. Agreements can either require applicants to deliver their own obligations, or to provide local authorities with a payment to cover the cost of delivering their own obligations.

1.3 The purpose of these obligations is to make the planning application acceptable in line with the authority's policies. They usually relate to the added burdens placed on the local infrastructure brought about by the proposed application.

1.3 The Community Infrastructure Levy (CIL) is an alternative form of agreement, with similar overall outcomes, introduced by the Government in 2010. To date the City Council has not adopted CIL, predominately due to the extent of uncertainty on how legislation is to be amended by the Government in light of a recent CIL review published early in 2017.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 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.

2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Leads for this review are the CIL, S106 and Monitoring Officer and the Investment and Policy Manager. The agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:

- Loss of secured income (repaid to applicants) due to:

i) Insufficient Governance systems, including establishing appropriate policies, procedures, defined roles & responsibilities and suitable reporting arrangements.
ii) Insufficient monitoring of accurate, complete and timely information to a suitable level within the organisation / failure to take action to address concerns from reported information (including obligations with third parties)

iii) Unnecessary delays in delivering obligations.

- Ensuring delivery of agreed obligations that meet the business objectives and planning requirements of the Council :

- The extent to which the Council does not maximise opportunities to achieve business objectives by failing to identify and negotiate appropriate, good value planning obligations.

- The extent to which efficient use is made of Council resources and value for money is achieved when delivering Council/third party obligations.

- Whether effective planning is in place for longer term commitments resulting from long term obligations (e.g. maintenance of playparks once s.106 obligations are fulfilled by applicant).

- Whether reputational damage as a result of failing to administer obligations presents a genuine risk.

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

3.0 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 B.**

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Section 106 Agreements provide **Reasonable assurance**.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

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

4.2 There are 5 audit recommendations arising from this audit review and these can be summarised as follows:

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	5
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	-
3. **Value** – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	**-**	**5**

4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.4 **Findings Summary (good practice / areas for improvement):**

There is an established process in place for the monitoring of S106, which generally works well. The Council has a suitable policy in place and agreements are developed to ensure the Council maintains adherence. There is a suitable consultation process in place to identify S106 agreements and they are agreed, approved and appropriately prepared.

The monitoring of trigger points and the delivery of obligations, on the whole works well. However, due to the complexity of the agreements there are occasions where items are not progressed in a timely manner, often because it is not clear who is responsible, or what actions are required. While these are relatively infrequent, they do expose the Council to the risk of losing income. The process could be improved by introducing a formal action list for all agreements, which is then closely monitored and reported to Senior Management.

There is a need to document the S106 agreement process to ensure consistency is applied and ensure relevant information is communicated at the right time. Consideration should be given to utilising relevant software.

Consideration should also be given to including relevant risks on the Council's operational risk management framework.

Comment from the Corporate Director of Economic Development

I welcome the report and the recommendations. Actions are being implemented in response to the recommendations included links between the refreshed S106 Working Group and the Economic Growth Board.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 The Council has a Monitoring Officer in post responsible for ensuring Section 106 obligations are delivered. Responsibilities in relation to S106 agreements across the Council (including Finance, Legal Services and Development Management) are established and understood.

5.1.2 There are currently no written procedures in place documenting the S106 process. A process map has been developed by the Policy & Performance Team in March 2017, which is a useful starting point.

5.1.3 The S106 process is relatively complex and requires input from various different Council departments including Development Management, Investment & Policy, Legal Services, Green Spaces and Highways Services. There is only one Monitoring Officer at the authority. There is currently no guidance on the processes to follow if they were to take absence.

5.1.4 The process also relies on communication between the various internal departments. Some concerns have been raised in this area. For example, the CIL, S106 & Monitoring Officer provided examples of affordable housing requirements being removed from agreements without being formally notified. Procedure notes should be developed to include when information should be communicated and to who.

Recommendation 1 – Following consultation with all relevant parties, procedure notes detailing the processes taken to monitor and deliver S106 agreements should be prepared. Communication processes should be included.

5.1.5 There are currently no risks relating to the monitoring of S106 obligations included as part of the Council's operational risk management framework. There has been recent negative media coverage of the delivery of one S106 agreement and there are potential further challenges for the Council in delivering S106 agreements, including large developments planned in the Carlisle area.

Recommendation 2 – Consideration should be given to including risks relating to S106 agreements as part of the authority's quarterly monitoring of operation risk.

5.1.6 The CIL, S106 & Monitoring Officer and the Finance Officer meet with officers responsible for delivering obligations on an annual basis. These meetings are not minuted.

5.1.7 There can be numerous S106 obligations active at one time, each with different requirements and timescales to achieve. A number of issues have been identified by audit testing with regards to timely and efficient delivery of obligations (see section 5.2).

5.1.8 There is a clear requirement to formally monitor these various obligations on a more frequent basis. Discussions held during audit testing indicated the development of an action log would be the most effective way to monitor this.

Recommendation 3 – Meetings to discuss progress of S106 agreements should be held on a more regular basis.

Recommendation 4 – A list of agreed actions arising from the meetings should be devised and maintained. The list should be designed to ensure all outstanding obligations are assigned to an officer, with a timescale for completing the various steps required. Progress against actions should be monitored on a regular basis.

5.1.9 Information relating to S106 agreements, including contributions received and progress against delivering obligations was previously reported to the Corporate Programme Board. However, this was disbanded in January 2017. There has subsequently been no formal reporting to Senior Managers.

5.1.10 There is a need for Senior Management to receive regular assurances of the progress being made against delivering S106 agreements. They should receive regular updates on any areas of concern (taken from the monitoring of the action list) so they can intervene and take action when required.

Recommendation 5 – Delivery of obligations should be reported to Senior Management on a regular basis.

5.1.11 The CIL, S106 & Monitoring Officer prepares an annual report detailing progress made against S106 agreements. This is a public document. This is not currently a statutory requirement but the Government are considering making it so.

4.1 Regulatory – compliance with laws, regulations, policies, procedures and contracts

4.1.1 The CIL, S106 & Monitoring Officer maintains a spreadsheet of all S106 agreements and has developed a process for monitoring the delivery of obligations. A review of the spreadsheet and other relevant documentation found them to be accurate and suitable.

4.1.2 This is wholly the CIL, S106 & Monitoring Officer's own process and is inherently reliant on their knowledge.

4.1.3 There is software available for monitoring S106 agreements (and CIL), which could be advantageous for the Council – it would ensure a uniform process is followed, could potentially be more efficient and could be picked up by other officers in the event of absence.

4.1.4 It is advised an exercise is undertaken to review the availability and cost of monitoring software to determine if it is worthwhile introducing software for S106 monitoring.

4.1.5 The Finance Officer maintains a spreadsheet of contributions received from applicants and the progress against utilising the contributions. This is supported by a summary report that highlights any areas of concern. N.B this document was previously reported to the Corporate Programme Board. This document would be a useful starting point in terms of devising a report to Senior Management (see recommendation 5) as it flags areas of concern using a traffic light system (RAG).

4.1.6 The Carlisle District Local Plan sets out the Council's policy on planning obligations. S106 agreements arise on the requirement to adhere to this policy.

4.1.7 A suitable consultation process is established within Development Management to ensure relevant parties (both internal and external) have an opportunity to provide input into relevant applications. Audit testing found this process to be working effectively.

4.1.8 S106 agreements, including variations are subject to a suitable level of scrutiny and approval as they are agreed as part of the planning application approval process. Legal Services prepare agreements in line with the agreed obligations. Audit testing found this process to be working effectively.

4.1.9 A process is established to monitor the reaching of trigger points for applicants to either meet their obligations or pay a contribution to the City Council or County Council, so that they can deliver the obligations.

4.1.10 Monitoring arrangements are also in place to ensure applicants deliver their obligations.

4.1.11 Cumbria County Council is responsible for monitoring delivery of any obligations they enter into with applicants. The City Council would only get involved if an applicant was not meeting obligations and legal and / or enforcement action was necessary.

4.1.12 An internal process is established to receive, account for and allocate responsibility for contributions received by applicants. Monitoring is in place to ensure obligations are delivered.

4.1.13 Audit testing of a sample of agreements identified a number of issues:

- There was no assurance that one (minor) obligation had been actioned by the applicant.
- Payment of a contribution by an applicant is currently in dispute. There has been limited progress made to resolve this issue.
- The deadline to spend two contributions (from the same agreement) had to be extended by one year in order for the City Council to deliver its obligations. Payment for the work was subsequently defrayed very close to the extended deadline. This particular scheme received media attention. The extension permitted was wholly reliant on the co-operation of the developer.
- One payment to be spent within 10 years has been held unspent by the authority for 7 years. It is proposed the money is handed directly to a Parish Council, but there has been limited progress (though the responsible officer is confident the money will be utilised in time).
- There were instances of residual payments being utilised at the last minute. It was not clear to all relevant officers that the money had been spent in time.
- It was not clear if a contribution for road closure work had been utilised.

4.1.14 It is recognised from conversations with responsible officers that the delivery of obligations is not straightforward and can take time to deliver. It is difficult to prepare detailed schemes in advance, owing to an uncertainty as to when full funding will come forward.

4.1.15 Responsible officers have indicated additional difficulties due to the reduced workforce. Looking forward, a number of large developments planned in the area could continue to increase the burden on the Council to deliver S106 obligations.

4.1.16 These findings support the recommendations made in section 5.1. There is an identified need to ensure all obligations are closely monitored in an effective manner to ensure they are all achieved within the specified timescales. The recommendations will also help identify any areas where additional resource may be required to achieve obligations.

4.2 Value – effectiveness and efficiency of operations and programmes

4.2.1 Obligations delivered by the City Council are subject to the Council's procurement rules. A sample check of schemes found that the process had been properly followed.

4.2.2 The Council has experienced financial concerns over the requirement to maintain green spaces (such as play-parks) that had been paid for and maintained by S106 contributions, once the maintenance contributions are fully utilised (usually after 10 years).

4.2.3 The Council has addressed this concern. As a rule, responsibility for the maintenance of new green space development stays with the residents (through implementation of a management scheme). Alternatively, contributions are invested in improving and upgrading existing nearby green spaces where appropriate.

4.2.4 The Council currently has a residual allocation of maintenance money for a number of existing green space schemes. This money was previously transferred to the Green Spaces team as part of their annual maintenance budget, but this practice was stopped in 2016 by the Finance Office and CIL, S106 & Monitoring Officer, as this practice potentially introduced additional financial burdens once the S106 maintenance money has been fully utilised.

4.2.5 Assurances were obtained that the Green Spaces maintenance budget is being appropriately managed, as they are aiming to deliver all routine maintenance without contributions of S106 monies.

4.2.6 Section 4.2 highlights an instance where a project has currently not been progressed. This project also has a payment for maintenance, which will have to be utilised over a shorter time-frame as a result of delays in developing the project, which again highlights the need for closer monitoring (Recommendation 4)

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1: Following consultation with all relevant parties, procedure notes detailing the processes taken to monitor and deliver S106 agreements should be prepared. Communication processes should be included	**Priority** M	**Risk Exposure** Lost income, or negative publicity due to inconsistent practice. Service continuity impacted by staff absence.	To establish a procedure and communication protocol for the monitoring and delivery of S106 agreements, building on the work drafted by the Policy and Performance.	Investment & Policy Manager	01 April 2018
Recommendation 2: Consideration should be given to including risks relating to S106 agreements as part of the authority's quarterly monitoring of operation risk	**Priority** M	**Risk Exposure** Lost income, or negative publicity due to failure to identify and mitigate risks.	Comprise a risk register for S106 agreements which can be fed into the service areas quarterly monitoring of risks to enable appropriate action to be taken. Process to form part of the procedure and communication protocol	Investment & Policy Manager	01 April 2018
Recommendation 3: Meetings to discuss progress of S106 agreements should be held on a more regular basis.	**Priority** M	**Risk Exposure** Lost income, or negative publicity due to failure to deliver obligations as specified, including opportunities for intervention.	Pre-programme S106 discussion meetings at predetermined intervals to be established as a sub group of the Economic Growth Board	Investment & Policy Manager	01 April 2018

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 4: A list of agreed actions arising from the meetings should be devised and maintained. The list should be designed to ensure all outstanding obligations are assigned to an officer, with a timescale for completing the various steps required. Progress against actions should be monitored on a regular basis	**Priority** M	**Risk Exposure** Lost income, or negative publicity due to failure to identify and ensure delivery of necessary actions on a timely basis.	Minutes and actions to be recorded at the S106 meetings and circulated.	Investment & Policy Manager	01 April 2018
Recommendation 5: Delivery of obligations should be reported to Senior Management on a regular basis	**Priority** M	**Risk Exposure** Lost income, or negative publicity due to failure to identify areas that require Senior Management intervention.	As it is envisaged that Action 3 will be a subgroup of the Economic Growth Board minutes and actions will be reported to that board which is chaired by the Corporate Director of Economic Development.	Investment & Policy Manager	01 April 2018

Appendix B

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. *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.*	The controls tested are being consistently applied and no weaknesses were identified. Improvements, 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 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.

Appendix C

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 two levels of audit recommendations used; high and medium, 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

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Audit of Talkin Tarn and Boathouse Tearooms

Draft Report Issued: **4th December 2017**
Director Draft Issued: **15th December 2017**
Final Report Issued: **21st December 2017**

Audit Report Distribution

Client Lead:	Neighbourhood and Greenspaces Manager
Chief Officer:	Deputy Chief Executive
Others:	Site Management Team Leader Chief Executive (Final report)
Audit Committee:	The Audit Committee, which is due to be held on 12th January 2018 will receive a copy of this report.

1.0 Background

1.1. This report summarises the findings from the audit of Talkin Tarn and the Boathouse Tearooms. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.

1.2. Talkin Tarn is operated by the Council, it is under the responsibility of Community Services and the Neighbourhoods & Green Spaces Manager. It is a popular destination and offers a variety of facilities including watersports, walking and open air theatre.

1.3. Talkin Tarn facility meets the following service objective and key themes of the Carlisle Plan:

Service Objective

- Improving the health, wellbeing and economic prosperity of the people of Carlisle. We will work in partnership to further establish our position as the regional centre and focus for investment, ensuring that residents can share in the benefits through increased opportunities and greater choice of jobs, range of housing and a quality environment.

Key themes

- Health and wellbeing of our citizens. Carlisle's parks and green spaces perform an important function in providing safe, accessible space for outdoor recreation and activities.
- Prosperity and economic development of the city. An attractive green environment is a selling point the city can use to bring new businesses and people to Carlisle.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 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.

2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Lead for this review was the Neighbourhood and Greenspaces Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risk areas:

- Lack of management direction, resulting in no clear strategy to operate and improve the facility.
- No management of the contracts in place, resulting in poor service provisions.
- Failure to monitor health and safety concerns including reporting accidents/near misses at the facility, resulting in claims and prosecution again the authority.
- Loss of or damage to assets due to failure to adopt suitable, proportionate security controls
- Staffing issues are not addressed resulting in HR issues with seasonal staff and lone workers
- Income is not appropriately managed resulting in poor performance and practices.

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

3.0 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 B.**

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Talkin Tarn and Tearooms 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.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

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

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

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	2
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	3
3. **Information -** reliability and integrity of financial and operational information (see section 5.4)		3
4. **Security** - safeguarding of assets (see section 5.3)	-	0
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.5)	-	0
Total Number of Recommendations	**-**	**8**

4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.4 **Findings Summary:**

There are good policies in place providing management with direction and a clear strategy to operate and improve the facility. Further work should be undertaken to improve the risk registers and the documentation around the monitoring of the service plans.

There are controls in place to ensure that contracts are appropriately awarded. The main contract is with Talkin Tarn Adventure and monthly meetings take place with management, however there is no documentation to confirm that the meetings are taking place or an action plan to confirm that any issues highlighted are progressed.

Health and safety is addressed and a full review was undertaken in Feb 2017 by the Council's Health and Safety Manager. The follow-up actions of the report were reviewed and it highlighted that an issue was still outstanding. Further issues were raised with the storing of files and personal information in an unlocked cupboard within a public area.

Assets are protected and security controls are in place. There is a lack of current procedures being in place and being available to all necessary employees. The controls around the CCTV systems should be improved and brought into line with legislation and further guidance should be obtained from the Council's Corporate Information Officer

Talkin Tarn relies on flexibility of the workforce and this has been met through the use of casual staff. Some of these have worked regular hours most weeks across long periods of time. HR has raised issues with the use of casual staff for this purpose. Lone worker security has been addressed through a personal safety device.

Income is appropriately managed and the management team are aware of the need to maximise revenue at the Tarn. Third Party events are encouraged to help meet this aim and to improve the footfall at the site.

Comment from the Deputy Chief Executive

The audit review of Talkin Tarn has proved to be a useful exercise and has highlighted a number of issues for the onsite team and Green Spaces management to attend to.
These will be accepted and worked on during the next quarter, paying particular attention to any health and safety issues.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 There are good policies in place providing management with direction and a clear strategy to operate and improve the facilities at the Talkin Tarn site. The activities at the Tarn support the priorities of the Council and along with the key themes this has been formally identified and approved by Members.

5.1.2 There is a service plan in place with specific targets, there is evidence that meetings are planned to discuss their progression and other service objectives. There is no evidence to support these discussions taking place or how the areas for concern following meetings are documented and monitored further to ensure that the necessary actions are undertaken.

Recommendation 1 – Documentation should be produced to support the monitoring of the Service Plans.

5.1.3 There is a detailed business plan in place with expectations agreed by Overview and Scrutiny. Updates are given twice a year to the Committee with evidence the business plan is being progressed.

5.1.4 An operational risk register is in place for Green Spaces and Bereavement services and is included within their Service Plan. No specific risks are raised for the Talkin Tarn Site. A discussion with the Neighbourhood and Greenspace Manager concluded that there should be a reference to the Member's expectations, such as the requirement to break-even. This would help to focus the aims and to monitor progression.
It is also noted that while there is a risk for Bereavement Services lone-workers the same is not in place for Talkin Tarn. Consideration should be given to either adopting a generic lone-worker risk or including a separate one for Talkin Tarn.

Recommendation 2 – The operational risk register should be reviewed and consideration given specific risks at Talkin Tarn.

5.1.5 Due to the varying opening hours and seasonal variations at the Boathouse Tearooms there is a business need for a flexible workforce. This has been achieved through the use of casual staff; some of these casual officers have worked for long periods of time (many years in some cases). It has allowed management to staff the tearooms as necessary and helped ensure the business need is met for a reasonable cost. The casuals have been paid enhanced wages to allow for annual leave and sick leave entitlements. HR have raised concerns with the situation and it is currently being addressed. There could be a need for a staffing restructure at the Tarn to accommodate changes to allow the service to be delivered differently to meet business needs. Officers should continue working with HR officers to address the issues with using regular casual staff

5.1.6 Management have processes in place to ensure that any lone workers are safe at work. The use of the Skyguard personal safety device ensures that employees have support at all times and that they are able to sign out when finishing shifts.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 There are good controls in place to monitor contracts with third parties. The main contract with Talkin Tarn Adventure is still in its first year. Council management are happy with their service provision, which has been very good. They are working well with the Tarn staff to grow their business which improves footfall at the site, and therefore increases income.

5.2.2 Leases are in place between the City Council and the three organisations that operate from the site. Talkin Tarn Adventure, the Rowing Club and Brampton Sailing Club.

5.2.3 The procurement process was correctly followed for the recent tenders of the Water sports and the camping provision. The Procurement team managed the process to ensure it complied with legislation and policy.

5.2.4 Monitoring of the contracts is in place and monthly meetings take place to discuss any issues with the lessee, Talkin Tarn Adventure. However there is no documentation to confirm that the meetings are taking place or any action plans to confirm that issues highlighted are documented and action is taken to manage any issues.

Recommendation 3 – Action plan should be produced and any issues highlighted at monitoring meetings should be documented and followed up

5.2.5 A detailed health and safety review was undertaken by the Council's Health and Safety Officer in early 2017 at Talkin Tarn. A brief review of the issues raised highlighted that neither Facilities Management nor Greenspaces staff took ownership of the responsibility for the Portable Appliance Testing (PAT). Although the review stated that the work was scheduled for March 2017, audit testing on site concluded that this still hasn't taken place.

Recommendation 4 - Ownership for arranging the Portable Appliance Testing should be identified and it should be organised as soon as possible.

5.2.6 The asbestos at the site has been identified, monitored and reviewed. Facilities Management have advised that they are regularly monitoring the situation

5.2.7 The CCTV system at the Tarn is appropriately registered with the Data Commissioner. There are no processes or procedure notes for the management of the CCTV system. The procedures should include information on releasing images from the cameras and how staff should deal with access requests if they should receive any. There are limited signs advising users that their image could be captured on CCTV. The cameras are not checked routinely to confirm that they are working correctly. The Council's Corporate Information Officer should be contacted for further advice.

5.2.8 The procedures notes for the tearoom have not been reviewed and updated recently. The Tearoom's notes have not been reviewed since 2015, and Cashing up/Till procedures since2008. Since then a new till system has been introduced. The paper copy of the procedures was not available. The Talkin Tarn Gift Shop and Tearooms Manager was able to provide sight of the electronic version.

Recommendation 5 - The processes in relation to the CCTV system at Talkin Tarn should be improved and documented. In addition a general review of all the procedures should be undertaken and updated to reflect the current working practices.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 The Health and Safety folder is readily available to all staff. The folder is detailed and a copy of the Health and Safety policy is available. The majority of risk assessments are up to date and were reviewed on the 14th February 2017. The risk assessment for the lone workers needs to be updated to reflect the procedures for this winter. It is noted that the new procedures have only been implemented from when the café and restaurant have gone on to winter hours in November 2017.

Recommendation 6 – The health and Safety folder should be reviewed regularly and updated as necessary

5.3.2 There is detailed information available to Talkin Tarn users at all times, with the use of the notice boards, which are kept up to date.

5.3.3 There are detailed forms to be used for bookings. The forms are retained in an unlocked cupboard within the Café area. These completed forms carry personal data and should be kept locked away, with restricted access to staff only.

Recommendation 7 – All documentation holding personal information should be kept in a locked cupboard.

5.3.4 Woodland grants are being received and the terms and conditions are being met to ensure that income is received. It would be advisable that procedures are written so that the grants are more formally monitored throughout the year and that the senior management team have assurance that the grant terms are being complied.

5.3.5 The end of year stock is appropriately valued and it is signed by the appropriate responsible officer and Director.

5.3.6 Weekly management meetings take place to allow issues arisen and the week's plans to be discussed.

5.3.7 Job descriptions are in place for the three roles that are covered by fixed term employees. The roles that are currently met by casual staff should have some roles and responsibilities documented so that they are aware of expectations. This should include cashing up and security of the safe key.

Recommendation 8 - Roles and responsibilities should be documented for casual staff

5.3.8 The cashing up of the tills is undertaken daily and the responsible employee is identifiable through the till receipt. The till takings are reconciled to the banking weekly.

5.4 Security – Safeguarding of Assets

5.4.1 The leases with third party users all request that copies of the organisation's insurance certificates are received annually. The current copies for the three leases were all available and have been reviewed by the Council's Finance and Insurance Officer. It should be considered whether to add the Insurance update responsibility to the Talkin Tarn maintenance schedule, managed by the Site Manager Team Leader.

5.4.2 The current process in place for storage and transport of cash is in line with the Council's insurance terms and conditions.

5.4.3 The fire assembly point is clearly marked and the fire evacuation procedures are displayed. In line with the updated procedures for the Civic Centre it would be worth management considering if there is a need to move the assembly point at the Tarn further away from the buildings.

5.4.4 The new starters (casual) forms are completed and are sent to personnel files for reference. The forms are signed by both the casual and the relevant manager as evidence the necessary training has been undertaken, including correct use of equipment.

5.5 Value – effectiveness and efficiency of operations and programmes

5.5.1 All third party events at the Tarn help to improve the footfall and generate additional income through the Café and the Car parking. The risk of loss of income resides with the third party. Declarations are signed and when the income is received percentages are handed over. Management review the income received and prioritise the site space to the more successful artists for revisits.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1: Documentation should be produced to support the monitoring of the Service Plans.	**Priority** M	**Risk Exposure** Lack of management direction, resulting in no clear strategy to operate and improve the facility.	**Keep notes of monitoring meetings.**	**Site Management Team Leader**	**Immediate**
Recommendation 2: The operational risk register should be reviewed and consideration given specific risks at Talkin Tarn.	**Priority** M	**Risk Exposure** Lack of management direction, resulting in no clear strategy to operate and improve the facility.	**Specific TT risks identified and added to the operational risk register**	**Site Management Team Leader / Neighbourhood and Greenspaces Manager**	**01 Feb 18**
Recommendation 3: Action plan should be produced and any issues highlighted at monitoring meetings should be documented and followed up.	**Priority** M	**Risk Exposure** No management of the contracts in place, resulting in poor service provisions.	**Action Plan produced. Regular reviews with minuted meetings.**	**Site Management Team Leader / Talkin Tarn Team Room & Gift shop Manager**	**Immediate**
Recommendation 4: Ownership for arranging the Portable Appliance Testing should be identified and it should be organised as soon as possible.	**Priority** M	**Risk Exposure** Failure to monitor health and safety concerns including reporting accidents/near misses at the facility, resulting in claims and prosecution again the authority.	**Responsibility for PAT testing agreed as resting with Talkin Tarn management (Green Spaces).**	**Neighbourhood and Greenspaces Manager / Site Management Team Leader**	**01 Jan 18**

Recommendation 5: The processes in relation to the CCTV system at Talkin Tarn should be improved and documented. In addition a general review of all the procedures should be undertaken and updated to reflect the current working practices.	**Priority** M	**Risk Exposure** Loss of or damage to assets due to failure to adopt suitable, proportionate security controls. Loss of or damage to assets due to failure to adopt suitable, proportionate security controls	**Review of CCTV operation at Talkin Tarn. Procedures updated.**	**Site Management Team Leader / Green Spaces Operations Manager,**	**01 March 18**
Recommendation 6: The health and Safety folder should be reviewed regularly and updated as necessary.	**Priority** M	**Risk Exposure** Failure to monitor health and safety concerns including reporting accidents/near misses at the facility, resulting in claims and prosecution again the authority.	**H&S folder reviewed and updated**	**Site Management Team Leader / Health and Safety Manager**	**01 March 18**
Recommendation 7: All documentation holding personal information should be kept in a locked cupboard.	**Priority** M	**Risk Exposure** Failure to monitor health and safety concerns including reporting accidents/near misses at the facility, resulting in claims and prosecution again the authority.	**Move booking records etc to a locked cupboard or cabinet.**	**Talkin Tarn Team Room & Gift shop Manager**	**01 Jan 18**
Recommendation 8: Roles and responsibilities should be documented for casual staff.	**Priority** M	**Risk Exposure** Staffing issues are not addressed resulting in HR issues with seasonal staff and lone workers.	**Roles and responsibilities identified for casual staff; consideration of**	**Site Management Team Leader / Talkin Tarn Team Room & Gift shop Manager / HR**	**01 Feb 18**

			temporary contracts.	Advisor	

Appendix B

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. Improvements, 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 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.

Appendix C

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 two levels of audit recommendations used; high and medium, 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

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

CARLISLE CITY COUNCIL

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Audit of Public Health & Safety / Enforcement

Draft Report Issued: **13 November 2017**
Director Draft Issued: **18 December 2017**
Final Report Issued: **20 December 2017**

Audit Report Distribution

Client Lead:	Regulatory Services Manager
Chief Officer:	Corporate Director of Governance and Regulatory Services Chief Executive
Others:	Principal Health & Housing Officer, Food & Public Protection Team
Audit Committee:	The Audit Committee, which is due to be held on 12 January 2018, will receive a copy of this report.

1.0 Background

1.1. This report summarises the findings from the audit of Public Health & Safety / Enforcement. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.

1.2. Health and safety legislation is either enforced by the HSE (Health and Safety Executive) or local authorities, depending on the main activity carried out at any particular premises. Local authorities are the main enforcing authority for retail, wholesale distribution & warehousing, hotel & catering premises, offices and the leisure industries.

1.3. Each local authority is an enforcing authority in its own right and must make adequate provision for enforcement.

1.4. Local authority inspectors can use enforcement powers, including formal enforcement notices, to address occupational health and safety risks and secure compliance with the law. Prosecution action may be appropriate to hold duty-holders to account for failures to safeguard health and safety.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 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.

2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

2.3 The Audit Scope was agreed with management prior to the commencement of this audit review. The Client Lead for this review was the Regulatory Services Manager and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:

- Risk 1 - Danger to public health and safety due to limited arrangements in place in relation to health and safety / enforcement. (**Management**)
- Risk 2 - Reputational damage / sanctions arising from legislation / regulation associated with health and safety for new and existing business not wholly known / compiled with. (**Regulatory**)
- Risk 3 - Reputational damage / sanctions arising from failure to meet statutory health and safety legislation / regulations. (**Regulatory**)
- Risk 4 - Sanctions for non-return of information to organisations such as the Health and Safety Executive. (**Regulatory**)

- Risk 5 - Council fail to evidence they have achieved their statutory obligations by failing to properly document appropriate inspections / investigations have taken place. (**Information**)
- Risk 6 - Inaccurate information resulting in poor decision making process and outcomes (including court decisions) due to data input errors or inconsistencies occur in the way the information is input, updated and recorded in the system. (**Information**)
- Risk 7 - Poor decision making process and outcomes (including court decisions) due to management and performance data not up to date and / or incomplete. (**Information**)
- Risk 8 - Safeguarding of data is not effective because it is not held securely and can be accessed by unauthorised individuals. (**Security**)
- Risk 9 - Inspections / investigations are not administered in an efficient way. (**Value**)

2.4 There were no instances where the audit work was impaired by the availability of information.

3.0 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 B.**

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Public Health & Safety / Enforcement provide **reasonable assurance**. The Audit includes one high graded recommendation; however, this relates to a single, discreet control area. Overall the internal controls are generally suitable, however there are some areas where controls are not always effectively applied.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

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

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

Control Objective	High	Medium
1. **Management** - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	3
2. **Regulatory** - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. **Information** - reliability and integrity of financial and operational information (see section 5.4)	-	2
4. **Security** - safeguarding of assets (see section 5.3)	-	1
5. **Value** – effectiveness and efficiency of operations and programmes (see section 5.5)	-	-
Total Number of Recommendations	**1**	**7**

4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.4 **Findings Summary**

Good Practice:

- The Regulatory Services service plan 2017/18 includes public health and safety enforcement. The service plan aligns to the Council's plan and includes specific service objectives for health and safety / enforcement. This is reviewed and updated after 6 months and has been approved by the Corporate Director.
- There is a current enforcement policy.
- Risks have been identified for the service and detailed in the service plan and are regularly monitored by management.
- The team use various sources of reference for advice and guidance in their day-to-day roles.
- The Principal Health & Housing officer regularly attends the Health & Safety Technical Working Group, which is made up of officers from each Cumbria local authority plus a designated partnership officer from the HSE. Best practice is shared within the group.
- The statutory LAE1 2016/17 annual return which reports health and safety inspections and enforcement activity was completed and submitted prior to the deadline.
- The team are aware of RIDDOR (Reporting of injuries, Diseases and Dangerous Occurrences) and these procedures were last updated in August 2016.
- All flare users have their own individual user ID and password and the system regularly prompts users to change their password.

- A document retention schedule is in place and the team are working through all their documentation to bring the service up to date, this continues to be work in progress.
- Customer satisfaction questionnaires are sent out quarterly. However, there had been a delay in sending the last two quarters. These should be sent out as soon as possible.

Areas for improvement:

- Audit testing highlighted that the Accident Reporting procedures needs to be updated.
- Management checks are completed, but not on a regular basis. Audit testing highlighted errors and missing data for case files on Flare. Regular management checks need to be undertaken to ensure that the required data is accurately recorded.
- Team meetings and 1 to 1's are completed, but not on a regular basis.
- Audit testing identified that not all incidents have been passed on to the responsible authority to action, for example CQC (Care Quality Commission).
- There is currently no reminder on Flare to prompt officers to check the Primary Authority Register to see if the business has a primary authority. A Primary Authority gives companies the right to form a statutory partnership with a single local authority. The local authority can provide robust and reliable advice for other regulators to take into account when carrying out inspections or dealing with non-compliance.
- The procedure for completing the statutory LAE1 annual return is not up to date.
- There is no matrix in place to record the reason why decisions have been made not to prosecute. Flare does not detail the summary supporting this decision, nor is it recorded on the incident criteria sheet.
- Flare does not currently restrict access to specific service area prosecutions.
- Although the team are aware of the emergency grab bag (which contains relevant documentation which would be used by officers responding to an emergency incident, for example, a fatality) there is no regular check of its contents or a checklist or process documented for replenishing it after it has been used.
- After the severe flooding in December 2015, it was highlighted that the service could be improved by providing the officers with better equipment, for example smart mobile phones which would allow them to take photographs and download them promptly, access Flare, email, procedures, Riddor, RIAMS and the HSE website remotely. This would allow officers to work more effectively when out on site.

Comment from the Corporate Director of Governance and Regulatory Services

Thank you for the team and Internal Auditors' work on this audit, the output of which is helpful. The contents are noted and the Manager's actions agreed.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 The Regulatory Services Service Plan 2017/18 includes public health and safety / enforcement and was approved by the Corporate Director of Governance and Regulatory Services.

5.1.2 The service plan is aligned to the Council's plan. It includes priority objectives for the service area and is reviewed and updated after six months. Service updates are discussed at team meetings.

5.1.3 There is an up-to-date Health and Safety Enforcement Policy, however it was noted that it is not available on the Council's website. It is advised that the policy is placed on the Council's website.

5.1.4 Risks have been identified and detailed in the service plan. Management regularly monitor the risks using the City Council's monitoring software, Project Server.

5.1.5 Out of hours contact is available in the event of an emergency.

5.1.6 At the time of the audit only ad-hoc management checks on cases were being completed.

5.1.7 Audit testing identified the following errors and omissions within the current system:

- Not all information had been recorded on Flare, for example details of visits to premises.
- Lack of notes recorded on Flare to confirm if the corrective action had / hadn't been taken.
- Examples were noted on Flare where the incorrect codes had been used.
- An Enforcement Management Model form (EMM) could not initially be located on one case file, but has since been located, with a copy provided to Audit.
- Results for 3 swimming pool water samples had been received but had not been loaded onto Flare.

5.1.8 If cases are not accurately recorded on Flare there is a risk of reputational damage / sanctions arising from failure to meet health and safety laws and non-return of information to organisations such as the HSE.

Recommendation 1 – Quarterly management checks should be introduced to ensure the effectiveness and accuracy of information on Flare. These checks should be recorded on the system.

As part of the checks management should also ensure that:

- **Officers record all relevant information on Flare, including premises visits, notes for all relevant action taken, results of specific tests, for example water sample results.**
- **Correct codes are used on Flare.**
- **An EMM form is completed as required. (M)**

5.1.9 All of the relevant officers have up to date job descriptions and delegated powers to carry out statutory health and safety requirements for the Council.

5.1.10 A variety of relevant training is provided for the team and all training logs were up to date.

5.1.11 Currently team meetings and 1 to 1's are not completed on a regular basis. As a result there is a risk of Council objectives not being delivered due to a lack of timely updates to staff.

Recommendation 2 – Management should ensure that team meetings and 1 to 1's are regularly undertaken. (M)

5.1.12 Audit testing identified that not all incidents have been passed on to the responsible authority for action and as a result there is a risk that this could lead to reputational damage and possible sanctions against the Council. Additionally there is a risk incidents are not appropriately dealt with. It was noted during the audit that a national issue exists in reporting incidents to the Care Quality commission (CQC), and the matter is being addressed through the appropriate liaison networks and temporary arrangements have now been agreed with the HSE to reallocate CQC incidents.

Recommendation 3 – Management should ensure that all officers are aware of the requirement to check if the Council is the responsible authority, if not the case should be passed on to the responsible authority, for example CQC (Care Quality commission). (H)

5.1.13 There is currently no reminder on Flare for officers to check the Primary Authority Register to confirm if the business that they are dealing with has a Primary Authority. A Primary Authority gives companies the right to form a statutory partnership with a single local authority. The local authority can provide robust and reliable advice for other regulators to take into account when carrying out inspections or dealing with non-compliance. As a result there may be a risk that the relevant Primary Authority is not notified of an incident.

Recommendation 4 – Management should enquire if it is possible to have a prompt within Flare to remind officers to check the Primary Authority Register to see if the business has a primary authority. This process should be documented within the relevant procedure. (M)

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 The team use various sources of reference for advice and guidance in their day-to-day roles, including the Enforcement Policy, RIAMS (Regulatory Information and Management System), HSE (Health & Safety Executive) website etc.

5.2.2 The Principal Health & Housing Officer regularly attends the Health & Safety Technical Working Group, they share ideas, best practices and updates from HSE. This information is shared across the team.

5.2.3 The team also receive email alerts updates from RIAMS in relation to changes to regulations / legislation.

5.2.4 The statutory LAE1 2016/17 annual return which reports health and safety inspections and enforcement activity was completed and submitted prior to the deadline.

5.2.5 It was noted that the procedure / guidance for completing the statutory LAE1 annual return is not up to date. At the time of the audit only one officer was able to complete this return. In their absence there is a risk that the return would not be accurately completed which may result in the reporting deadline not being met and the Council being subject to sanctions.

Recommendation 5 – The procedure / guidance for completing the annual return should be brought up to date to enable other officers to accurately complete the return if required. (M)

5.3 Information – reliability and integrity of financial and operational information

5.3.1 The team are aware of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences) and these procedures were last updated in August 2016.

5.3.2 Audit testing identified a number of cases which were appearing on RIDDOR but not recorded on Flare. This was investigated and all were found to be non-reportable incidents which do not need to be recorded. This highlighted that the Accident and Reporting procedure needs to be updated to reflect this and a prompt should be included for officers to check RIDDOR when appropriate for other non-reportable incidents, which may aid their investigation. (Advisory)

5.3.3 During the audit it was noted that there is no matrix in place to record the reason why the decision has been made not to go ahead with court proceedings. Flare does not detail this, nor is it recorded on the incident criteria sheet.

5.3.4 This may result in the Council failing to evidence they have achieved their statutory obligations by failing to properly document appropriate inspections / investigations which have taken place.

Recommendation 6 – A matrix should be introduced to record the reason why a decision has been made not to go ahead with court proceedings. Details of this should also be recorded on Flare. This process should also be included in the accident and reporting procedure and the Enforcement Policy. (M)

5.3.5 Flare does not currently restrict access to specific service area prosecutions.

5.3.6 There is a risk of unauthorised access to sensitive data which may lead to reputational damage to the Council.

Recommendation 7 – Management should review how sensitive information is electronically stored and restrict access where needed. (M)

5.4 Security – Safeguarding of Assets

5.4.1 All Flare users have their own individual user ID and password and the system regularly prompts users to change their password.

5.4.2 A document retention schedule is in place and the team are currently working through all their documentation to bring the service up to date.

5.4.3 Although the team are aware of the emergency grab bag (which contains relevant documentation which would be used by officers responding to an emergency incident for example a fatality) there is no regular check of its contents or a checklist or process documented for replenishing it after it has been used.

5.4.4 As a result, key documentation may be missing in the event of an emergency which could result in failure to comply with health and safety laws.

Recommendation 8 – A checklist and guidance should be documented including regularly checking and replenishing of the contents of the emergency grab bag. (M)

5.5 Value – effectiveness and efficiency of operations and programmes

5.5.1 Customer satisfaction questionnaires are sent out quarterly, and are randomly selected by Flare. Audit testing noted a delay in sending the last two quarters out. It is advised that these are sent out as soon as possible.

5.5.2 After the severe flooding in December 2015, it was highlighted that the service could be improved if officers had better equipment, for example smart mobile phones to enable them to take photographs and promptly download them, access Flare, email, procedures, Riddor, RIAMS and the HSE websites remotely. This would allow officers to work more effectively when out on site.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 1: **Quarterly management checks should be introduced to ensure the effectiveness and accuracy of information on Flare. These checks should be recorded on the system.** **As part of the checks management should also ensure that:** **-Officers record all relevant information on Flare, including premises visits, notes for all relevant action taken, results of specific tests, for example water sample results.** **-Correct codes are used on Flare.** **-An EMM form is completed as required.**	**Priority** M	**Risk Exposure** If cases are not accurately recorded on Flare there is a risk of reputational damage / sanctions arising from failure to meet health and safety laws and non-return of information to organisations such as the HSE.	**AGA code introduced for Auditing Management checks. Principal Health and Housing Officer (PHHO) responsible for checks. Regulatory Services Manager to monthly report AGA codes for Principal to monitor checks are completed.**	**Regulatory Services Manager and Principal Health and Housing Officer**	**15th November 2017**
			Inform/brief officers of the need to record correct H&S action codes	**PHHO**	**12th December 2017 (Team meeting)**
			Review Flare reports to ensure 'check data' included for quarterly management checks – enable PHHO to target Flare records for audit checks (AGA code)	**PHHO**	**31st December 2017**
			EMM code to be added to Flare accident record (action diary template) – officers to be informed/briefed on requirement to attach EMM	**PHHO**	**12th December 2017 (Team meeting)**

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 2: **Management should ensure that team meetings and 1 to 1's are regularly undertaken.**	**Priority** M	**Risk Exposure** There is a risk of Council objectives not being delivered due to a lack of timely updates to staff.	**PHHO scheduled one to ones and meetings. These will be minuted / recorded.** **Findings of quarterly management checks to be raised at 1-1's and/or team meetings.**	**PHHO**	**30 Nov 2017**
Recommendation 3: **Management should ensure that all officers are aware of the requirement to check if the Council is the responsible authority, if not the case should be passed on to the responsible authority, for example CQC (Care Quality commission).**	**Priority** H	**Risk Exposure** There is a risk that this could lead to reputational damage and possible sanctions against the Council. Additionally there is a risk incidents are not appropriately dealt with.	**PHHO review incident recording procedure, in particular referrals to other enforcement bodies – CQC & HSE.** **PHHO to monitor referral process as part of quarterly management checks**	**PHHO**	**31 Dec 2017**

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 4: **Management should enquire if it is possible to have a prompt within Flare to remind officers to check the Primary Authority Register to see if the business has a primary authority. This process should be documented within the relevant procedure.**	**Priority** M	**Risk Exposure** There may be a risk that the relevant Primary Authority is not notified of an incident.	**Primary Authority Flare action diary code to be added to appropriate enforcement record templates, including accidents. This will act as a prompt to check.** **Amend incident recording procedure.**	**PHHO** **PHHO**	**31st December 2017** **31st December 2017**
Recommendation 5: **The procedure / guidance for completing the annual return should be brought up to date to enable other officers to accurately complete the return if required.**	**Priority** M	**Risk Exposure** In their absence there is a risk that the return would not be accurately completed which may result in the reporting deadline not being met and the Council being subject to sanctions.	**LAE1 return procedure to be developed.** **Staff trained/briefed on the procedure.**	**PHHO** **PHHO**	**31st January 2017**

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 6: **A matrix should be introduced to record the reason why a decision has been made not to go ahead with court proceedings. Details of this proceedings. Details of this should also be recorded on Flare. This process should also be included in the accident and reporting procedure and the Enforcement Policy.**	**Priority** M	**Risk Exposure** This may result in the Council failing to evidence they have achieved their statutory obligations by failing to properly document appropriate inspections / investigations which have taken place.	**Enforcement decision matrix to be added to the Health & safety Enforcement Policy**	**PHHO**	**1/2/2018**

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 7: **Management should review how sensitive information is electronically stored and restrict access where needed.**	**Priority** M	**Risk Exposure** There is a risk of unauthorised access to sensitive data which may lead to reputational damage to the Council.	**Only Groups responsible for Enforcement can access Environmental Health Flare. Other servers can not be further restricted. All Groups with access understand need for confidentiality. We have considered further restrictions but concluded that the disruption to good working practices will outweigh any benefit. Clean Neighbourhoods work closely with Regulatory Services on matters such as noise and fly tipping, it would not be helpful to restrict access. Flare audits track officer modifications made to databases – the new version of Flare, which should be operational by April 2018, may also allow audits of documents being opened / viewed.** **A full review of the digital storage within Regulatory Services is being undertaken and any sensitive data stored**	**Regulatory Services Manager**	**Review completed**

			incorrectly will be moved to the N drive and coded appropriately.		

Summary of Recommendations and agreed actions					
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**
Recommendation 8: **A checklist and guidance should be documented including regularly checking and replenishing of the contents of the emergency grab bag.**	**Priority** M	**Risk Exposure** As a result, key documentation may be missing in the event of an emergency which could result in failure to comply with health and safety laws.	**Checklist / advisory note to be developed and placed within the grab bag to remind officers to replace items used. This process will be brought to the attention of staff at the next team meeting.**	**PHHO**	**12th December 2017**

Appendix B

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. *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.*	The controls tested are being consistently applied and no weaknesses were identified. Improvements, 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 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.

Appendix C

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 two levels of audit recommendations used; high and medium, 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

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Audit follow up of Housing Improvements (Homelife Scheme)

Draft Report Issued: **8th September 2017**

Director Draft Issued: **6th October 2017**

Final Report Issued: **16th October 2017**

Audit Report Distribution

Client Lead:	Scott Burns, Regulatory Services Manager
Chief Officer:	Mark Lambert, Director of Corporate of Governance and Regulatory Service
Audit Committee:	The Audit Committee, which is due to be held on 12th January 2018 will receive summary findings and recommendations from this audit.

Executive Summary

1.0 Background

1.1. This report summarises the findings from a follow up audit of Housing Improvements (Homelife Scheme). This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.

1.2. The original audit was finalised in August 2016, resulting in a conclusion of **Partial Assurance** and **12** recommendations. A management action plan was completed detailing agreed actions, responsible manager and implementation dates to address the recommendations (**Appendix A**). This follow-up report provides an update on progress made against this action plan.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 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.

2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives. Detailed findings and recommendations are reported within section 5 of this report.

2.3 The Client Lead was asked to provide an update on progress made implementing the agreed actions. Internal Audit then undertook testing as necessary to confirm that actions have been fully implemented and that controls are working as intended to mitigate risk.

Audit Scope and Limitations.

2.4 The original scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following areas:

- Evaluating the scheme's success, customer eligibility and benefits to other parties / partnering bodies;
- Securing the current and future funding position of the scheme.

2.5 It is the responsibility of management to monitor the effectiveness of internal controls to ensure they continue to operate effectively.

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

3.0 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 Where the findings of the follow up confirm that actions have been successfully implemented and controls are working effectively, the internal audit assurance opinion may be revised from that provided by the original audit.

3.3 From the areas examined and tested as part of this follow up review we consider the current controls operating within Housing Improvements (Homelife Scheme) provide **Substantial** assurance (revised from **Partial** 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.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

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

4.2 The previous audit included 12 recommendations (See **Appendix A**) of which:

- Nine agreed actions have been successfully implemented.
- One agreed actions has been partially implemented.
- Two agreed actions have not been implemented as processes have changed and the recommendations are no longer necessary.

4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in **Appendix B**.

4.4 **Findings Summary:**
Good progress has been made against the action plan, with nine of the recommendations now implemented. The High Priority recommendation has been fully addressed and management have demonstrated that planning and evaluation is now in place to support the schemes.

There is still progress required to complete the reconciliation work between the Homelife electronic system and the main accounting system. Reconciliations are carried out and explanations are in place for differences so that management are able to monitor the situation.

Comment from the Corporate Director of Governance and Regulatory Services
Report noted. Thank you to all staff involved in the improvements described and for the transition to the new management arrangements now operating.

5.0 Summary of Recommendations, Audit Findings and Report Distribution

Recommendation 1 – Service Objectives

4.1.1 The original audit highlighted the need to have arrangements in place to ensure that all key objectives are clearly documented and that these are then used as a basis for determining staff objectives.

4.1.2 The key objectives for Homelife are now set out in the Service Plan for Regulatory Services.

4.1.3 Staff appraisals have been undertaken and evidence was seen to support that these followed the corporate approach and that the key objectives of the service are adequately reflected.

4.1.4 Management now have arrangements in place to ensure key objectives are documented.

4.2 Recommendation 2 – Service Risks

4.2.1 It was highlighted previously that there are no arrangements in place to ensure that risks are recorded, managed or reviewed in line with the Council's risk management policy.

4.2.2 The operational risk register for Homelife is now included within the Regulatory Services service plan and is in accordance with the authority's Risk Management Policy. The service plan was approved and the risks relating to Homelife have been considered. The risk register was reviewed on Project Server and had been recently updated (July 2017).

4.2.3 Procedures are now in place and risks are managed in accordance with the corporate policy.

4.3 Recommendation 3 – Business Planning and Self-Financing

4.3.1 The previous audit concluded that arrangements were not in place to ensure that an appropriate level of planning and evaluation was in place to support the development and delivery of the schemes and their objectives.

4.3.2 A Homelife options paper was considered by Joint Management Team (JMT) in September, the options paper and the agenda from JMT were obtained and demonstrated that an appropriate level of planning and evaluation is in place to now support the scheme. The options paper was approved and following this the fees and charges were presented to Full Council in Feb 17 where they were also approved.

4.3.3 Management have demonstrated that planning and evaluation is in place to support the schemes.

4.4 Recommendation 4 – Staff Guidance / Management Assurances over Work Undertaken

4.4.1 Issues were raised during the audit that there were no procedure notes in place for all areas of work for officers responsible for the delivery of the Homelife scheme.

4.4.2 Clear guidance notes are now available to all necessary officers. There are only 2 members of staff working within Homelife at present and both were aware of where to locate the guidance. The forms are specific to the schemes and set out all the necessary details and evidence required to support claims

4.4.3 Management have defined the responsibilities of officers and the processes to be followed.

4.5 Recommendation 5 – Quarterly Business Meetings

4.5.1 The audit highlighted that roles and authorities of one of the governance groups was not clearly defined or documented.

4.5.2 Since the audit the quarterly business meetings referred to in the recommendation have not continued in 2016/2017 so the recommendation raised is not required to be followed up. Arrangements in place for the governance of the Homelife scheme.

4.6 Recommendation 6 – Quarterly Business Meetings

4.6.1 The previous audit recommended that arrangements should be put in place to ensure that evidence of decisions made and scrutiny undertaken is retained and that responsibilities for this are clearly defined and understood.

4.6.2 Management have since improved arrangements in place ensure that evidence of decisions made and scrutiny undertaken is retained and that responsibilities for this are clearly defined and understood.

4.6.3 Audit testing has confirmed that Homelife is represented at the Regulatory Services Team meeting and that decisions are documented.

4.6.4 Management have arrangements in place ensure that evidence of decisions made and scrutiny undertaken is retained and that responsibilities for this are clearly defined and understood.

4.7 Recommendations 7 & 8 – Charges

4.7.1 The audit highlighted that the fees and charges have not been presented to the executive for approval since 2014/15.

4.7.2 The Fees and charges structures were finalised and these were included in the annual Fees and Charges reports for approval by Full Council. These were approved appropriately.

4.7.3 Fees and Charges structures are finalised and appropriately approved. Evidence of the rates charged is retained and readily available to all necessary officers.

4.8 Recommendation 9 – Funding Applications

4.8.1 Findings from the audit concluded that there was no mechanism in place to ensure the use and retention of key documents in relation to external funding applications**.**

4.8.2 Since the audit corporate forms have been introduced as part of grant funding documents and management ensure compliance with the Council's Grant Claims and External Funding Guidance.

4.8.3 Funding forms are held securely and centrally and the digital information is retained on secure Case Manager software.

4.9 Recommendation 10 – Records Retention

4.9.1 The audit identified issues with information retention and varying working practises.

4.9.2 Since then the retention policy for the Homelife grants has been approved and maintained on the project server. Controls are in place to ensure documentation is retained in accordance the policy.

4.10 Recommendation 11 – System reconciliation

4.10.1 The audit raised concerns over the controls in place to ensure that all work completed is invoiced.

4.10.2 All work undertaken is recorded in the HIA case manager system, and once the work is completed an internal charge sheet is raised manually. Work is under way between the Homelife system and the authoritiy's main accounting system. Finance staff meet regularly with Homelife staff and reconciliation work takes place to keep the two systems. Explanations are in place for the difference so that management are able to monitor the situation

4.10.3 Considerable progress has been made in ensuring that all completed work is billed and cross service work is taking place to develop systems to assist the process in the future.

4.11 Recommendation 12 – Customer Feedback

4.11.1 The audit highlighted that there was no mechanism in place to collate, report and use feedback received from customers.

4.11.2 Since the audit the “the Keepsafe” work has ceased, it was this area which required the feedback forms to be completed, therefore this recommendation is no longer necessary as there is no regulatory requirement.

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**	**Actioned**
Recommendation 1: Management should have arrangements in place to ensure that all key objectives are clearly documented and that these are then used as a basis for determining individual staff objectives.	Medium	• Key service objectives are not identified and defined; • Failure to achieve service objectives; • Lack of forward planning and direction for the service	Homelife Plan including key objectives is to be included in the Environmental Health and Housing Service Plan.	Regulatory Services Manager	07 / 2016	Yes
Recommendation 2: Management should ensure they have arrangements in place to ensure risks are recorded, managed and reviewed in line with the Council's risk management policy.	Medium	• Non-compliance with corporate risk management arrangements; • No evidence risks have been identified and are being managed; • Objectives are not achieved because risks are not effectively managed; • Irregular review may lead to a change in risk which goes unidentified / unreported to management; • Risks are not appropriately escalated.	Risk Management included in both the Service Plan and also on the operational risk register. To be updated quarterly.	Regulatory Services Manager	07 / 2016	Yes

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.	High	• Failure to achieve objectives; • Rationale behind decisions unclear; • Schemes become unviable.	Should Homelife continue 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.post 2016 / 17 a clear Business Plan including funding sources will require approval. A draft options paper for 2017/18 is a target within the 2016/17 Service Plan.	Regulatory Services Manager	09 / 2016	Yes
Recommendation 4: Management should have a mechanism in place to ensure that work is undertaken as expected after having defined requirements and clearly informed staff of these e.g. requirements regarding evidence of eligibility for funding.	Medium	• Staff unclear of requirements; • Inconsistent working practices; • Work not undertaken as envisaged; • Council liable to repay funding; • Lack of due diligence.	HIA Team leader is producing procedures now for work areas and also coordinating the delivery of the various Homelife 2016 / 17 schemes. The Service Plan is confirming those	Regulatory Services Manager	07 / 2016	Yes

			reporting obligations required under the various schemes. The quarterly report for Keepsafe has been finalised and sent through to the OPCC in June 16.			
Recommendation 5: Management should ensure that the role and authority of governance groups are clearly defined and documented.	Medium	• Lack of clarity on the role of the meetings; • No evidence of an appropriate level of scrutiny / discussions held; • No evidence of decisions taken.	Minutes have been found for the Quarterly Business Meetings for 15th May 2013 but it does not appear minute taking continued for recent meetings where agendas and papers have been found.	Regulatory Services Manager	09 / 2016	N/A
Recommendation 6: Management should have arrangements in place to ensure that evidence of decisions made and scrutiny undertaken is retained and that responsibilities for this are clearly defined and understood.	Medium	• Lack of clarity on the role of the meetings; • No evidence of an appropriate level of scrutiny / discussions held; • No evidence of decisions taken.Lack of clarity on the role of the meetings; • •No evidence of an appropriate level of scrutiny / discussions held; • •No evidence of decisions taken.	A Homelife Plan, including key objectives, is to be included in and performance monitored through the Environmental Health and Housing Service Plan. The Options Paper for Homelife 2017 / 18, which is an objective of the service plan for September 2016, will lead to the re-	Regulatory Services Manager	09 / 2016	Yes

			establishment of the monitoring and governance roles should a viable option for continuation be approved.			
Recommendation 7: Management should ensure that evidence to support rates charged is retained and readily available.	Medium	• Basis for charges cannot be demonstrated; • Lack of scrutiny of charges; • Charges not correctly approved; • Lack of compliance with Council policy.	The fees and charging structures are being finalised and will be included in both the options paper and the annual Fees and charges reports for approval at Full Council	Regulatory Services Manager	09 / 2016	Yes
Recommendation 8: Management should ensure that all charges are reviewed and approved in line with Council policy.	Medium	• Basis for charges cannot be demonstrated; • Lack of scrutiny of charges; • Charges not correctly approved; • Lack of compliance with Council policy.	The fees and charging structures are being finalised and will be included in both the options paper and the annual Fees and charges reports for approval at Full Council	Regulatory Services Manager	09 / 2016	Yes
Recommendation 9: Management should have a mechanism in place to ensure the use and retention of key documents in relation to external funding applications.	Medium	• Non-compliance with Council policy; • Inappropriate decisions made; • Council liable to repay funds.	Centralised filing will ensure future funding forms and approvals are easy to locate.	Regulatory Services Manager	09 / 2016	Yes

Recommendation 10: Management should have arrangements in place to ensure a consistent approach to record retention.	Medium	• Inconsistent working practices; • Information cannot be located in staff absence; • Reputational damage.	Management to confirm a policy covering a consistent approach to record retention.	Regulatory Services Manager	09 / 2016	Yes
Recommendation 11: Management should have arrangements in place to ensure that all work undertaken is billed.	Medium	• Loss of income; • Incorrect information recorded.	Management to confirm a policy covering a consistent approach to record retention.	Regulatory Services Manager	08 / 2016	In Progress
Recommendation 12: Management should ensure there is a mechanism in place to collate report and use feedback received from customers.	Advisory	• Lack of service improvement; • Inefficient use of resources if information not used; • Reputational damage.	100% customer feedback to be sought and reported for all Keepsafe and Minor Works undertaken. To confirm in the Service Plan the remaining schemes feedback process.	Regulatory Services Manager	08 / 2016	N/A

Appendix B

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. Improvements, 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 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.

Appendix C

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 two levels of audit recommendations used; high and medium, 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

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

Audit follow up of Carlisle Enterprise Centre

Draft Report Issued: 10 October 2017

Director Draft Issued: 6 November 2017

Final Report Issued: 13 November 2017

Audit Report Distribution

Client Lead:	Building & Estates Services Manager
Chief Officer:	Corporate Director of Governance and Regulatory Services Chief Executive

1.0 Background

1.1. This report summarises the findings from a follow up audit of Carlisle Enterprise Centre. This was an internal audit review included in the 2017/18 risk-based audit plan agreed by the Audit Committee on 16th March 2017.

1.2. The original audit was carried out in October 2016, resulting in a conclusion of partial assurance and five recommendations. A management action plan was completed detailing agreed actions, responsible manager and implementation dates to address the recommendations (Appendix A). This follow-up report provides an update on progress made against this action plan.

2.0 Audit Approach

Audit Objectives and Methodology

2.1 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.

2.2 A risk based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

2.3 The Client Lead was asked to provide an update on progress made implementing the agreed actions. Internal Audit then undertook testing as necessary to confirm that actions have been fully implemented and that controls are working as intended to mitigate risk

Audit Scope and Limitations.

2.4 The original scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risk areas:

- Management of Carlisle Enterprise Centre.
- Administration of rents and charges.
- Tenancy at Will Agreements.

2.5 It is the responsibility of management to monitor the effectiveness of internal controls to ensure they continue to operate effectively.

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

3.0 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 B.**

3.2 Where the findings of the follow up confirm that actions have been successfully implemented and controls are working effectively, the internal audit assurance opinion may be revised from that provided by the original audit.

3.3 From the areas examined and tested as part of this follow up review we consider the current controls operating within audit name provide **substantial assurance** (revised from partial 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.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

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

4.2 The previous audit included five recommendations (See Appendix A) of which:

- Four agreed actions have been successfully implemented.
- One agreed action has been partially implemented and is work in progress.

4.3 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.4 **Findings Summary:**
Responsibility for the Enterprise Centre has moved from the Economic Development Directorate to Property Services in the Governance and Regulatory Services Directorate.

Good progress has been made against the action plan, with four out of five recommendations now implemented. Work is in progress for the fifth recommendation which stated that arrangements should be implemented to ensure that management receive regular assurance that all statutory health and safety and building maintenance checks are being undertaken at the Enterprise Centre. It is estimated that this will be fully actioned by the end of November 2017.

Comment from the Corporate Director of Governance and Regulatory Services:
Audit report noted and all relevant actions supported and agreed.

5.0 Audit Findings & Recommendations

5.1 Recommendation 1 – Enterprise Centre Objective (Management)

5.1.1 The original audit highlighted that the key actions, target dates and advertising arrangements to deliver the Carlisle Enterprise Centre objective had not been formally documented. The potential risks that impact on the delivery of the Enterprise Centre objective had not been identified.

5.1.2 A Carlisle Enterprise Centre Business Plan 2017/18 has been documented and approved by the Corporate Director of Governance and Regulatory Services.

5.1.3 The business plan includes key actions, marketing incentives, rent review, risks and monitoring arrangements.

5.2 Recommendation 2 – Scheme of Delegation (Management)

5.2.1 It was highlighted previously that the Economic Development scheme of sub-delegation had not been approved.

5.2.2 Responsibility for the Enterprise Centre has transferred to the Governance and Regulatory Services Directorate. The Governance and Regulatory Services Scheme of Sub-Delegation to officers was reviewed and approved by the Corporate Director of Governance and Regulatory Services on 9 March 2017.

5.2.3 This document states that the 'Responsibility for the discounting of rental figures for tenancies at will granted to new tenants of the Enterprise Centre' is named as the Investment & Policy Manager, and he was to take appropriate advice as necessary from the Building & Estates Services Manager. This needs to be amended to reflect the responsibility changes that commenced on 1 July 2017.

5.2.4 The Council's Constitution also details delegated responsibility for land and property management.

5.3 Recommendation 3 – Procedures & Management Checks (Regulatory)

5.3.1 The previous audit recommended that:

- Arrangements are put in place to ensure that all procedures are fully documented and approved by management.
- Management should introduce arrangements to obtain assurance that the expected procedures are being followed and that tenants comply with their Tenancy at Will Agreement and that the correct amount of rent is paid.

5.3.2 Procedures have been documented and approved by management and are fully adopted by the Building & Estates team.

5.3.3 A checklist for unit spot checks and an annual management checklist / approvals have also been documented and adopted.

5.4 Recommendation 4 – Rent Reviews (Regulatory)

5.4.1 Findings from the previous audit concluded that there was no mechanism in place to ensure a consistent approach for setting, calculating and reviewing rent of the units at the Enterprise Centre.

5.4.2 An independent third party has completed a re-evaluation of the rental income achievable from units across the Enterprise Centre.

5.4.3 The business plan includes an annual management check of rent levels.

5.4.4 The Building & Estates Services Manager confirmed that a review is being performed of the process to look at stepped rental increase to those tenants currently paying less than market rent. All new tenants are quoted and will pay the new market rent level.

5.5 Recommendation 5 – Health and Safety / Building Maintenance (Regulatory)

5.5.1 The previous audit recommended arrangements should be put in place to ensure 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.

5.5.2 The Buildings & Estates Services Manager confirmed that a building handbook, incorporating a compliance log and tenant's handbook are currently being drafted to address statutory responsibilities, their scheduling and compliance recording. These documents are being rolled out to all Council operational assets and the programme of work is underway. The Enterprise Centre has been prioritised in this programme and it is expected that the documentation and procedures will be fully in place by the end of November 2017.

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**	**Actioned**
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.	**Priority** M	**Risk Exposure** -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.	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	Investment & Policy Manager	31/03/2017	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**	**Actioned**
			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.			
Recommendation 2: Management should set a timescale for the approval of the Economic Development scheme of sub-delegation.	**Priority** H	**Risk Exposure** -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.	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.	Corporate Director of Economic Development	Work actively ongoing. To be in place for 1st April 2017.	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**	**Actioned**
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.	**Priority** H	**Risk Exposure** -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.	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.	Investment & Policy Manager	31/03/17	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**	**Actioned**
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.	**Priority** H	**Risk Exposure** -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.	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.	Investment & Policy Manager	31/03/2017	Yes

Appendix A – Original Management Action Plan

Summary of Recommendations and agreed actions						
Recommendations	**Priority**	**Risk Exposure**	**Agreed Action**	**Responsible Manager**	**Implementation Date**	**Actioned**
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.	**Priority** M	**Risk Exposure** -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.	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.	Investment & Policy Manager and Safety, Health and Environmental Manager	31/03/2017	In Progress

Appendix B

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. Improvements, 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 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.

Appendix C

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 two levels of audit recommendations used; high and medium, 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

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).

CARLISLE CITY COUNCIL
www.carlisle.gov.uk

Audit Committee	Agenda Item: A.6

Meeting Date:	12 January 2018
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD23/17
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2018/19
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD37/17

Purpose / Summary:

This report sets out the Council's Treasury Management Strategy Statement for 2018/19, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2018/19 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:

Members of the Audit Committee are asked to note and make comments on the proposed Treasury Management Strategy for 2018/19

Tracking

Executive:	**18 December 2017, 17 January 2018**
Audit Committee:	**12 January 2018**

Report to Executive	Agenda Item:

Meeting Date: 18 December 2017

Portfolio: Finance, Governance and Resources

Key Decision: Yes: Recorded in the Notice Ref: KD23/17

Within Policy and Budget Framework: YES

Public / Private: Public

Title: DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2018/19

Report of: CHIEF FINANCE OFFICER

Report Number: RD37/17

Purpose / Summary:

This report sets out the Council's Draft Treasury Management Strategy Statement for 2018/19, in accordance with the CIPFA Code of Practice on Treasury Management. The Draft Investment Strategy and the Draft Minimum Revenue Provision (MRP) Strategy for 2018/19 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 2018/19, which incorporates the Draft Investment Strategy and the Draft MRP Strategy, together with the Prudential Indicators for 2018/19 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:	**18 December 2017, 17 January 2018**
Scrutiny:	**BTSP 4 January 2018**
Audit Committee:	**12 January 2018**
Council:	**6 February 2018**

1. BACKGROUND

1.1 The CIPFA Code of Practice on Treasury Management in Local Authorities was first issued in 1992 and updated in 1996, 2001 and 2011. 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 (TMSS) for 2018/19, 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. PROPOSALS TO AMEND THE CIPFA TREASURY MANAGEMENT AND PRUDENTIAL CODES

3.1 CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review will particularly focus on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management. As finalised revised codes are not expected until December at the earliest, it may be necessary to review the TMSS once the final guidelines are issued and any implications on the Council's position is known.

4. CONSULTATION

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

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

5.1 The Executive is asked to note the Draft Treasury Management Strategy Statement for 2018/19, which incorporates the Draft Investment Strategy and the Draft MRP Strategy, together with the Prudential Indicators for 2018/19 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

6.1 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:

Community Services – not applicable

Corporate Support & Resources – contained within the report.

Economic Development – not applicable

Governance & Regulatory Services – 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.

APPENDIX A

Draft Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Statement

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Carlisle City Council

2018/19

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 2018/19 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 2018/19 TO 2020/21

2.1 It is a statutory duty, under S3 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 Link Asset Services (formerly Capita Asset Services) Treasury Services.

3.2 Link 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 Link Asset Services or any other third party. The Council has regard to the advice and information supplied by Link 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 Link 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 2017 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			**17.4**	**1.29**

5. PRUDENTIAL AND TREASURY INDICATORS 2018/19 - 2020/21

5.1 The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2018/19 to 2020/21. 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	2016/17 actual £000	2017/18 revised estimate £000	2018/19 estimate £000	2019/20 estimate £000	2020/21 estimate £000
Capital Expenditure	8,045	9,513	4,032	17,343	2,929
Ratio of financing costs to net revenue stream	11.88%	12.23%	14.56%	9.91%	9.38%
Net borrowing requirement in year (Internal & External)	425	3,442	(2,026)	12,080	(36)
Capital Financing Requirement as at 31 March	12,423	15,706	13,424	25,315	24,734
Annual change in Cap. Financing Requirement	(476)	3,283	(2,282)	11,891	(581)
Incremental impact of capital investment decisions Increase in council tax (band D) per annum (£)	(0.44)	2.99	(2.07)	10.77	(0.64)

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 e.g. Disabled Facilities Grant.

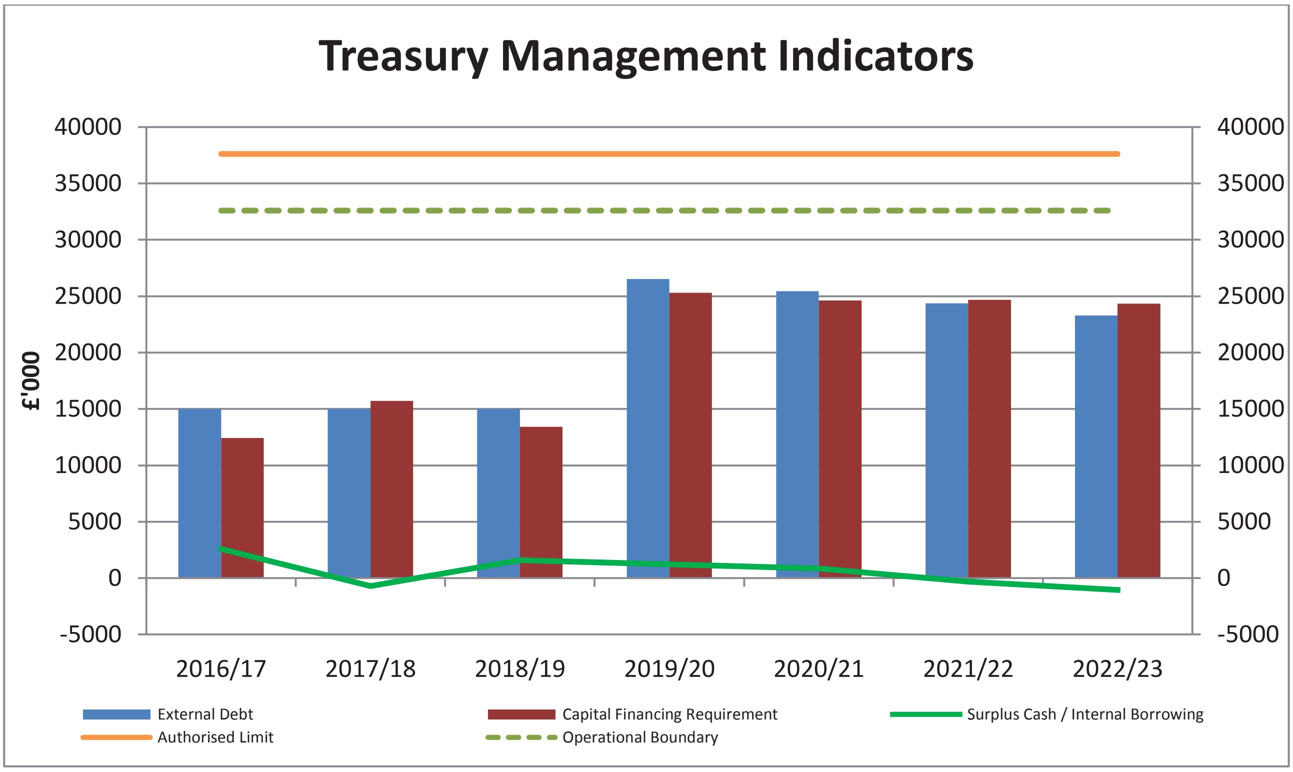
5.3 **The Council's Borrowing Need (Capital Financing Requirement)**

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

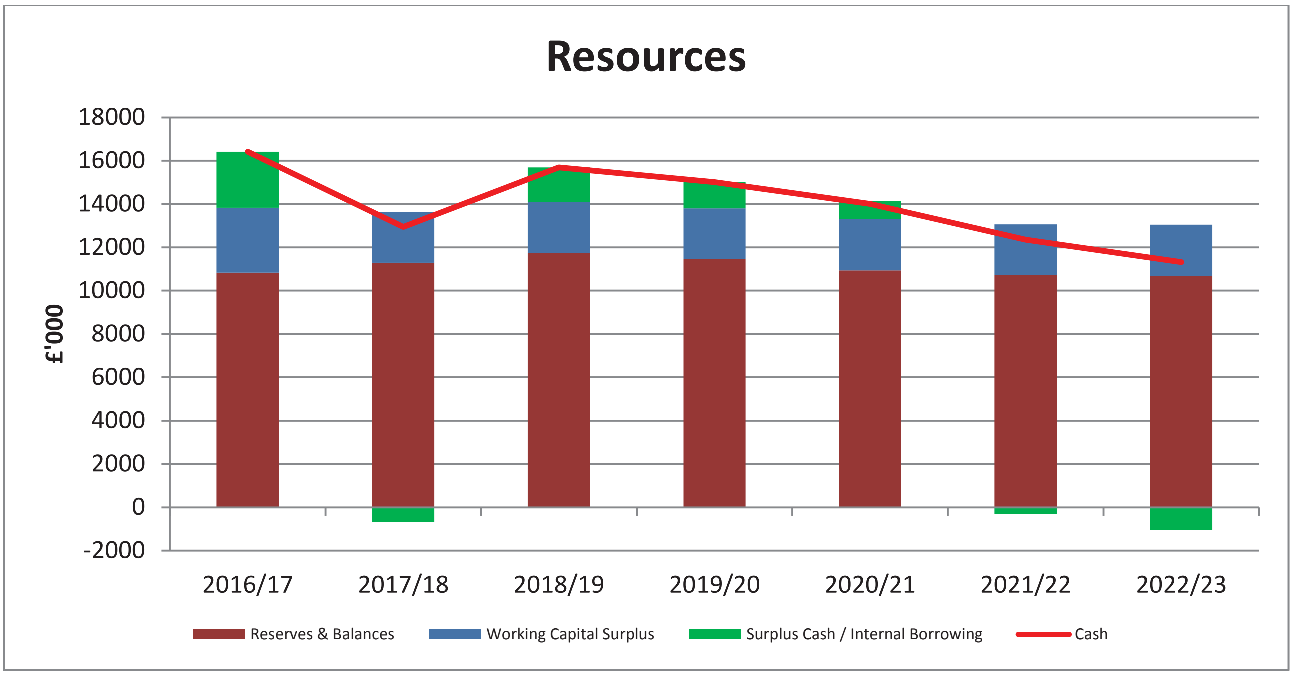
5.3.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2016/17 actual £000	2017/18 revised estimate £000	2018/19 estimate £000	2019/20 estimate £000	2020/21 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.



5.4 The chart below shows 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 surplus cash and where internal borrowing is occurring.



Maturity structure of any fixed rate borrowing during 2017/18	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and w ithin 24 months	100%	0%
24 months and w ithin 5 years	100%	0%
5 years and w ithin 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

5.9.1 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.

5.9.2 The current minimum level of specified investments is set at 50%. It is recommended that this level be continued into 2018/19.

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 Link 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 Link 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'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%

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

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

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures. From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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

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

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

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

Investment and borrowing rates

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

7. BORROWING STRATEGY

7.1 The Link Asset Services forecast for the PWLB new borrowing rate (repayment at Maturity) is as follows:

	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20
5 Yr PWLB	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%
10Yr PWLB	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%
25Yr PWLB	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%
50Yr PWLB	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%

7.2 The Council is, as stated above, not currently expecting to have any recourse to borrowing externally in 2018/19 and although significant capital expenditure on new leisure facilities is anticipated in 2019/20 with this to be potentially 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 2020/21. 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 to be planned for in future years. 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 differences between gross debt and net debt (after deducting cash balances). This is shown in the graphs at 5.3.

7.4.2 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.

7.4.3 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.

7.4.4 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.

7.4.5 However, short term savings by avoiding new long term external borrowing in 2018/19 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.

7.4.6 Against this background caution will be adopted with the 2018/19 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 2018/19. 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 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 £6m to ensure a reasonable spread of investments in terms of counterparties. Investments with Money Market Funds and investments in overseas banks with a sovereign rating of not less than the UK sovereign rating will not exceed £4m.

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

9.1.9 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

9.1.10 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

9.1.11 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. 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.

9.1.12 Due care will be taken to consider the country, group and sector exposure of the Council’s investments. In addition:

<u>Country limits</u>:

- where the country of registration of an institution has an average credit rating (i.e. an average sovereign credit rating) equal to, or better than that of the UK; it will enable the Council to consider the placement of investments on the same basis applied for UK-registered institutions (i.e. subject to the overarching counterparty criteria as set out at **Appendix B**; and
- where an institution meets the approved counterparty status* but the country of registration has an average credit rating below that of the UK; limit such investments in total to such rated non-UK countries to be no more than £2m of the portfolio.
  * i.e. it meets the overarching counterparty criteria as set out at **Appendix B**.
- sector limits will be monitored regularly for appropriateness.

9.1.13 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 4.50% in the MTFP.

9.1.14 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.

9.1.16 The minimum percentage of its overall investments that the Council will hold in specified investments is 50%.

9.2 Creditworthiness Policy

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

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

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

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months

- Green 100 days
- No colour not to be used

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

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

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

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

9.3 Investment Strategy

9.3.1 With bank base rate forecast to remain at 0.50% until quarter 4 2018 and not to rise above 1.25% by quarter 1 2021, investment conditions will continue to be difficult. The view of Link Asset Services is that bank rate will be at the following levels:

	Dec'17	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19	Sep'19	Dec'19	Mar'20	Jun'20
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%

9.3.2 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 2018/19 has assumed an average yield of 0.93% 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. The anticipation of interest yielded from investing in the Property Fund is estimated at 4.50% in the MTFP.

9.3.3 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.

9.3.4 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.

9.4 <u>End of Year Investment Report</u>
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 2018/19 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. Furthermore, the Council revised its MRP Policy in 2017/18 to provide for MRP on a 3% straight Line basis going forward.

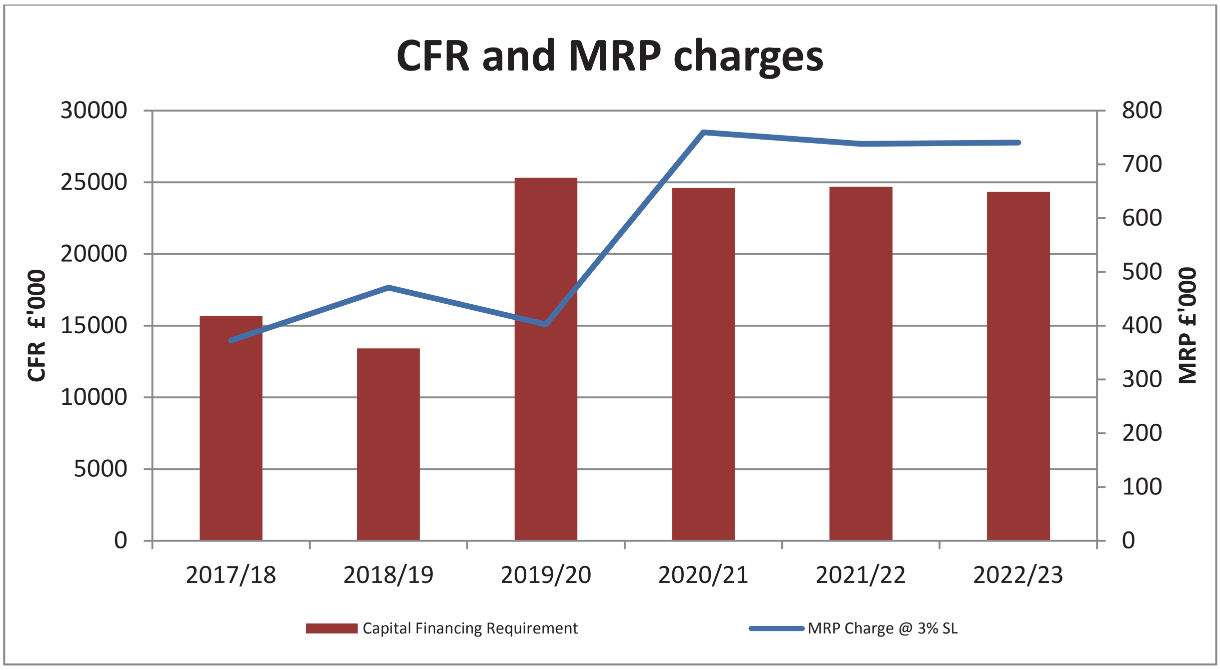
10.2 No requirement is currently anticipated to undertake any long term borrowing in either 2017/18 or 2019/19 although the authority will need at this stage to keep its options open and there are plans for borrowing to support future capital investment in leisure facilities in 2019/20. This is particularly 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 Using the 3% Straight Line method for calculating the MRP charge more reflects 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 still deemed to be a prudent approach to take.

10.6 In 2017/18, the opening CFR was £12.422million which will result in an MRP of £373,000 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.



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.

- All UK banks and building societies with a minimum specified 'high' credit rating shall have a **maximum of £6m** as the counterparty limit.
- All overseas banks with a sovereign rating of not less than the UK sovereign rating and a minimum individual credit rating, shall have a **maximum of £4m** as the counterparty limit.
- Where an institution meets the approved counterparty status but the country of registration has an average credit rating below that of the UK; limit such investments in total to such rated non-UK countries to be no more than **£2m** as the counterparty limit.
- UK building societies that are not credit rated shall have a maximum of **£2m** as the counterparty limit.
- MMFs shall have a maximum counterparty limit of **£4m.**

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 (not less than UK) 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.

<u>APPENDIX C</u>

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by Link 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. <u>INDIVIDUAL FORECASTS</u>

Link Asset Services Interest Rate View	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
3 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.60%	0.60%	0.60%	0.70%	0.90%	0.90%	1.00%	1.20%	1.20%	1.20%
6 Month LIBID	0.50%	0.50%	0.50%	0.60%	0.80%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%
12 Month LIBID	0.70%	0.80%	0.80%	0.90%	1.00%	1.00%	1.10%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.60%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB Rate	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Bank Rate														
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	-	-	-	-	-
5yr PWLB Rate														
Link Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%	-	-	-	-	-
10yr PWLB Rate														
Link Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%	-	-	-	-	-
25yr PWLB Rate														
Link Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%	-	-	-	-	-
50yr PWLB Rate														
Link Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	-	-	-	-	-

APPENDIX D

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.

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 18 DECEMBER 2017

EX.135/17 DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION STRATEGY 2018/19
(Key Decision – KD.23/17)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

Pursuant to Minute EX.119/17, the Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.37/17 setting out the Council's draft Treasury Management Strategy Statement (TMSS) for 2018/19 in accordance with the CIPFA Code of Practice on Treasury Management.

He informed Members that the draft Investment Strategy and the draft Minimum Revenue Provision Strategy for 2018/19 were incorporated as part of the Statement, as were the Prudential Indicators as required within the Prudential Code for Capital Finance in Local Authorities.

CIPFA was currently conducting a review of the Treasury Management Code of Practice and the Prudential Code focussing, in particular, on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance those purchases, or the use of existing cash balances. Both actions would affect treasury management. As finalised revised codes were not expected until December at the earliest, it may be necessary to review the TMSS once the final guidelines were issued and any implications on the Council's position was known.

The Deputy Leader indicated that the report would be considered by the Business and Transformation Scrutiny Panel and the Audit Committee on 4 and 12 January 2018 respectively.

In conclusion, the Deputy Leader, and Finance, Governance and Resources Portfolio Holder formally moved the recommendation, which was formally seconded by the Leader.

Summary of options rejected None

DECISION

That the Executive noted the Draft Treasury Management Strategy Statement for 2018/19, which incorporated the Draft Investment Strategy and the Draft Minimum Revenue Provision (MRP) Strategy, together with the Prudential Indicators for 2018/19 for draft budget consultation purposes as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D to Report RD.37/17.

Reasons for Decision

To enable the Executive's draft Budget proposals to be prepared for consultation purposes

CARLISLE CITY COUNCIL
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Report to Audit Committee	Agenda Item: A.7

Meeting Date:	12 January 2017
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	Yes
Public / Private	Public

Title:	TREASURY MANAGEMENT SEPTEMBER 2017 AND FORECASTS FOR 2018/19 TO 2022/23
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD30/17

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2017/18 and budgetary projections for 2018/19 to 2022/23, was received by the Executive on 20 November 2017. 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:	**12 January 2017**

CARLISLE CITY COUNCIL
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Report to Executive	Agenda Item:

Meeting Date:	20 November 2017
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD23/17
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	TREASURY MANAGEMENT QUARTER 2 2017 AND FORECASTS FOR 2018/19 TO 2022/23
Report of:	CHIEF FINANCE OFFICER
Report Number:	RD30/17

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 2018/19 with projections to 2022/23. 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 2018/19 to 2022/23 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	**20 November 2017**
Overview and Scrutiny:	**5 December 2017**
Audit Committee:	**12 January 2018**
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 2017
- **Appendix A1 –** Treasury Transactions July to September 2017
- **Appendix A2 –** Investment Transactions July to September 2017
- **Appendix A3 –** Outstanding Investments at September 2017 and

(ii) **Appendix B** discusses the Prudential Code and Prudential Indicators for 2017/18:
- **Appendix B1 – Prudential Code background**
- **Appendix B2 – Prudential Indicators**

(iii) **Appendix C** sets out the draft base Treasury Management estimates for 2018/19 with projections to 2022/23 and which encompass the potential budget pressures and savings 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. 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 Business & Transformation 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 2018/19 to 2022/23 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 2017** **Appendix A2 – Investment Transactions July to September 2017** **Appendix A3 – Outstanding Investments at 30 September 2017** **Appendix B1 – Prudential Code background** **Appendix B2 – Prudential Indicators** **Appendix C – Treasury Projections 2018/19 – 2022/23**

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:

Community Services – not applicable

Economic Development – not applicable

Governance & Regulatory Services– The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

Corporate Support & Resources – Contained within the report

APPENDIX A1

TREASURY TRANSACTIONS
JULY 2017 to SEPTEMBER 2017

1. LOANS (DEBT)

1.1 Transactions July to September 2017

	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. Procedures, adopted to map the cash flow more accurately, ensure better forecasting and limits the amount of short term/overnight borrowing which may be required.

1.2 Loans (Debt) Outstanding at September 2017

	£
City of Carlisle Stock Issue	15,000,000
Short Term Loans	12,800
	15,012,800

1.4 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Total £
Short Term Debt at 30 September 2017 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800
			12,800

1.5 Interest Rates

Capita are currently revising their interest rate forecasts following the bank rate increase in early November from 0.25% to 0.50%.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	25,700,000	0.17 - 0.6850	20,550,000	0.17 - 0.77
	25,700,000		**20,550,000**	

A full schedule of short term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short term investments at 30 September 2017.

3 REVENUES COLLECTED

To: 30 September 2017		Collected £	% of Amount Collectable %
2017/18	Council Tax	32,327,974	56.55
	NNDR	25,527,972	57.28
Total		**57,855,946**	**56.87**
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**

Collection levels have been fairly stable in each of the past three years.

4 BANK BALANCE

At 30 September 2017 £304,084.18 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 2017

April –September 2017

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(131)	(106)	25
Interest Payable	191	190	(1)
Less Rechargeable	0	0	0
	191	**190**	**(1)**
Principal Repaid (MRP)	187	147	(40)
Debt Management	13	13	0
NET BALANCE	**260**	**244**	**(16)**

The profiled budget is to 30 September 2017.

Interest receivable is slightly below expectations due to lower than forecast average cash balances and a lower rate of return being achieved on treasury investments when compared to when the budgets were set. 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 4.60%

APPENDIX A2

SHORT TERM INVESTMENT TRANSACTIONS JULY TO SEPTEMBER 2017

INVESTMENTS MADE			INVESTMENTS REPAID	
	£			£
Federated Investors	4,000,000.00		Standard Life	1,000,000.00
Handelsbanken	2,900,000.00		Handelsbanken	1,300,000.00
Standard Life	1,000,000.00		Federated Investors	200,000.00
Handelsbanken	4,000,000.00		Handelsbanken	2,700,000.00
Goldman Sachs	1,000,000.00		Standard Life	300,000.00
Standard Life	1,400,000.00		Standard Life	1,100,000.00
Goldman Sachs	1,000,000.00		Handelsbanken	1,100,000.00
Federated Investors	1,900,000.00		Handelsbanken	200,000.00
Handelsbanken	4,000,000.00		Federated Investors	1,450,000.00
HSBC	1,100,000.00		Handelsbanken	2,700,000.00
HSBC	1,400,000.00		Federated Investors	250,000.00
Bank of Scotland	1,000,000.00		Handelsbanken	50,000.00
Goldman Sachs	1,000,000.00		HSBC	1,100,000.00
			Handelsbanken	450,000.00
			HSBC	1,400,000.00
			Bank of Scotland	1,000,000.00
			Handelsbanken	3,250,000.00
			Goldman Sachs	1,000,000.00
TOTAL	**25,700,000**			**20,550,000**
			Bfwd	10,829,873
			Paid	25,700,000
			Repaid	20,550,000
			Total	**15,979,873**
			CCLA Change	**70,351**
			Total	**16,050,224**

Outstanding Investments as at 30 September 2017

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
R	Bank Of Scotland	1,500,000	0.55%	13/04/2017	13/10/2017	13	183	4,136
R	Goldman Sachs	1,000,000	0.72%	13/04/2017	13/10/2017	13	183	3,610
R	Standard Chartered	2,000,000	0.44%	02/05/2017	02/11/2017	33	184	4,436
R	Goldman Sachs	1,000,000	0.58%	01/08/2017	01/02/2018	124	184	2,924
R	Goldman Sachs	1,000,000	0.54%	16/08/2017	16/02/2018	139	184	2,722
R	Bank Of Scotland	1,000,000	0.38%	20/09/2017	21/03/2018	172	182	1,895
R	Goldman Sachs	1,000,000	0.69%	29/09/2017	29/03/2018	180	181	3,397
O	Svenska Handelsbanken	250,000	0.20%					0
Y	Federated Investors	4,000,000	0.20%					0
	Total Investments	**£12,750,000**	**0.43%**			**96**	**183**	**£23,120**

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) [1]	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	**3,300,224**	**4.60%**	31/07/2014	3,000,000	(163,104)	2,836,896	**300,224**

N.B Interest is recognised in the appropriate financial year in which it is due.

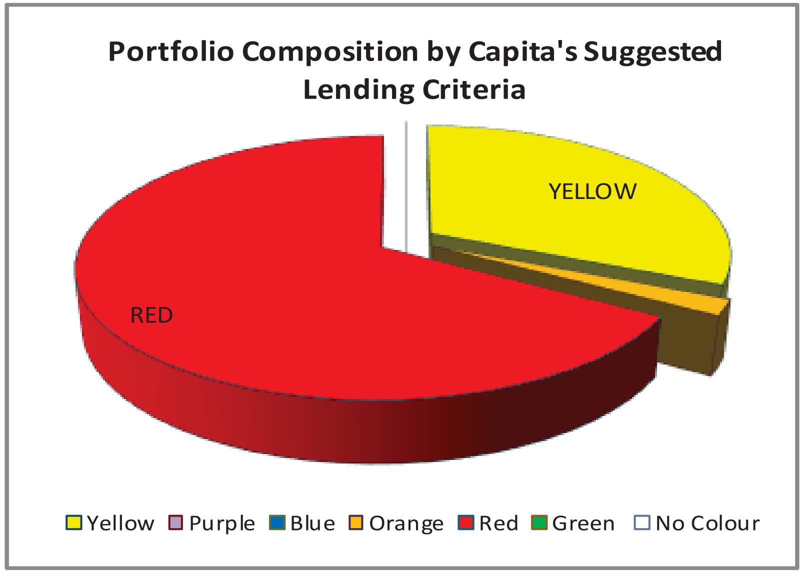
The category colour represents the duration of investment recommended by Capita, the Council's Treasury Advisors. Those investments with no colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

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	31.37%	4,000,000	100.00%	4,000,000	31.37%	0.20%	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	1.96%	250,000	0.00%	-	0.00%	0.20%	2	3
Red	66.67%	8,500,000	0.00%	-	0.00%	0.54%	84	183
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%	**12,750,000**	**31.37%**	**4,000,000**	**31.37%**	**0.43%**	**56**	**122**

Risk Score for Colour (1 = Low, 7 = High)	Sep 2017	Jun 2017	Mar 2017	Dec 2017
1	0.3	0.0	0.0	0.0
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	0.1	0.6	0.3	0.8
5	3.3	4.3	4.6	4.0
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	3.7	**4.2**	**4.9**	**4.8**
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 2017/18 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 2017/18 to date as detailed in the Treasury Management Strategy Statement for 2017/18.

(a) Affordability

	2017/18 Original Estimate £	2017/18 Revised Estimate £
(i) Capital Expenditure	3,182,000	9,008,400
(ii) Financing Costs		
Total Financing Costs	1,244,000	1,223,000
(iii) Net Revenue Stream		
Funding from Govt Grants/Local Taxpayers	12,047,000	12,047,000
(iv) Ratio of Financing Costs to Net Revenue Stream	10.33%	10.15%
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	(1.36)	3.00
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	15,012,800	15,012,800
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.		

	2017/18 Original Estimate £	2017/18 Revised Estimate £
(vii) Operational Borrowing Limit	32,600,000	32,600,000
Maximum Level of Borrowing and Other Long term Liabilities	15,012,800	15,012,800
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)	12,645,000	n/a
As at 31 March		
The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.		

(b) Prudence and Sustainability

	2017/18 Original £
(i) New Borrowing to Date	0
No Long Term Borrowing has been taken in 2017/18 to date	
(ii) Percentage of Fixed Rate Long Term Borrowing	
at September 2017	100%
(iii) Percentage of Variable Rate Long Term Borrowing	
at September 2017	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 2017	100.00%
As part of the Investment Strategy for 2017/18, 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 2017/18 and 2018/19 with projections to 2022/23

	2017/18 Revised £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Interest Payable	1,319	1,320	1,704	851	817	782
Core MRP	373	471	403	760	742	753
MRP Adjustments	(226)	(226)	(226)	(226)	(226)	0
Debt Management						
Sector	15	15	15	15	15	15
Publications	1	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(23)	(18)	(18)	(18)	(18)	(18)
Total Expenditure	**1,458**	**1,562**	**1,879**	**1,383**	**1,331**	**1,533**
Interest Receivable	(239)	(264)	(258)	(324)	(409)	(465)
Other Interest Recharged	3	3	3	3	3	3
Total Income	**(236)**	**(261)**	**(255)**	**(321)**	**(406)**	**(462)**
Treasury Management Net Expenditure	**1,222**	**1,301**	**1,624**	**1,062**	**925**	**1,071**
Council Resolution Budget 17/18	**1,245**	**1,485**	**1,540**	**588**	**490**	**879**
Difference to Council Resolution Position	**(23)**	**(184)**	**84**	**474**	**435**	**192**
Cumulative Difference to Council Resolution Position	**(23)**	**(207)**	**(123)**	**350**	**785**	**976**

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 20 NOVEMBER 2017

EX.119/17 TREASURY MANAGEMENT QUARTER 2 2017 AND FORECASTS FOR 2018/19 TO 2022/23
(Key Decision – KD.23/17)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder submitted report RD.30/17 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 2018/19 with projections to 2022/23, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

Treasury Management projections were reviewed annually to ensure that current interest rate forecasts were updated, and that current and future spending implications were built into the cash flow forecasts model. 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 draft base Treasury Management estimates for 2018/19 with projections for 2022/23 were set out at Appendix C.

The Deputy Leader, and Finance, Governance and Resources Portfolio Holder concluded by formally moving the recommendation set out in the report, which was formally seconded by the Leader.

Summary of options rejected none

DECISION

That Report RD.30/17 be received and the projections for 2018/19 to 2022/23 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 BUSINESS AND TRANSFORMATION SCRUTINY PANEL HELD ON 5 DECEMBER 2017

BTSP.42/17 BUDGET 2018/19

(f) Treasury Management Quarter 2 2017 and Forecasts for 2018/19 to 2022/23

The Chief Finance Officer submitted report RD.30/17 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 2018/19 with projections to 2022/23, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The base Treasury Management estimates for 2018/19 with projections for 2022/23 were set out at Appendix C.

The Executive had on 20 November 2017 (EX.119/17) received the report and resolved that Report RD.30/17 be received and the projections for 2018/19 to 2022/23 be incorporated into the Budget reports considered elsewhere on the Agenda.

A Member commented that the figures set out in a previous report would take the Council above the Authorised Borrowing Limit as set out in Appendix B2 of the report. The Chief Finance Officer explained that the limit in Appendix B2 was the 2017/18 limit and the revised figure 2018/19 would be submitted to the Panel for scrutiny in January.

RESOLVED – That the Treasury Management Quarter 2 2017 and Forecasts for 2018/19 to 2022/23 (RD.30/17) be noted.