

AGENDA

Audit Committee

Friday, 18 December 2020 AT 10:00

This meeting will be a virtual meeting and therefore will not take place in a physical location.

Virtual Meeting - Link to View

This meeting will be a virtual meeting using Microsoft Teams and therefore will not take place at a physical location following guidelines set out in Section 78 of the Coronavirus Act 2020.

Register of Attendance and Declarations of Interest

A roll call of persons in attendance will be taken and, at the same time, 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.

Apologies for Absence

To receive apologies for absence and notification of substitutions

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 of Previous Meeting

7 - 20

To note that Council, on 3 November 2020, received and adopted the Minutes of the meeting held on 24 September 2020. The Minutes will be signed by the Chair at the first practicable opportunity.

[Copy Minutes in Minute Book Volume 47(4) / herewith]

PART A

To be considered when the Public and Press are present

A.1 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL 21 - 48

The Minutes of the meetings of the Business and Transformation Scrutiny Panel held on 3 and 17 September; 15 October and 1 December 2020 are submitted for information.

(Copy Minutes herewith)

A.2 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL 49 - 84

Grant Thornton to present the draft 2019-20 Audit Findings Report

(Copy draft Report herewith)

A.3 STATEMENT OF ACCOUNTS 2019/20 AND 2020/21 85 - 104

The Corporate Director of Finance and Resources to submit a report providing a brief summary of the progress of the 2019/20 accounts and informing the Committee of the outstanding work that still needs to be completed before the accounts for 2019/20 can be signed off. Information regarding the 2020/21 Final Accounts process; and the draft accounting policies that will be used in the closedown of the 2020/21 accounts is also provided.

(Copy Report RD.46/20 herewith)

A.4	<u>INTERNAL AUDIT PROGRESS 2020/21 (OCTOBER TO DECEMBER)</u>	105 - 128
	The Corporate Director of Finance and Resources to submit a report providing an overview of the work carried out by Internal Audit between October and December of 2020/21. The report also includes information on progress against the agreed audit plan, performance indicators and previous audit recommendations.	
	(Copy Report RD.45/20 herewith)	
A.5	<u>INTERNAL AUDIT REPORT LOCAL AIR QUALITY MANAGEMENT</u>	129 - 142
	The Corporate Director of Finance and Resources to submit a report supplementing the Internal Audit Progress Report and considering the Review of Local Air Quality Management.	
	(Copy Report RD.47/20 herewith)	
A.6	<u>INTERNAL AUDIT REPORT CITY CENTRE</u>	143 - 166
	The Corporate Director of Finance and Resources to submit a report supplementing the Internal Audit Progress Report and considering the Review of City Centre.	
	(Copy Report RD.48/20 herewith)	
A.7	<u>INTERNAL AUDIT REPORT CARLISLE PARTNERSHIP</u>	167 - 182
	The Corporate Director of Finance and Resources to submit a report supplementing the Internal Audit Progress Report and considering the Review of the Carlisle Partnership.	
	(Copy Report RD.49/20 herewith)	

A.8 DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT, **183 -**
INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION **218**
STRATEGY 2021/22

The Corporate Director of Finance and Resources to submit a report setting out the Council's Treasury Management Strategy Statement for 2021/22 in accordance with the CIPFA Code of Practice on Treasury Management. The Executive considered the matter on 14 December 2020.

(Copy Report RD.44/20 herewith / Minute Excerpt to follow)

A.9 TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS FOR **219 -**
2021/22 TO 2025/26 **238**

The Corporate Director of Finance and Resources to submit a report providing the regular quarterly summary of Treasury Management Transactions, together with budgetary projections for 2021/22 - 2025/26. The matter was considered by the Executive and the Business and Transformation Scrutiny Panel on 9 November and 1 December 2020 respectively.

(Copy Report RD.34/20 (amended) and Minute Excerpts herewith)

PART B

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

B.1 INTERNAL AUDIT REPORT INCOME MANAGEMENT

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

B.2 ANNUAL REVIEW OF COUNTER-FRAUD ARRANGEMENTS

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

Members of the Audit Committee

Conservative - Mrs Bowman, Mrs McKerrell, Meller (Chair), Mrs Finlayson (sub), Morton (sub), Shepherd (sub)

Labour – Birks, Patrick (Vice-Chair), Dr Tickner, Alcroft (sub), Mrs Atkinson (sub), Miss Whalen (sub)

Independent - Bomford, Paton (sub)

Enquiries, requests for reports, background papers, etc to: Morag Durham, Democratic Services Officer - morag.durham@carlisle.gov.uk

MINUTES OF PREVIOUS MEETING
(Received and adopted by Council on 3 November 2020)
AUDIT COMMITTEE

THURSDAY 24 SEPTEMBER 2020 AT 10.00 AM

- PRESENT:** Councillor Meller (Chair); Councillors Birks, Bomford, Mrs Bowman, Mrs McKerrell, Patrick and Dr Tickner
- OFFICERS:** Corporate Director of Governance and Regulatory Services
Corporate Director of Finance and Resources
Corporate Director of Economic Development (for Audit of Environmental Strategy – Baseline Data)
Financial Services Manager (Deputy S.151) and Designated Head of Internal Audit
Principal Auditor
Policy and Communications Manager (for Audit of Environmental Strategy – Baseline Data)
- ALSO PRESENT:** Key Audit Partner (Grant Thornton)
Audit Manager (Grant Thornton)
Deputy Leader, and Finance, Governance and Resources Portfolio Holder
Environment and Transport Portfolio Holder

AUC.17/20 APOLOGIES FOR ABSENCE

There were no apologies for absence.

AUC.18/20 DECLARATIONS OF INTEREST

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

AUC.19/20 PUBLIC AND PRESS

The Chair moved that the Audit of Environmental Strategy – Baseline Data should be taken as the first substantive item of business in order to facilitate the attendance of an officer at another meeting; and it was:

RESOLVED – That the Agenda be agreed as varied.

AUC.20/20 MINUTES OF PREVIOUS MEETING

The Chair moved the Minutes of the Audit Committee meeting held on 30 July 2020; which had been received and adopted by Council on 8 September 2020.

Referencing Minute AUC.12/20 – Audit of Driver Checks (the third paragraph on page 14 of the document pack), a Member clarified that she had emphasised the need for a centralised process to be put in place if the implemented recommendations were not fully effective as part of the Audit follow-up.

The Member requested that the minute be corrected accordingly; and following seconding it was:

RESOLVED – (1) That it be noted that Council had, on 8 September 2020, received and adopted the minutes of the Audit Committee meeting held on 30 July 2020.

(2) That the minutes, as amended by the above-mentioned correction, would be signed by the Chair at the first practicable opportunity.

AUC.21/20 MINUTES OF BUSINESS AND TRANSFORMATION SCRUTINY PANEL

The Chair moved and Councillor Birks seconded that the Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 23 July 2020 be noted and received.

RESOLVED – That the Minutes of the meeting of the Business and Transformation Scrutiny Panel held on 23 July 2020 be noted and received.

AUC.22/20 INTERNAL AUDIT PROGRESS 2020/21 (APRIL TO SEPTEMBER)

Audit of Environmental Strategy – Baseline Data (Partial Assurance Opinion)

The Principal Auditor provided a detailed overview of the Audit of Environmental Strategy – Baseline Data, highlighting in particular, the key points and associated recommendations.

The following questions and concerns were raised during Members' consideration of the final audit review:

- *A Member commented upon the critical nature of the Environmental Strategy and, accepting the impact of COVID-19, noted that eighteen months had passed since the Council's Climate Change resolution.*

Speaking in his capacity as a Member of the Climate Change Working Group, the Member had more confidence that the matter was progressing, and that the Council was now working with external partners and sharing data. He did, however, wish to see an indication of the authority's current carbon footprint and timescales for adoption of the Local Environment (Climate Change) Strategy in order to reduce that footprint.

- *This was clearly an important new area of work for the City Council. A Member expressed concern around the reliability of the data which may potentially lead to the recording of erroneous conclusions. She noted that the dates for implementation of the recommendations emanating from the audit review had now passed and sought clarification as to whether the recommendations, particularly the two high graded recommendations, had indeed been fully implemented.*

The Member further noted (paragraph 5.3.5) that there was a reliance upon source data owners for the completion of data quality activity prior to the supply of data/information to the Policy and Communications Team. She questioned who were the data owners and whether the Committee could have an example of an instance when data had not been fully checked and verified.

The Member was also surprised that there was not an embedded Action Plan and protocol to work to and wondered whether, if there was any slippage in terms of implementation of the audit recommendations, if potentially the formal follow-up audit could be undertaken sooner in order that the Audit Committee could be reassured that had been actioned and the information the Council would be using was effective.

In response, the Principal Auditor explained that the Policy and Communications Team had been in touch regarding implementation of the recommendations and potential early follow-up. Discussions would be required to ensure that Internal Audit was in a position to action that.

Since the audit follow-up had not yet taken place, he could not immediately verify whether the recommendations had been implemented.

There were numerous data holders across the Council in terms of officers with responsibility for items such as heating bills; fleet vehicles, etc. The issue was around the establishment of a plan to ensure that joined up communication took place.

Speaking by way of introduction and focus, the Policy and Communications Manager emphasised that it was worth noting that this was an emerging area of scientific work. The City Council had been working with external consultants “Small World Consulting Ltd” who were a leading scientific body which undertook carbon footprinting and they themselves were clear that it was not an exact science. Guides and protocols were in place; it was a question of translation thereof into a policy, working practice and procedure for the Council.

The Policy and Communications Manager had invited Internal Audit to undertake a review early in the process in order to avoid a scenario whereby an erroneous carbon footprint was published which subsequently had to be withdrawn. Though the review had received a partial assurance, it did highlight gaps and weaknesses. It was important that the baseline data was of great integrity so that all could have confidence in the carbon footprinting.

In terms of the two high graded recommendations, the Policy and Communications Manager stated that:

Recommendation 1 – although delayed somewhat by COVID-19, the Policy and Communication Service Plan had been updated and the actions strengthened in terms of both policy development around the Strategy, the performance reporting and data quality. That now linked into the carbon footprinting work.

Recommendation 2 – a working document was in place. Work was ongoing with other local authorities to ensure the adoption of a consistent and Cumbria-wide approach to carbon footprinting. That action had therefore been completed. It was emphasised that definitions and procedures would require to be kept up-to-date moving forward.

Speaking in relation to the timing of the follow-up review, the Corporate Director of Finance and Resources indicated that partial assurances were normally followed up six months after completion of the original report in order to afford the client time to implement the recommendations. The Principal Auditor and his Team also worked to an agreed Audit Plan during the course of the year; an early follow-up review would therefore have an impact upon that workload. She was aware that the Principal Auditor was in discussion with the Policy and Communications Manager at the moment.

The Corporate Director's concern was that, if all of the said recommendations had not been implemented and Internal Audit could not provide the necessary assurances to the Committee, there was a risk of another partial assurance level. She wished to avoid that scenario and emphasised the need to give the Corporate Director of Economic Development; the Policy and Communications Manager; and the Climate Change Working Group time to ensure that all of the recommendations were implemented before Internal Audit undertook a follow-up review.

- *Would the Local Environment (Climate Change) Strategy result in the identification of a Cumbria wide carbon footprint figure as opposed to separate figures for each authority?*

The Corporate Director of Economic Development replied that a Cumbria Climate Change Working Group had been established and had set a figure and date by which to achieve carbon zero. The City Council would fit into that context.

The Corporate Director further commented upon the interesting and very strategic nature of the work, adding that the City Council would require to undertake its own assessment in terms of its carbon footprint in order to implement its Strategy. Given the importance of getting the baseline correct, she welcomed the audit report and the continuing involvement of Internal Audit in that assessment monitoring moving forward.

It should be noted that this was the start of a journey. The Climate Change Strategy would develop over time and she would welcome Internal Audit's input to ensure that the authority moved in the right direction.

- *A Member remarked upon what was an exciting area, adding that the work undertaken was appreciated. Nevertheless, the Audit Committee did need that reassurance and she was aware that the Policy and Communications Manager possessed the necessary skills in terms of document retention; information control; and embedding that process. Hopefully therefore the Committee would receive the required reassurance moving forward that the Climate Strategy was something upon which to build.*

Speaking at the invitation of the Chair, the Key Audit Partner (Grant Thornton) indicated that he had no wish to comment.

In response to a Member's request that a follow-up review be undertaken within six months, the Corporate Director of Finance and Resources cautioned once more against an early review if the audit recommendations had not been implemented due to the effect that could have on the assurance that the Principal Auditor and his Team would be able to provide.

She added that consideration would be given to the potential to undertake a follow-up review within the usual timescales and earlier if that could be accommodated.

RESOLVED – That Internal Audit be requested to undertake a follow-up review in order that the Audit Committee may receive assurance around implementation of the audit recommendations; that follow-up to take place within six months if possible.

AUC.23/20 EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE

The Audit Manager (Grant Thornton) provided a verbal update, informing the meeting that Grant Thornton's Financial Statements Audit was due to commence the following week. The City Council's Accounts had been submitted within the deadline and all of the working papers appeared to be available. She added that a team was in place and was progressing to commence that work next week.

The Key Audit Partner (Grant Thornton) then indicated that he would provide a wider sector update.

The Key Audit Partner (Grant Thornton) stated that, subsequent to circulation of the papers for this meeting, The Redmond Review had been published and he thought it useful to share with Members the headline messages from that Review.

Context to the Review had been provided to the Committee via previous progress update reports. The overarching theme was for greater accountability and improved transparency for financial reporting moving forward; that reform was urgently required, and that the NAO and MHCLG were both engaged and would encourage use of voluntary undertakings in advance of the potential legislative reforms that were required.

The reforms could be viewed in three broad areas:

Reforms to Audit Providers

There was a recognition from Sir Tony Redmond that audit was currently under-priced by, on average, 25% which from the Review Team's perspective was very serious indeed. They recognised the challenges within the sector in terms of external audit provision, also recommending that the timetable be moved because the timetable for the NHS and Local Government had been very much concertinaed into May through to the end of July. From a local government perspective the Redmond Review recommended that the timetable for local government accounts be formalised and pushed back to September.

Clearly all were working in unusual times due to the COVID-19 pandemic, but the proposal would mean sign off of the Council's Accounts in September. There was a need to have greater capacity in terms of properly trained and experienced people to deliver audits; and a recognition that there had been a drain from that very specialist sector, an issue which needed to be addressed by all audit providers in the market. Audit providers could also be sanctioned for poor work, but only in the areas key to the user e.g. in a scenario whereby they had not highlighted that Councils were in potential financial meltdown.

Reforms to Council arrangements

Currently, Grant Thornton's Audit Findings Report was very much directed to the Audit Committee as those charged with governance. However, Sir Tony Redmond felt that the profile of the Audit needed to be raised and that Auditors should address full Council each year. Accordingly, in future, final audit reports, annual audit letters, etc should be addressed to full Council to avoid any dilution of key messages. The proficiency of Section 151 Officers; the need for improvement in the accounting arrangements, including the introduction of summary type financial statements; and for an annual formal meeting between three statutory officers and the auditor was also discussed (meetings took place at Carlisle as a matter of course). All Audit Committees should also include appropriately trained independent members.

Reforms to the regime

The current Regulations were split across a number of stakeholders and it was felt that regulation should be brought together in formal systems leadership arrangements under the Office for Local Audit and Regulation (OLAR). That would encompass the work of the NAO, PSAA, FRC and ICAEW. To be clear that was not a return to the Audit Commission days. Importantly, it would be a much smaller entity with a budget of c5% of the Commission's. A stakeholder committee was also to be established, chaired by MHCLG.

The Key Audit Partner added that he had a slide deck which could be shared with the Committee, and future progress reports would provide additional context to the above reforms.

The undernoted observations were then posed in discussion:

- *Speaking from her own perspective, a Member considered the update to be most interesting. She was supportive of the proposed submission of external audit reports to full Council since, when responsibility for financial reporting and approving the Statement of Accounts was delegated to the Audit Committee, there was a concern around that lack of direct accountability or involvement of the full authority.*

The Member further expressed the hope that a further update on the various aspects of the Redmond Review would be provided to the Committee in due course.

The Key Audit Partner (Grant Thornton) replied that he would be happy to provide such an update.

The Corporate Director of Finance and Resources said that she was in possession of a full copy of the independent review undertaken by Sir Tony Redmond, which could be made available to Members. She emphasised that the recommendations contained therein were his and the MHCLG would need to respond. It was suggested that a joint report could be submitted to the Committee outlining the impact of the reforms on Grant Thornton and the City Council, and what the recommendations would mean for the Audit Committee.

The Corporate Director added that she proposed to briefly touch on the matter during the Effectiveness Review scheduled for the following month and could provide a briefing paper for the benefit of Members.

In response, the Key Audit Partner (Grant Thornton) was of the view that all the key stakeholders recognised that change needed to happen and at pace, even before legislative reform could be put in place. Grant Thornton would be happy to provide joint training with the Audit Committee as matters evolved, and he could liaise with the Chair on that.

RESOLVED – That the Audit Committee noted and received Grant Thornton’s verbal audit progress report and sector update and looked forward to receiving a further update on the implications of the Redmond Review at a future date.

AUC.24/20 INTERNAL AUDIT PROGRESS 2020/21 (APRIL TO SEPTEMBER)

The Principal Auditor submitted report RD.30/20 providing an overview of the work carried out by Internal Audit between April and September of 2020/21.

Progress against the 2020/21 audit plan was as detailed at Appendix 1. Approximately 17% of planned reviews had been finalised to draft stage; a further 17% of reviews were anticipated to be complete in draft stage by the end of September 2020.

The Principal Auditor advised that four planned pieces of work had been completed in the period, namely Audit of Absence Management; Audit of Environmental Strategy – Baseline Data; Audit of Insurance; and Audit of Fees and Charges – Value for Money.

He further summarised for Members the information provided at paragraphs 2.3; and Sections 3 and 4 concerning utilisation of the Audit resource during the period; performance indicators; and audit recommendations.

- *Referencing page 39 of the document pack – IT General Controls, a Member noted that the status recorded that a contract had been signed with a supplier to provide a managed Security Information and Event Management (SIEM) service, and it was anticipated that would be live by August 2019. She questioned whether any delay had occurred in relation thereto.*

In response, the Principal Auditor explained that the recommendation alluded to was as agreed in this year’s Audit Plan. Due to the concerns around ICT a formal follow-up of all outstanding ICT risks would be undertaken once the new ICT Head of Service was in post.

- *A Member welcomed production of Appendix B in A3 format which aided readability. In terms of the issue of resources, clearly the Committee needed to be aware that Internal Audit was working at reduced capacity; also impacted by factors such as home working, which may result in slippage of the Audit Plan.*

She was of the view that the Committee needed to endorse its agreement that, if additional resources were needed, that should be actioned to ensure that a sufficient level of audit work was done within Internal Audit this year.

Another Member echoed those sentiments.

- *Referencing Appendix B – the revised completion dates which were greyed out, a Member questioned whether that indicated that the recommendations were complete or that revised completion dates had not yet been agreed. He further asked whether the recommendations which had not been completed could be listed in date order.*

The Principal Auditor replied that those recommendations which were greyed out had not yet been the subject of a follow-up and therefore only the original completion dates were available. A review meeting was only required in circumstances whereby a recommendation had not been completed at the first attempt. The colour coding allowed specific recommendations to be identified. He could give consideration to the format of Appendix B if required.

The Member indicated that he was content with that response.

- *Whilst appreciating the impact of COVID-19 and the hard work being undertaken, a Member noted that certain of the recommendations within Appendix B were now overdue by several months which was cause for some concern. She asked whether any follow-ups had been undertaken e.g. in respect of D1901 (Tullie House).*

In response, the Principal Auditor explained that a follow-up exercise had not yet been undertaken in respect of the review of Tullie House and it could be that those recommendations had been implemented. He would be writing to the Health and Wellbeing Manager in early course.

The Corporate Director of Finance and Resources summarised the audit review process, advising that she and the Principal Auditor had been discussing the development of a revised and more robust process by which to deal with outstanding audit recommendations; particularly in respect of the implementation of high graded recommendations.

On the issue of resources the key aspect for the Corporate Director when reaching the year end was to ensure that sufficient audit days had been undertaken so that the Designated Head of Internal Audit and the Principal Auditor could provide her with an opinion on the Council's overall internal control environment. In a scenario whereby it was felt that the Audit Plan may slip significantly at the year end, it may be that the part-time members of staff within Internal Audit could be asked to consider working additional hours.

The Member welcomed the reassurance provided.

The Principal Auditor then elaborated upon each of the undernoted audits in turn highlighting, in particular detail, the key points and associated recommendations.

Audit of Absence Management (Partial Assurance Opinion)

- *Speaking in his capacity as a Member of the Absence Management Task and Finish Group, a Member stated that the majority of the elements identified within the final audit report had been discussed by the Group.*

As regards the inconsistent application of the Council's absence management procedures, it appeared that certain of the line managers did not fully understand the systems. The Working Group had been looking at a revised, stream-lined process together with training provision. Accordingly, he was unsure how the audit recommendations could be progressed from an audit perspective.

The Principal Auditor replied that the Corporate Director had made reference to the helpful work being undertaken by the Task and Finish Group in her response to the audit recommendations; and that was part of the mitigating actions being put into place.

- *Was statistical information on absence management circulated to all staff?*

The Principal Auditor did not believe that to be so, although the information was publicly available and reported to the Business and Transformation Scrutiny Panel.

Speaking at the request of a Member, the Corporate Director of Finance and Resources expanded upon her comments detailed on page 60 of the document pack; indicating that she did not believe that there was justification for three of the four recommendations to be graded as high, particularly given the timescales for implementation of the said recommendations. [It was agreed that Recommendation 11 was high graded and the timescales for implementation thereof should potentially be brought forward].

The Corporate Director considered the existing Absence Management Policy, which had been reviewed on several occasions, to be fair, containing robust trigger points. That Policy was in place when sickness absence levels were low. The issue related to the inconsistency and application of those trigger points by Managers across the authority, as had been identified by the Task and Finish Group.

She was further mindful that three Members of the Audit Committee also sat on the Absence Management Task and Finish Group, and welcomed the brilliant work being undertaken. The HR Manager was also appreciative of that work which moving forward would hopefully assist Managers to be more consistent in their approach to managing absence.

- *Given the inconsistencies alluded to, and by way of seeking assurance, a Member recommended that the application of the Council's absence management procedures by managers be raised as part of this year's appraisal process, with a view to ensuring that the Absence Management Policy and procedures were understood and consistently applied across the authority.*

In response, the Corporate Director of Finance and Resources advised that, following the conclusion of the Task and Finish Group's work; production of a revised Absence Management Policy and approval thereof by the Employment Panel (if required); that Policy should be relaunched across the authority and steps taken to ensure that a robust training programme was put in place so that Managers and individuals were fully apprised of their respective responsibilities.

Discussion arose during which the Member raised concerns, in relation to and including the failure of some managers to undertake mandatory training; the need to impress upon managers the importance of complying with the Policy; and the merits of progressing the matter (including monitoring) via the annual appraisal process. Speaking from personal experience as a manager and director the Member also outlined, in some detail, the purpose and merits of appraisals.

Whilst accepting that there was work to be done towards ensuring the adoption of a consistent approach, the Corporate Director of Finance and Resources noted at paragraph 5.1.6 that 79 out of 82 managers had undertaken the mandatory e-learning module within the last three years. She added that every situation was unique and there would clearly be occasions where managers' discretion was needed in terms of managing absence.

The Member agreed on that latter point.

The Principal Auditor echoed the Corporate Director's statement concerning completion of the mandatory absence management e-learning module.

The Corporate Director of Governance and Regulatory Services concurred with the Corporate Director of Finance and Resources' comments concerning the grading of the audit recommendations. The appraisal process was about individual staff performance assessment and development and, whilst clearly the concerns alluded to required to be addressed, he did not believe that the appraisal process was the correct way to achieve that.

Rather what was required was a firm instruction from management; HR also needed to be more proactive in the enforcement of the Absence Management Policy, particularly when giving advice and assistance to Managers.

Given the excellent work being undertaken by the Absence Management Task and Finish Group; that a new iteration of the Absence Management Policy would be produced; and that certain staff may not be scheduled to have an appraisal for some months to come, the Corporate Director suggested that the Audit Committee may today wish to issue an instruction to the effect that they had a concern regarding the consistent application of the Policy; and request that the HR Manager write to all members of the Management Briefing with clear instructions to ensure that the Absence Management Policies, existing and future, were applied consistently and in accordance with those Policies. Monitoring could then be undertaken as part of the appraisal process.

Whilst accepting what the Corporate Director had said, the Member emphasised that application of the Policy must be monitored and, if deemed necessary, raised with Managers at their next appraisal.

Another Member spoke in support and, given the inconsistencies alluded to, said that it was about identifying where managers required more support and confidence to implement the current Policy; and also where that had been done effectively or perhaps even over zealously. The Member further supported the Corporate Director of Governance and Regulatory Services' view that an instruction be given now to say that the Committee wished to see the current Policy implemented effectively and that, should Managers have any questions or feel that there were areas where they required more guidance, they should be asking for that rather than avoiding their responsibilities, if indeed that was the case.

The Corporate Director of Finance and Resources added that Organisational Development were in the process of circulating personalised Manager Development Plans, detailing training which had or had not been undertaken, for use during appraisal discussions.

In addition to his advice detailed above, and to address the points raised by Members, the Corporate Director of Governance and Regulatory Services suggested that the Committee also request the HR Manager to contact the Corporate Directors of those Managers who had not completed the relevant absence management training in order that, along with any performance management issues, could be addressed through the appraisal process.

The Member confirmed that she was content with the recommendations based upon the Corporate Director's advice and so moved. The recommendations were duly seconded.

Audit of Insurance (Reasonable Assurance Opinion)

- *A Member questioned whether the Corporate Director of Finance and Resources had any remarks to make in addition to her comments detailed on page 97 of the document pack.*

The Corporate Director drew Members' attention to the five recommendations set out from page 103 onwards, some of which had already been implemented. In response to Recommendation 2, for example, the Risk Management Sub-Group was revising procedures to track all outstanding actions and, in addition, ensuring that steps are taken in respect of any issues which require escalation to the Corporate Risk Management Group. The remaining recommendations would be implemented in line with the timescales set out within the report.

The Corporate Director added that it was a very useful audit review and, whilst improvements could always be made, she was assured that an adequate framework was in place to deal with the Council's insurance provision.

The Member thanked the Corporate Director for her feedback.

Audit of Fees and Charges – Value for Money (Reasonable Assurance Opinion)

Members had no questions or comments in response to this audit review.

RESOLVED – That the Audit Committee:

1. Noted the progress against the Audit Plan for 2020/21 set out within Report RD.30/20.
2. Received the final audit reports as outlined in paragraph 2.2; subject to:

Audit of Absence Management

The Audit Committee was concerned at the inconsistent application of the Absence Management Policy; and requested that the HR Manager:

- (a) write to all members of the Management Briefing with clear instructions to ensure that the Absence Management Policies, existing and future, were applied consistently and in accordance with those Policies.
 - (b) Contact the Corporate Directors of those managers who had not completed the relevant absence management training in order that, along with any performance managements issues and monitoring thereof be undertaken through the appraisal process.
3. Noted the progress made on audit recommendations to date outlined in Appendix B.

AUC.25/20 STATEMENT OF ACCOUNTS 2019/20

The Financial Services Manager (Deputy S.151) submitted report RD.29/20 enclosing the Council's Statement of Accounts 2019/20 (subject to audit) which had been certified by the S.151 Officer in accordance with statutory requirements by 31 August 2020 in line with the revised Accounts and Audit Regulations for 2019/20. They would now be subject to audit, which must be concluded by the statutory deadline of 30 November 2020.

During his presentation of the report, the Financial Services Manager (Deputy S.151) commented that account had been taken of any considerations around the impact of COVID-19 on the issues reported in the Statements, which now included comprehensive narrative in that regard. The key issues to which Members' attention was drawn were set out on pages 123 and 124 of the document pack; one of the main increases in the balance sheet relating to the increase in the Pension Fund liability.

The following questions were raised in discussion:

- *What impact had the McCloud judgement had on the pension liability and was that significant?*

The Financial Services Manager (Deputy S.151) replied that the Pension Fund liability had increased significantly over the previous year; and did include some impact of McCloud in addition to COVID-19. It was, however, difficult to assess the split between those two factors on the liability.

- *A Member sought further clarification as regards the S114 notice, commenting that she had not seen reference thereto in previous years' Accounts.*

In response, the Financial Services Manager (Deputy S.151) explained that requirement came out of the reporting around COVID-19 and the sustainability of Local Government finances as a result thereof. A S114 notice would be a requirement for a number of Local Authorities that were not going to be able to issue balanced budgets or which would potentially run out of cash.

The Corporate Director of Finance and Resources added that the requirement and need to issue a S114 notice if deemed necessary had been in place since 1988. It was considered appropriate to make reference to that within the Accounts to justify the going concern accounting concept and she was aware that the Key Audit Partner and Audit Manager (Grant Thornton) would be looking at that as part of the audit of the Accounts and Value for Money conclusion.

On a point of clarification, the Corporate Director said that, at the moment, there was no need for her (as S.151 Officer) to issue a S114 notice in terms of setting an unbalanced budget or incurring expenditure unlawfully.

- *A Member noted that the Accounts made reference to a fair value assessment of the property fund; the ongoing impact of COVID-19 and the type of properties invested in. She questioned whether the Financial Services Manager (Deputy S.151) had a general comment to make in that regard.*

The Financial Services Manager (Deputy S.151) indicated that the City Council had a large long-term investment in the CCLA property fund managed by an organisation with which many local authorities invested. COVID-19 would have an impact on the property industry and upon that investment. The Council had seen its initial investment grow and had benefitted from increased investment dividend returns, but there was currently a reduction in the fair value of the property fund. The issue was referenced in the Treasury Management report later on the agenda.

The Key Audit Partner (Grant Thornton) commented that the Member's point was well made. The issue presented a challenge and Grant Thornton were in discussion with the Council, both in terms of the valuation of land and buildings, and also on the fair value valuations of its investment properties.

He added that it was recognised across the sector and, in particular, with the Council's valuers that they had raised material uncertainties in and around year end given the impact of COVID-19. Work would therefore take place to ensure that the appropriate disclosures were included within the Accounts; and it was anticipated that would lead to external audit making an emphasis of matter within their audit report.

An important point of note was that the issue had been applied across the board and was not unique to Carlisle City. It would be an area of focus during completion of the 2019/20 audit. An 'emphasis of matter' was not a qualification on the Accounts, rather it purely emphasised the valuers' opinion on the impact of COVID-19.

- *The Member also noted (page 150) that the Council had repaid the £15 million stock issue loan on 22 May 2020 and that no further borrowing to replace it had yet been undertaken. She had understood that the loan had been refinanced in June 2020 and wished to gain a better understanding on that.*

The Financial Services Manager (Deputy S.151) clarified that the £15 million matured in May 2020 and was repaid from the Council's cash balances. There was no need to take out a loan to replenish those balances since the authority was cash rich at the time, primarily because £14 million was borrowed the year before in advance of the Sands Centre redevelopment project, which had not yet been fully spent.

Interest rates had also reduced at the start of the pandemic and had been low ever since. Officers were, however, mindful that there were moves afoot in relation to the Public Works Loan Board financing around the rates that were available to local authorities and would borrow any further financing required as and when it was deemed appropriate.

RESOLVED – That the Audit Committee noted that the 2019/20 Statement of Accounts had been certified as giving a true and fair view by the Corporate Director of Finance and Resources and that they would now be subject to audit.

AUC.26/20 TREASURY MANAGEMENT: APRIL TO JUNE 2020

The Financial Services Manager (Deputy S.151) submitted report RD.22/20 providing the regular quarterly summary of Treasury Management transactions for the first quarter of 2020/21.

Appendix A set out the Schedule of Treasury Management Transactions for the period April to June 2020, whilst Appendix B discussed the Prudential Code and Prudential Indicators for 2020/21. The Executive had considered the matter on 17 August 2020 (Minute EX.98/20 referred).

The Financial Services Manager (Deputy S.151) highlighted in particular the performance on the treasury management budget towards the end of June 2020. Members would note that the interest receivable was higher than anticipated by £47,000 primarily due to increased levels of investment balances.

The dividends received from the property fund had maintained an income of approximately £36,000 per quarter. The yield to the end of June was 4.48%. The valuation of the investment at the end of June was £3,181,143. Interest payable was currently below budget due to no new borrowing entered into yet and also a budget saving against the final stock issue interest payment.

He added that overall investment returns were 0.81% to the end of June 2020 primarily due to investments taken out towards the end of June 2019 when interest rates offered quite attractive rates compared to current rates.

Speaking on a point of clarification, the Financial Services Manager (Deputy S.151) said that one could still see a reduction in revenue collection rates. Council Tax was approximately 1.5 – 2% down on the previous year; with Business Rates experiencing a slightly greater reduction. Officers were commencing some recovery processes which had been postponed at the start of the financial year and would monitor the position over the coming months.

There may well be a level of arrears towards the end of the year; people may be afforded more time to pay their debts which would guarantee some recovery, rather than the authority having to write them off in future. A county-wide group met on a six weekly basis to monitor Council Tax and Business Rates performance. The issue would potentially have an impact on the collection fund deficits at the year end, which in turn would impact upon the Budget for 2021/22. That would be reported through the budget process and the deficit calculations to be undertaken in January 2021.

The Member appreciated that there may potentially be collection deficits of which the Committee must be mindful.

The Corporate Director of Finance and Resources stated that, although no formal debt recovery had taken place during COVID-19, a soft reminder process for Council Tax, Business Rates and Sundry Debtors had been undertaken at the beginning of August. The response had been limited, nor had income collection increased, and so Officers would shortly be implementing more formal debt recovery proceedings.

The collection of Council Tax and Business Rates constituted a statutory charge on the authority and would impact not only the City Council's cash flow, but that of the Police and Cumbria County Council who were preceptors on the Collection Fund. There were therefore cash flow implications if debts were not collected.

The Corporate Director further advised that the Government had issued initial guidance that any deficits on the Collection Fund could be recovered over a three year period. Consideration would be given to that detailed guidance upon receipt.

RESOLVED – That Report RD.22/20 be noted.

[The meeting ended at 11.40 am]

THURSDAY 3 SEPTEMBER 2020 AT 4.00PM

PRESENT: Councillor Bainbridge (Chair), Councillors Alcroft, Allison, Mrs Birks, Bomford (as substitute for Councillor Paton), Mrs Bowman, Dr Tickner and Mitchelson.

ALSO PRESENT: Councillor Ellis, Finance, Governance and Resources Portfolio Holder

OFFICERS: Town Clerk and Chief Executive
Deputy Chief Executive
Corporate Director of Finance and Resources
HR Manager
Policy and Performance Officer
Overview and Scrutiny Officer

BTSP.42/20 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of Councillor Paton.

BTSP.43/20 DECLARATIONS OF INTEREST

Councillor Allison declared an interest in accordance with the Council's Code of Conduct in relation to agenda item A.5 Corporate Risk Register. The interest related to the fact that his son in law worked for Story Construction.

BTSP.44/20 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.45/20 MINUTES OF PREVIOUS MEETINGS

RESOLVED – The minutes of the meeting held on 23 July 2020 were agreed.

BTSP.46/20 CALL – IN OF DECISIONS

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

BTSP.47/20 REVENUE BUDGET OVERVIEW AND MONITORING REPORT APRIL TO JUNE 2020

The Corporate Director of Finance and Resources submitted report RD.20/20 (amended) which provided an overview of the Council's overall budgetary position for the period April to June 2020 for revenue schemes only, together with details of the impact of COVID-19 on the revenue budget. The budgetary position as at June 2020 showed an updated annual Budget totalling £17,427,800 with an underspend of £535,478 at the end of June. The report also included details of balance sheet management issues, bad debts written off in the period and progress against budget savings.

The Executive had considered the report at their meeting on 17 August 2020 (EX.96/20 refers) and decided:

“That the Executive:

1. Noted the budgetary performance position of the Council to June 2020;

2. Noted the action by the Corporate Director of Finance and Resources to write-off bad debts as detailed in paragraph 6 of Report RD.20/20;
3. Noted the release of reserves as set out in the table at paragraph 2.2, and noted the virements approved as detailed in Appendix A.
4. Make recommendations to Council to approve virements of £640,000 as detailed in paragraph 2.4 to fund the Leisure Contract variation."

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

- The Panel expressed their gratitude towards the Corporate Director of Finance and Resources and the finance team for their continued work on the Council budget during a particularly difficult and busy time.
- A Member asked for clarity regarding the co-payment mechanism for irrecoverable Sales, Fees and Charges income.

The Corporate Director of Finance and Resources explained that the City Council had submitted a monthly return to MHCLG which showed the Council's additional expense incurred and shortfalls in income. The Government would cover 75% of losses over 5% with the Council covering the remaining 25%. Work had started to consider the variance to the set budget and budget managers had been asked to confirm the shortfall to income and the reasons for any shortfalls.

- There was concern that the impact on business rate collection would not be fully known until the furlough scheme ended and therefore the impact on the budget would not be known until 2021/22. Had there been any indication that the Government would continue to recompense the Council into the next financial year?

The Corporate Director of Finance and Resources reminded the Panel that government had announced that any deficit on the Collection Fund (i.e Council tax and Business Rates) could be recovered over a three year period and would be considered as part of the 2021/22 budget process. As previously reported the Council had undertaken a 'soft reminder' process, the impact of that on collection rates was not yet known and detailed guidance had not yet been received from government. She added that it was key that the situation was closely monitored and reported to MHCLG each month.

- Did the Sales, Fees and Charges Government scheme support a deficit in Council Tax and Business Rate income?

The Corporate Director of Finance and Resources clarified that the scheme did not cover Council Tax, Business Rates or commercial rent shortfall. The main risk of the shortfall was the impact on the Council's cash flow, she reminded the Panel that part of the Council Tax and Business Rate income went to Cumbria County Council and the Police and Crime Commissioner. Usual practice saw year end deficit recovered from the main preceptors in the following year, however, government had given the Council three years to recover the debt. She added that a separate exercise to look at commercial income would be undertaken but it was hoped any shortfall could be met from the £1.3m received from government.

- A Member asked for an update on the impact of Covid 19 to GLLs finances and the support the Council could provide.

The Corporate Director of Finance and Resources assured the Panel that the Council had ongoing discussions with GLL regarding their financial position. The Council could not receive any direct emergency funding to support GLL because it was an outsourced service, however, the Council had followed government guidance and adopted an 'open book' approach to support GLL financially due to the impact of Covid-19.

- A Member asked for clarity with regard to the uninsured and reinstatement costs overspend.

The Corporate Director of Finance and Resources responded that the Council had a full and comprehensive insurance policy, however, some areas such as bare land was deemed uninsurable.

- How was the Council preparing to meet the £1m savings target and had work on the commercialisation strategy moved forward?

The Corporate Director of Finance and Resources explained that work on the savings strategy had begun and the commercialisation strategy would feed into it. Work would be carried out with the LGA to investigate the options open to the Council to become more commercial and to define the meaning of becoming more commercial.

- It was suggested that the Panel establish a Task and Finish Group to support the production of a commercialisation strategy.
- The report showed a shortfall in income for homeless accommodation as a direct result of Covid-19, why was there a shortfall when government funds had been released to support homelessness and rough sleepers?

The Corporate Director of Finance and Resources clarified that the income shortfall was the impact on the Council's revenue budget, the funding from the Government had not yet been amalgamated in the budget. She agreed to ask the Homeless Prevention and Accommodation Manager for more information for the Panel.

- How would the inflation savings be met?

The Corporate Director of Finance and Resources reported that, in the long term, the inflation savings would be considered as part of the £1m savings, however, there was scope in the revenue budget for a virement to bridge the shortfall in 2020/21.

- How did the Government's Hardship Scheme fit into the Council's budget?

The Corporate Director of Finance and Resources reported that the Council had received £989,736 from the £500m Hardship Fund. The Government had asked Councils to provide £150 to working age recipients of the Council Tax Reduction Scheme (CTRS), however, the City Council's scheme provided £300 to reduce council tax liability as close to 0 as possible. The remainder of the Fund would be used for the Council's own Local Hardship Scheme which would provide support to households which were not eligible for CTRS but were experiencing hardship, and this support would be provided on a case by case basis.

- Were there any areas of income shortfall that the Government would not support or provide funding for?

The Corporate Director of Finance and Resources reiterated that the main risk to the budget was Council Tax and NNDR receipts, the only support given for those areas had been the extension to the debt recovery period. One area that the Council really needed to be mindful of was the impact on commercial income and shortfalls on the budget.

RESOLVED – 1) That the Panel had scrutinised the overall budgetary position for the period April to June 2020 as set out in the Revenue Budget Overview and Monitoring report (RD.20/20 (amended)).

2) That the Homeless Prevention and Accommodation Manager provide the Panel with a written response giving further details on the income shortfall for homeless accommodation due to Covid-19.

3) That a Task and Finish Group be established to support the development of the Commercialisation Strategy and the invitation to join the Task Group be circulated to all Members.

The Corporate Director of Finance and Resources presented report RD.21/20 providing an overview of the budgetary position of the City Council's capital programme for the period April to June 2020.

The Corporate Director of Finance and Resources reported that the position statement recorded that, as at the end of June 2020, expenditure of £2,834,243 had been incurred on the Council's core capital programme. When considered against the profiled budget of £3,305,574 that equated to an underspend of £471,331.

The unspent balance remaining of the revised annual budget of £29,607,700 was £26,773,457. A review of the 2020/21 capital programme would be undertaken to identify accurate project profiles for the remainder of the financial year and any potential slippage into future years. A number of schemes were included in the capital programme for 2020/21 that required reports to be presented to the Executive for the release of funding before the project could go ahead.

The Executive had considered the report at their meeting on 17 August 2020 (EX.97/20 refers) and decided:

"That the Executive:

1. Noted and had commented upon the budgetary position and performance aspects of the capital programme for the period April to June 2020.
2. Noted adjustments to the 2020/21 capital programme as detailed in paragraph 2.1 of Report RD.21/20."

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

- At the request of the Panel the Corporate Director of Finance and Resources agreed to circulate a breakdown of the asset review sales and general sales receipts.
- The Panel was concerned that there was a backlog in the provision of essential adaptations through the Disabled Facilities Grants and questioned how the Council would address the backlog and if any monies would be lost or rolled into the next financial year.

The Corporate Director of Finance and Resources confirmed that, should it be required, funds could roll into the next financial year. She agreed that it was important that those who needed the adaptations received them as soon as possible and agreed to circulate timescales and methods which the Council would use to deal with the Disabled Facilities Grants backlog as a result of Covid-19. She also agreed to include an update in the next quarter report.

- The Central Plaza Scheme showed some costs for emergency works still required, the Corporate Director of Finance and Resources agreed to seek clarification on the matter and report back to the Panel.
- A Member asked for an update on the appointment of the new Head of Digital and Technology.

The Deputy Chief Executive informed the Panel that the new Head of Digital and Technology had been appointed and would begin work at the Council in November, until then the management of ICT would remain under the Town Clerk and Chief Executive.

RESOLVED – 1) That the Panel had scrutinised the overall budgetary position for the period April to June 2020 as set out in the Capital Budget Overview and Monitoring report (RD.21/20).

2) That the Corporate Director of Finance and Resources provides the Panel with written responses with regard to the following: Page 24 of 238

- a breakdown of the asset review sales and general sales receipts
- an update on the emergency works that were outstanding on the Central Plaza Scheme.

3) That the Panel receive information on the timescales and methods which the Council will use to deal with the Disabled Facilities Grants backlog as a result of Covid-19.

BTSP.49/20 SICKNESS ABSENCE REPORT 2019/20 AND Q1 2020/21

The Corporate Director of Finance and Resources presented the authority's sickness absence levels for the period April 2019 to June 2020 and other sickness absence information (RD.24/20).

The Corporate Director of Finance and Resources highlighted the current sickness statistics as detailed in section 2 of the report along with the absence levels split by directorates with comparison years. She reported that 2019/20 saw a 16% increase in overall days lost per employee compared to 2018/19 along with an increase in long term absences. The report set out comparison data, trends, sickness absence reasons and an update on return to work interviews. The Corporate Director of Finance and Resources gave an overview of the key activities which the City Council undertook to support attendance management.

The HR Manager reminded the Panel that a Task and Finish Group had been established to review the Attendance Management Policy which would enable Managers to more effectively manage absence. The Task and Finish Group had contributed to the development of new trigger points and a flow chart which would be circulated to Trade Unions for their feedback. The focus on whole review was to make the Attendance Management Policy clearer, have better detailed trigger points to manage sickness in a proactive way and have more clarity for staff and managers.

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

- There had been a significant rise in sickness absence under 'Stress, depression, mental health , fatigue syndromes' between April and June, was there anything additional that the Council could do to support staff during this time?

The HR Manager explained that the absence was a mixture of Covid-19 related anxiety and long term sickness where the individual had to remain out of work for a variety of reasons. The Council had changed its occupational health provider and work was being carried out to work closely with staff who had been referred to them to assess their situation and how to move forward.

- The Panel understood that working from home could be very stressful for some people and asked how staff could be encouraged to return to work safely.

The HR Manager reported that the Civic Centre reopened to those staff that wanted to return to the building on 17 August. The Health and Safety Team had made the building Covid-19 secure and each floor was treated as a bubble. The option was there for staff to return and equally there was no pressure on staff to return if they wished to remain working from home.

- Prior to Covid-19 there had been a consistent increase in working days lost due to stress, was this work related stress?

The HR Manager responded that there had been a mixture of work related stress along with other categories. Unfortunately there had been a number of people off with very serious long term illnesses, often as treatment progressed the absence changed to stress related. The updated Attendance Management Policy would allow clearer categories and triggers to be reported in future.

- Was there a mechanism which enabled staff to raise anxiety or stress issues so that matters could be addressed before the individual became ill?

The HR Manager confirmed that managers held one to ones and appraisals where issues could be raised. Additionally individuals could contact HR for formal or informal support and equally the Council had good relationships with Trade Unions who could also offer support..

- It was very important that managers led the way with attendance management, had they been consulted on the new Policy?

The HR Manager confirmed that managers were aware that the Policy was being reviewed. The Trade Unions had been consulted as the trigger points were a significant change. Other work was being undertaken to make the process simpler included more use of the payroll and HR system iTrent. When the new Attendance Management Policy was finalised a training programme for managers would be rolled out.

- How had staff felt about being referred to occupational health?

The HR Manager clarified that the 70 referrals to Occupational Health had all been related to those absent from work due to Covid-19. The majority of staff had seen the referral as positive as they had wanted to return to work.

- A Member had concerns that absences due to back, neck and musculo-skeletal problems may increase because those working from home may not have the correct equipment and facilities to do so.

The HR Manager agreed that work needed to be undertaken to ensure those working from home had the correct equipment, she agreed to raise the matter at the next safety meeting.

A Member commented that it was expected that all staff would have completed a self assessment regarding their work space at home and she sought reassurance that this matter would be taken forward.

The Deputy Chief Executive reassured the Panel that the Council were serious about staff wellbeing. Self assessments were carried out at the start of the lockdown but what was deemed satisfactory at the time may not be for longer term use. Longer term assessments needed to be undertaken and timescales needed to be formalised.

- How did the Council ensure that the wellbeing message was being received by staff?

The Corporate Director of Finance and Resources explained that Learning and Development sent out fortnightly newsletters to all staff including those not on email. In addition training continued to be provided by virtual means.

RESOLVED – That the Panel had scrutinised the information on sickness absence provided in report RD.24/20.

BTSP.50/20 CORPORATE RISK REGISTER

The Deputy Chief Executive presented an update on the management of the Council's Corporate Risk register (CS.21/20).

The Deputy Chief Executive reported that the Corporate Risk Register had been reviewed by the Corporate Risk Management Group at its meeting on 3 August 2020, following the meeting the control strategy narrative, the assessment dates and target risk scores had been updated and were attached to the report as appendix one.

Members were asked to note two additional corporate risks. The first related to the potential financial implications on the Council's revenue and capital budgets due to the impact of the

Covid-19. The threat the virus continued to present warranted escalating to the Corporate Risk Register. The second risk related to the Carlisle Southern Link Road. In July 2020 the City Council and Cumbria County Council signed a grants Agreement with Homes England for £134m funding for the Southern relief Road. In addition, the City Council entered into a Collaboration Agreement with Cumbria County Council, as a result the City Council were obliged to achieve certain milestones which were set out in appendix one of the report.

The Deputy Chief Executive summed up by informing the Panel that none of the corporate risks had been escalated in their RAG rating since the last report to the Panel.

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

- What were the implications for the Carlisle Southern Relief should the proposed change to local government structures in Cumbria go ahead?

The Deputy Chief Executive responded that any change to local government structure was a very detailed piece of work and part of the work would be to prioritise projects. It was difficult to predict what the outcome would be but the nature, size and importance of the project to Carlisle would influence any decisions.

- A Member requested an update on the Civic Centre ground floor reinstatement works.

The Deputy Chief Executive explained that Story Construction had prepared a secure entrance and exit to the building for staff, secured the site and made some fire safety improvement works. The main 60 week contract work would begin as soon as the final contract was agreed.

- The Panel sought assurance that the IT risks were being addressed as a priority.

The Deputy Chief Executive assured the Panel that progress was being monitored closely. Covid-19 had tested the authority and the City Council had been lucky that IT had had the foresight to roll out the full microsoft package which had enabled the Council to move quickly with Teams and continue service. The risks in the register related to legacy systems which were at risk of no longer being supported.

The Panel thanked the IT section for their quick response in issuing laptops, equipment, support and advice during the pandemic. They also noted their ongoing work in ensuring the Council's IT systems were safe and protected from phishing and scam emails.

- Where in the risk register did the Council include the risk of funding not coming forward to progress with the projects or schemes?

The Deputy Chief Executive explained that the projects and schemes had to be ready so that they were eligible to be supported by government. The risks did not address what happens if the funding did not come forward, he agreed to undertake some work to improve the control strategy in the next report.

RESOLVED - That the Panel had scrutinised current Corporate Risk Register, as set out in appendix one of report CS.21/20.

BTSP.51/20 QUARTER 1 PERFORMANCE REPORT 2020/21

The Policy and Performance Officer submitted the Quarter 1 2020/21 performance against the current Service Standards and a summary of the Carlisle Plan 2015-18 actions as defined in the 'plan on a page'. Performance against the Panel's 2020/21 Key Performance Indicators (KPIs) were also included.

The Policy and Performance Officer drew the panel's attention to the summary of exceptions which included measures CSe14 Actual car parking revenue as a percentage of car parking

expenditure and SS05 Proportion of corporate complaints dealt with on time, both of which had been due to the impact of Covid-19. The report included the results of the Customer Services Satisfaction survey.

In considering the report the Panel sought clarity on the recharges for Measure CSe14 car parking revenue and hoped that the reduction in car parking at Castle car park was not considered negatively due to the test centre, which was important to the community.

The Corporate Director of Finance and Resources explained that the recharges included building costs, support services, staffing costs and internal recharges.

The Panel had concerns that the performance targets were not aiming for the highest quartiles or were being stretched enough and asked that more comparison data be included in future reports.

The Town Clerk and Chief Executive commented that officers needed to improve the Member engagement in setting targets and needed to be clearer about what kind of targets were being set and the reason for the targets.

RESOLVED -1) That the Panel had scrutinised the performance of the City Council with a view to seeking continuous improvement in how the Council delivers its priorities (PC.21/20).

2) That the Panel be involved in setting the future performance indicators and targets that would be reported to the Panel.

BTSP.52/20 OVERVIEW REPORT AND WORK PROGRAMME

The Overview and Scrutiny Officer presented report OS.18/20 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel.

The Overview and Scrutiny Officer reminded the Panel that a special meeting had been scheduled for 17 September 2020 to consider a report on the Sands Centre redevelopment project. She set out the items in the work programme for 15 October 2020 and reported that the Civic Centre reinstatement and development report had been moved from October to December or January.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel be noted (OS.18/20).

2) That the following items be submitted to the Panel on 15 October 2020:

- Review of Attendance Management Policy – Task and Finish Group Report
- Corporate Peer Review
- Allocation of Section 106 funds
- Planning for no deal Brexit

3) That the following item be moved in the Panel's work programme from 15 October to December 2020 or January 2021:

- Civic Centre reinstatement and development

(The meeting ended at 6.20pm)

SPECIAL BUSINESS AND TRANSFORMATION SCRUTINY PANEL

THURSDAY 17 SEPTEMBER 2020 AT 4.00PM

PRESENT: Councillor Bainbridge (Chair), Councillors Alcroft, Allison, Mrs Birks, Mrs Bowman, Dr Tickner, Mitchelson and Paton.

ALSO PRESENT: Councillor Ellis, Finance, Governance and Resources Portfolio Holder
Councillor Nedved, Economy, Enterprise and Housing Portfolio Holder
Councillor Mrs Finlayson, Vice Chair of the Health and wellbeing Scrutiny Panel (observer)

OFFICERS: Deputy Chief Executive
Corporate Director of Finance and Resources
Health and Wellbeing Manager
Property Services Manager
Overview and Scrutiny Officer

BTSP.53/20 APOLOGIES FOR ABSENCE

An apology for absence was submitted on behalf of the Town Clerk and Chief Executive.

BTSP.54/20 DECLARATIONS OF INTEREST

There were no declarations of interest submitted.

BTSP.55/20 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.56/20 PUBLIC AND PRESS

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

BTSP.57/20 THE SANDS CENTRE REDEVELOPMENT PROJECT – FINAL CONTRACT SUM AND COVID-19 IMPLICATIONS (Public and Press excluded by virtue of Paragraph 3)

The Deputy Chief Executive submitted an update on the progress made in the development of the Sands Centre Redevelopment Project. The update included a revised estimated final contract budget which included COVID-19 implications for the project together with an appraisal of project costs and other factors affecting the final budget.

The Deputy Chief Executive detailed the progress that had been made on the project since June 2019 including the conversion of the former Newman Catholic School into a temporary health and wellbeing facility; provision made for an NHS Musculoskeletal treatment service; a fully accessible temporary events centre reception at the Sands Centre and the development of the Main Contract design, works and sum ready for completion. In addition the Deputy Chief Executive gave an overview of the challenges and project impediments which had been addressed during the time, some of which, including the Covid-19 pandemic, had caused a delay in preparations for the conclusion and signing of the Main Contract. The report also included an update Sands Centre strategic risk register.

The Corporate Director of Finance and Resources set out the financial implications for the redevelopment, including Covid-19 cost implications. An addendum to the report had been circulated and provided the Panel with further information regarding the revised business case.

In response to Members questions the Deputy Chief Executive and the Corporate Director of Finance and Resources clarified the following:

- the contract had a fixed price and the contractor would take the responsibility for any increase in costs. The contract allowed for Wates to make a claim for compensation if a proven cost could be shown, Pick Everard had been engaged as contract administrator and one of their roles was to independently review any claims for compensation and the value of that claim;
- contingency costs had been included in the business case and would not be used for any increase in the revised estimated final contract budget;
- expert external advice would be sought to determine the scale of the required works on the roof and to establish the best time to undertake the work;
- the business case had been updated to include the impact of Covid 19 on the project in comparison to the figures agreed by Council in 2019;
- the Council had an excellent working relationship with GLL and had developed an open book approach to support GLL financially if required. In addition GLL had submitted a request to the Department for Digital, Culture, Media and Sport (DCMS) for money to be provided to the industry as well as applying for support from Sports England. Prior to the pandemic GLL had reported a surplus in their 2019 finances which showed that the demand for the services was there;
- GLL were part of the Project Team and were aware of the impact of Covid-19 on the project, the impact to any subsidy had been discussed with them;
- GLL had seen a predicted decrease in membership as a result of Covid-19, however, they reopened in the new temporary facility and had seen an increase in the use of facilities by members. GLL were actively promoting their facilities and held an open weekend to encourage new membership;
- a claim for additional support for expected costs due to Covid-19 had been submitted to the MHCLG.

RESOLVED –That the Panel had reviewed the project update contained within report CS.22/20 together with the updated capital costs, expenditure profile and funding proposals for delivering the Sands Centre redevelopment main contract and supported the Executive in moving forward with the redevelopment project.

(The meeting ended at 5.54pm)

BUSINESS AND TRANSFORMATION SCRUTINY PANEL

THURSDAY 15 OCTOBER 2020 AT 4.00PM

PRESENT: Councillor Bainbridge (Chair), Councillors Alcroft, Allison, Mrs Birks, Mrs Bowman, Dr Tickner, Mitchelson and Paton.

ALSO

PRESENT: Councillor J Mallinson, Leader
Councillor Ellis, Finance, Governance and Resources Portfolio Holder

OFFICERS: Town Clerk and Chief Executive
Corporate Director of Economic Development
HR Advisor
Development Manager
Overview and Scrutiny Officer

BTSP.58/20 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of the Corporate Director of Finance and Resources and the HR Manager.

BTSP.59/20 DECLARATIONS OF INTEREST

There were no declarations of interest submitted.

BTSP.60/20 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.61/20 MINUTES OF PREVIOUS MEETINGS

RESOLVED- 1) It was noted that Council, at its meeting on 8 September 2020, received and adopted the minutes of the meeting held on 23 July 2020. The Chair will sign the minutes at the first practicable opportunity.

2) That the minutes of the meeting held on 3 September 2020 be approved as a correct record.

BTSP.62/20 CALL IN OF DECISIONS

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

BTSP.63/20 UPDATE ON ATTENDANCE MANAGEMENT TASK AND FINISH GROUP

The HR Advisor submitted an update on the Task and Finish Group established to review the Council's Attendance Management Policy (RD.31/20).

The HR Advisor reminded the Panel of the purpose and membership of the Task and Finish and reported that the Group was due to meet again to discuss the draft policy and manager's and toolkit.

The Task and Finish Group Members felt that the Group had worked well with Officers to produce a clear supportive Policy.

In considering the report Panel Members supported the change in emphasis in the Policy to a supportive one and were encouraged that the Unions had actively engaged in the production of the Policy.

In response to questions the HR Advisor clarified that any future policy updates would include Member and Union engagement and training on the new Policy would be rolled out to managers to ensure attendance management was being dealt with in a consistent and clear manner.

RESOVLED – That the Update on the Attendance Management Task and Finish Group (RD.31/20) be noted.

BTSP.64/20 CORPORATE PEER CHALLENGE – FOCUS ON SCRUTINY

The Overview and Scrutiny Officer submitted report OS.21/20 which outlined the key findings of the Corporate Peer Challenge in respect scrutiny activity and outlined the Council's responses thus far.

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

- What would a 'strong, Member led work programme' look like and how different would it be to the way Scrutiny operated currently?

The Overview and Scrutiny Officer explained that a Member led work programme would develop over time as Members began to take a stronger more robust approach to challenging reports. Members may consider items which they thought were important as their role as community champions and could ask for items that they considered to be missing from the work programme. In terms of how the Panel's work would add value to those areas, that would be explored with either the Overview and Scrutiny Officer or an Officer from the relevant service area in advance of items being included on the Work Programme.

- The current Business and Transformation Scrutiny Panel work plan graph showed that the Panel did not undertake partnership work, could this be introduced as part of the commercialisation work?

The Overview and Scrutiny Officer responded that the same five sub-headings within the graph had been used for each Panel and showed that partnership scrutiny fell more comfortably with the other Panels.

The Chair agreed that the Panel's had a largely a monitoring role with respect to scrutiny and acknowledged Panel's desire to move towards more challenging and policy influencing scrutiny. Referring to the suggestion in the report that the Panel set up a Commercialisation Strategy Task and Finish Group, he indicated that this may be an opportunity for the Panel to engage in partnership working.

A Member supported the setting up of the Task and Finish Group and agreed that it may provide opportunities for partnership working. He felt that the Panel could take a lead on identifying area where partnership working could add value to the Panel's work. Moreover, a number of reports submitted to the Panel sought Members' appraisal of work already undertaken, were as more value could be added if the Panel's input was sought at an earlier stage.

In relation to setting up a Commercial Strategy Task and Finish Group Members made the following suggestions: that local business leaders be invited to participate and, that it be

undertaken in the new year, due to the Panel already being involved in a Task and Finish Group on Attendance Management. The Chair agreed the suggestions.

Another Member noted that the LGA were currently keen to advance Climate Change on the scrutiny agenda, along with other regional scrutiny bodies. It was felt that the Council was, in comparison to some other authorities, further on in that work. Furthermore, the recent Sickness Absence Task and Finish Group, suggested that Members were leading the scrutiny process and working in policy development.

- A Member commented role of this Panel was different to the other Scrutiny Panels as it had a greater internal focus within the authority. In terms of expanding policy development work, he suggested that the Executive be approached to identify areas of policy that would be developed in the coming year and discussion be held as to how the Panel may be involved in that work. He further suggested another possible area of work for the Panel: the impact of Covid 19 on how the Council had operated.

In response to a question from the Chair about which other local authority meetings could be viewed to be understand how scrutiny operated in other Councils, the Overview and Scrutiny Officer undertook to compile a list of those who operated within similar structures.

- The Scrutiny Chair Group had determined that the number and constitution of Panel not be considered as part of the Peer Challenge Work, given the current undertakings in respect of local government reorganisation, a Member questioned whether those aspect of scrutiny did need to be considered.

Another Member proposed that the matter be referred back to the Scrutiny Chairs Group. The proposal was seconded, and the Panel indicated its agreement.

RESOLVED – 1) That a Commercialisation Strategy Task and Finish Group be set up in early 2021.

2) That the impact of Covid 19 on the Council's operations be added as an item to the Panel's Work Programme.

3) That the Panel refer the issue of incorporating the number and composition of Scrutiny Panels as part of the Peer Challenge work to the Scrutiny Chairs Group.

4) That the Overview and Scrutiny Officer compile a list of other local authority scrutiny panels virtual meetings for Members to compare different approaches to scrutiny.

BTSP.65/20 ALLOCATION OF SECTION 106 FUNDS

The Development Manager submitted report (ED.35/20) which set out the background to Section 106 Agreements (S106). The report outlined: The National Legislative and Policy Context (including the Town and Country Planning Act 1990 and The Planning Act 2008); the process used for creating Section 106 Legal Agreements; Contributions; Monitoring, and Risks.

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

- Did the process allow for pre-application discussion with locally elected representatives such as Parish or City Councillors?

The Development Manager explained that in terms of major developments (defined in the Carlisle District Local Plan 2015-30 as 10 or more dwellings), applicants were required to carry out community consultation which may identify potential capital projects which could be funded through a S106. These were open to the public and elected representatives and participating in the consultation did not preclude the submission of objections once an application had been formally submitted to the Council.

The process was well used, and in some cases developers would revise their plans based on the consultation responses received. The Development Manager noted that it was difficult for Members who sat on the Development Control Committee to take part in that process, however, all electoral wards of the Council were now served by three Councillors. In the event that funding was required it would be more appropriate for Councillors not on that Committee to engage in discussions with the developer or Planning Officers on the matter.

The Chairman responded by asking how Ward Members could best advise Planning Officers on capital projects they felt were needed in their area and would wish to include in a S106 prior to the submission of a formal planning application.

The Development Manager advised that, in order for an item to receive funding from an S106 it needed to meet the prescribed legal tests of: necessary to make the development acceptable in planning terms; directly related to the development; fair and reasonably related in scale and kind to the development. Each application was decided on a case by case basis in the context of local and national planning policy, therefore a "wish list" of items was not feasible. The Development Manager and the Principal Planning Officer through their processing of major applications and communications with Members had a good understanding of areas of work wanted in a particular Ward. The Panel was advised that, some funding contributions secured by a S106 were released when particular trigger points were hit, as such it could be some time after the commencement of development that monies were made available.

A Member responded that communication from the Planning Department to Members regarding applications likely to generate a S106 was important, as in his experience, developers did not usually contact Ward Members at the pre-application stage.

In relation to Parish Council's responding to consultations on applications, a Member commented that often they responded only to the particulars of the proposed scheme, rather than identifying potential areas for a S106 contribution.

The Development Manager acknowledged the Member's comments and said he would consider how to engage Parish Councils more fully in suggesting potential items for a Planning Obligation. He worked closely with Cumbria Association of Local Council who were the overarching body for Parish Council and indicated he would consider providing a briefing to that organisation.

- A Member noted a List of Planning Applications was circulated to all Members of the Council, he asked if it would be possible for that document to indicate applications that would likely be subject of a S106?

The Development Manager undertook to consider the format of the List to see how this information was able to be incorporated.

A Member commented that she wished to know at the earliest opportunity about applications likely to be subject of a S106 and asked the best way to do this.

The Corporate Director felt it was important the Members were involved in the dialogue when a S106 was being set up and undertook to consider the most effective format for that, suggesting a webpage may be appropriate.

The Chairman suggested that perhaps some training for Members on the issue of S106s may be arranged or an Informal Council briefing held so that all Members of the Council understood the process.

The Finance, Governance and Resources Portfolio Holder responded that he felt an Informal Council Briefing would be a useful way to engage with Members of the Council to explain the S106 process to them. In addition, training for Members on the application process would be useful, as well as a way for tracking planning applications as they were progressed.

In response to a question from a Member regarding the non-delivery of items agreed as part of a S106, the Development Manager set out the legal basis upon which a developer could challenge an agreement and alter its terms.

- Was it possible for S106 monies to be banked so that a collection of contributions may be used to fund a larger capital project?

Included within S106s were pay-back clauses which required the Council to return monies to a developer in the event that they were not spent on the stipulated project: usually the time scale for those was between 5 and 10 years.

- How would the current white paper on planning reform affect S106s?

There were currently two methods of securing Planning Obligations: S106 and Community Infrastructure Levy (CIL), the current white paper proposed a merger of the two systems. However, the form the new obligations would take was not yet known.

The Corporate Director added that she understood there was to be a nationwide stipulations on the level of contributions a Local Planning Authority could require when forming a S106, she was concerned by this as there was significant differences between development in the north and south of the country and also large variances in land values.

RESOLVED – 1) That the Allocation of Section 106 Funds report be noted (ED.35/20).

2) That an Informal Council Briefing on Section 106 Agreements be arranged.

3) That the Development Manager consider ways to include information on applications that would be subject to a Section 106 Agreement in the List of Planning Applications circulated to Members.

4) That the Corporate Director of Economic Development consider a method for involving Ward Members in the early stages of dialogue for a Section 106 Agreement.

BTSP.66/20 PLANNING FOR A NO DEAL BREXIT

The Corporate Director of Economic Development gave a verbal update on the Council's position with regard to a no deal Brexit which covered: the background to preparations for a No Deal Brexit; the main challenges; supporting small businesses; loss of employees who were European Union residents; The Track, Trace and Go programme. The Corporate Director felt that the District was in a good position to be able to deal with a No Deal Brexit, but that the issue would continue to be monitored so that appropriate actions may be taken in a timely manner.

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

- A Member wished to see an Impact Assessment on how a No Deal Brexit would impact the Council and its projects and schemes.

The Corporate Director noted that all Council projects had Risk Assessments associated with them, she undertook to review those within her Directorate in the context of a No Deal Brexit.

A Member questioned whether the Council had sufficient resources to carry out a review of its project Risk Assessments as it was so wide ranging, for example, the various materials and equipment the Council procured. She also felt it was important to understand the impact on the wider district.

The Corporate Director responded that project Risk Assessments were very detailed and considered the impact on external factors as well as the Council. In terms of the wider community it was important that the Council, in leadership role, was able to signpost organisations and individuals to appropriate sources of information and help, therefore it was important Officers had up to date information so that they could respond to inquiries appropriately.

The Member asked what level of staff would have the necessary information to signpost people when Britain officially left the European Union.

The Corporate Director advised that, within the Economic Development team an Officer would be specifically tasked with the work. Information would then be circulated through networks such as Carlisle Ambassadors.

The Town Clerk and Chief Executive added that the Council was not sufficiently resourced to be able provide advice to all organisations and individuals in the district. However, it would use its resources in the most effective ways it could to provide advice and signposting where it was able to do so. In terms of the impact to the Council, Officers were familiar with the risk assessment process and would apply those protocols accordingly in their work in the event of a No Deal Brexit.

The Panel and Officers discussed ways in which the Council could risk assess the impact of a No Deal. It was proposed, seconded and agreed that a No Deal Brexit be included as a risk in the Risk Register report submitted to the Panel.

RESOLVED – That the verbal report of the Corporate Director of Economic Development on Planning For A No Deal Brexit be noted.

BTSP.67/20 OVERVIEW REPORT AND WORK PROGRAMME

The Overview and Scrutiny Officer presented report OS.23/20 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel. Further to the publication of the report a Notice of Executive Key Decisions was circulated on 9 October 2020, it did not include any items within the Panel remit. The Panel were advised that the Corporate Director of Finance and Resources had indicated that she aimed to provide the outstanding responses shown in Section 3 of the report as soon as practicable.

The Overview and Scrutiny Officer advised that in the Panel's pre-meeting, Members had indicated that the Quarter 2 Sickness Absence report be submitted as a "For Information Only" document rather than a report. Members confirmed that change to the agenda.

A Member suggested that an item be added to the 1 December meeting on Brexit Risk Assessment. The Town Clerk and Chief Executive undertook to provide the report.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel be noted (OS.23/20).

2) That the Quarter 2 Sickness Absence report be submitted as a “For Information Only” document at the 1 December 2020 meeting of the Panel.

3) That the Town Clerk and Chief Executive submit a Brexit Risk Assessment report to the 1 December 2020 meeting of the Panel.

(The meeting ended at 5.53pm)

BUSINESS AND TRANSFORMATION SCRUTINY PANEL

TUESDAY 1 DECEMBER 2020 AT 10.00AM

PRESENT: Councillor Birks (Vice Chair) Councillors, Allison, Mrs Bowman, Glover (as substitute for Councillor Alcroft), Mrs McKerrell (as substitute for Councillor Bainbridge) Mitchelson and Southward (as substitute for Councillor Dr Tickner).

ALSO

PRESENT: Councillor J Mallinson, Leader
Councillor Ellis, Finance, Governance and Resources Portfolio Holder
Councillor Mrs Mallinson, Communities, Health and Wellbeing Portfolio Holder
Councillor Christian, Environment and Transport Portfolio Holder

OFFICERS: Town Clerk and Chief Executive
Deputy Chief Executive
Corporate Director of Governance and Regulatory Services
Corporate Director of Finance and Resources
Corporate Director of Economic Development
Property Services Manager
Policy and Performance Officer
Overview and Scrutiny Officer

BTSP.68/20 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors Alcroft, Bainbridge, Paton and Dr Tickner.

BTSP.69/20 DECLARATIONS OF INTEREST

There were no declarations of interest submitted.

BTSP.70/20 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.71/20 MINUTES OF PREVIOUS MEETINGS

RESOLVED- 1) It was noted that Council, at its meeting on 3 November 2020, received and adopted the minutes of the meetings held on 3 September 2020 and 17 September 2020. The Chair will sign the minutes at the first practicable opportunity.

2) That the minutes of the meeting held on 15 October 2020 be approved as a correct record.

BTSP.72/20 CALL IN OF DECISIONS

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

BTSP.73/20 BUDGET 2021/22

(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 19 November 2020 and 26 November 2020 respectively were submitted for consideration and were noted.

(b) Budget Update – Revenue Estimates 2021/22 to 2025/26

The Corporate Director of Finance and Resources submitted report RD.32/20 providing a summary of the Council's revised revenue base estimates for 2020/21, together with base estimates for 2021/22 and forecasts up to 2025/26 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 8 September 2020.

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. Details of the COVID-19 income and budget monitoring shortfalls were documented at paragraph 5.9. Potential new spending pressures which fell within the remit of the Panel were set out on the agenda.

The Executive had on 9 November 2020 (EX.122/20 refers) received the report and resolved:

“That the Executive:

- (i) Noted the revised base estimates for 2020/21 and base estimates for 2021/22;
- (ii) Noted the current MTFP projections, which would continue to be updated throughout the budget process as key issues became clearer and decisions were taken;
- (iii) Noted the initial budget pressures, bids and savings which needed to be taken into account as part of the 2021/22 budget process;
- (iv) Noted the review of the earmarked reserves as outlined in paragraph 9 and Appendix F”

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

- How would the recent news regarding high street shops moving into administration affect the city centre income shortfall figures?

The Corporate Director of Finance and Resources clarified that the city centre property income shortfall in the report referred to a specific property with the assumption that the funding gap would be replaced by funding received from the Borderlands Project. With regard to the current situation on the high street there would need to be an assessment of the rental income and business rates income for the city centre. If the loss of income was as a direct result of Covid-19 discussions would take place with the MHCLG regarding emergency funding to compensate for the loss of income.

- The leisure industry was key for the health and wellbeing of the city, was there any projections on the impact of Covid-19 to GLL and was there any national support available for the leisure industry?

The Deputy Chief Executive explained that GLL had received some government support and the City Council had supported them locally. GLL had not submitted any further requests for support, however, the situation would be carefully monitored.

- How would the shortfall in industrial estate income be managed and was it possible to target the marketing of vacancies to those companies which remained in high demand to encourage them to locate to the City and grow their business.

The Corporate Director of Finance and Resources responded that the shortfall in industrial estate income had been the result of the disposal of an asset and the loss of income following the disposal. She agreed that the income for the industrial estates needed to be monitored to establish the reason for loss of income.

At the request of a Member the Corporate Director of Finance and Resources agreed to liaise with Property Services to provide a private report to a future meeting of the Panel on the Gateway 44 project focussing on the income and the companies involved.

In response to a question the Deputy Chief Executive confirmed that the digital banner had received sufficient income to pay for the first banner and raised some additional income.

RESOLVED – 1) That the Panel endorsed the Revenue Estimates 2021/22 to 2025/26 (RD.32/20)

2) That a private report providing an update on the Gateway 44 project, its income and the companies involved in the project be submitted to the Panel at its January meeting.

(c) Review of Charges

(i) Community Services

The Deputy Chief Executive presented Report CS.30/20 and addendum setting out the proposed fees and charges for 2021/22 relating to those services falling within the Community Services Directorate.

The charges highlighted within the report would result in an anticipated income level of £2,518,400 against the MTFP target of £3,006,000 which represented a shortfall of £487,600 against the MTFP target.

The Executive had on 9 November 2020 (EX.123/20) received the report and resolved:

“That the Executive:

1. Had reviewed the proposed charges as set out in the body of Report CS.30/20, the Addendum and relevant appendices with effect from 1 April 2021, noting the impact those would have on income generation as detailed within the report.
2. Made the report of proposed charges and the Addendum available to relevant Scrutiny Panels for their review and comment.”

A Member raised concerns regarding the impact of some of the waste services charges on households that were struggling financially. He asked the Executive to look at the charges and consider if there would be any scope for flexibility to assist those that could not afford the charges.

The Member also asked that the Executive reconsider the introduction of a pest control charge for dealing with rats. This was a key public health area and he asked the Executive to consider the impact of people being unable to meet the pest control costs.

RESOLVED – 1) That the Charges Review report 2021/20 – Community Services (CS.30/20) be received.

2) That the Executive be asked to give further consideration to the introduction of the pest control charge for dealing with rats and the impact it would have if households could not meet the charge.

3) That the Executive be asked to look at introducing some flexibility for waste service charges to assist households that were struggling financially.

(ii) Economic Development

The Corporate Director of Economic Development submitted Report ED.38/20 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 would result in an anticipated level of income of £595,200 against the Medium Term Financial Plan target of £637,000.

The Executive had on 9 November 2020 (EX.124/20) received the report and resolved:

“That the Executive agreed for consultation the charges, as set out in Report ED.38/20 and accompanying Appendices, with effect from 1 April 2021; noting the impact those would have on income generation as detailed within the report.”

RESOLVED – That Charges Review report 2021/22 – Economic Development (ED.38/20) be received.

(iii) Governance and Regulatory Services

The Corporate Director of Governance and Regulatory Services submitted Report GD.48/20 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 £845,300 in 2021/22 as summarised in the table at Section 5.9.1 of the report.

The Executive had on 9 November 2020 (EX.125/20) received the report and resolved:

“That the Executive agreed for consultation the charges as detailed within Report GD.48/20 and accompanying Appendices, with effect from 1 April 2021; noting the impact those would have on income generation as detailed within the report.”

RESOLVED – That the Review of Charges 2021/22 report – Governance and Regulatory Services (GD.48/20) be received.

(iv) Licensing

The Corporate Director of Governance and Regulatory Services submitted Report GD.54/20 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 9 November 2020 (EX.126/20) received the report and agreed:

“That the Executive:

1. Noted the charges which were considered by the Regulatory Panel on 14 October 2020, with the exception of charges under the Scrap Metal Dealers Act 2013.
2. Approved the charges detailed at Appendix A under the Scrap Metal Dealers Act 2013 with effect from 1 April 2021..”

RESOLVED – That the Review of Charges 2021/22 - Licensing Report (GD.54/20) be received.

(d) Revised Capital Programme 2020/21 and Provisional Capital Programme 2021/22 to 2025/26

The Corporate Director of Finance and Resources submitted report RD.33/20 detailing the revised Capital Programme for 2020/21, now totalling £19,390,400, together with the proposed method of financing; and highlighting an underspend of £714,250 against the profiled annual budget. Also summarised was the proposed programme for 2021/22 to 2025/26 in the 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.

In addition, a summary of the estimated resources compared to the proposed programme year on year was set out at Section 6 of the report.

The Executive had on 9 November 2020 (EX.127/20) received the report and resolved:

“That the Executive:

1. Noted the revised capital programme and relevant financing for 2020/21 as set out in Appendices A and B to Report RD.33/20;
2. Had given initial consideration and views on the proposed capital spending for 2021/22 to 2025/26 given in the report in the light of the estimated available resources;
3. 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 Members raised the following comments and questions:

- Was the Corporate Director of Finance and Resources satisfied that the level of borrowing/ cumulative deficit was sustainable? Were there risks involved and would the Council need to reduce borrowing levels in the future ?

The Corporate Director of Finance and Resources explained that, due to the lack of grant funding, should the Council want to invest in new assets or infrastructure then the borrowing requirement would need to be considered. A number of internal options were considered before borrowing was undertaken and the Corporate Director of Finance and Resources had to ensure prudent and affordable borrowing. She informed the Panel that the Public Works Loan Board (PWLb) had recently announced a reduction in borrowing rates which would be beneficial to the borrowing costs built into the budget.

- Would the funding for the ICT Infrastructure be sufficient given the new ways of working?

The Corporate Director of Finance and Resources responded that there was provision for IT within the budget, however, service reviews would have to be undertaken to identify potential savings. She reminded the Panel that the new Head of IT was now in post and her first priority was to review the IT Strategy to identify needs and how efficiencies could be generated.

- The Health and Wellbeing Scrutiny Panel discussed the gap in the budget in terms of resources to address the Climate Change Action Plan. A Member asked if comparison work with other authorities was taking place to understand what resources were being invested to meet their targets and what the City Council could learn from other authorities.

The Corporate Director of Economic Development assured the Panel that comparison work was being undertaken. She explained that it was a complicated process as each authority had their own targets and plans and they varied significantly. Work was being undertaken to identify short and long term actions and the impact on the MTFP.

RESOLVED – 1) That the Revised Capital Programme 2020/21 and Provisional Capital Programme 2021/22 to 2025/26 (RD.33/20) be received.

2) That a report be submitted to a future meeting of the Panel setting out the comparison work that has been undertaken with other authorities in addressing their climate change targets.

(e) Corporate Assets – 3 Year Repair and Maintenance Programme 2021/22 – 2023/24

The Property Services Manager presented report GD.52/20 setting out the repair and maintenance programme budget proposals for the Council's Corporate Property assets for the three year period 2021/22 to 2023/24, required to ensure that the legal responsibilities of the City Council were met. It also provided a progress update on building maintenance.

The Executive had on 9 November 2020 (EX.128/20) received the report and resolved:

“That the Executive approved:

1. The three-year revenue maintenance programme set out in Appendix A to Report GD.52/20 as part of the budget process.
2. The 2021/22 capital budget of £250,000 as part of the budget process.
3. The List of capital projects selected to meet the allocated capital budget of £250,000.”

The Panel discussed the maintenance of assets and the Property Services Manager explained that the current allocation in the planned maintenance capital programme included an additional £100,000 allocated to further address maintenance backlog. He added that it was not possible to increase resources so the programme of works targeted the most urgent work and further enhancements would be carried out within the limits of the available resources.

The Property Services Manager reported that there had been some delay in the maintenance works due to Covid-19 and some work would move into the next year's programme if necessary. The Corporate Director of Finance and Resources added that the maintenance budget that was not used could be carried forward through the usual Council processes with the agreement of Council.

RESOLVED – That the Corporate Assets 3 Year Repair and Maintenance Programme 2021/22 – 2023/24 (GD.52/20) be received.

(f) Treasury Management Quarter 2 2020/21 and Forecasts for 2021/22 to 2025/26

The Corporate Director of Finance and Resources submitted report RD.34/20 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 2021/22 with projections to 2025/26, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The Corporate Director of Finance and Resources reminded the Panel that the announcement by the PWLB regarding borrowing rates would significantly alter the figures in the report during the budget process. The base Treasury Management estimates for 2020/21 with projections for 2024/25 were set out at Appendix C.

The Executive had on 9 November 2020 (EX.129/20) considered the report and resolved that Report RD.34/20 be received and the projections for 2021/20 to 2025/26 be incorporated into the Budget reports considered elsewhere on the Agenda.

RESOLVED – That the Treasury Management Quarter 2 2021/22 and Forecasts for 2021/22 to 2025/26 (RD.34/20) be received.

(g) Local Taxation 2021/22 – 2025/26

The Corporate Director of Finance and Resources submitted report RD.35/20 considering aspects of Local Taxation decisions which needed to be made as part of the Budget process for 2021/22 onwards.

The Corporate Director of Finance and Resources 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 9 November 2020 (EX.130/20) received the report and resolved:

“That the Executive:

1. Noted the contents of Report RD.35/20 including the current assumptions built into the MTFP with regard to local taxation issues;
2. Approved, for recommendation to Council as part of the budget process, the 2021/22 Local Support for Council Tax scheme as set out in paragraph 2.4.
3. Approved the continuation of involvement in the Cumbria Business Rate Pool arrangements for 2021/22 subject to the continuing involvement of the other partners,

with the final decision on participation being delegated to the Corporate Director of Finance and Resources.”

The Panel supported the commitment to the current statutory default Council Tax Reduction Scheme and asked if there was government funding available to support the Scheme should there be a significant rise in applicants.

The Corporate Director of Finance and Resources explained that the MTFP included the cost to deliver the Scheme based on the current case load and council tax. There had not been a significant increase in applicants to the Scheme to date and she agreed to circulate the exact figures.

The Corporate Director reminded the Panel that monthly Covid-19 returns were submitted to the MHCLG regarding costs, income shortfalls, arrears on council tax and business rates and the number of CTRS applicants and this information was factored into the emergency funding provided by government.

RESOLVED – 1) That the Local Taxation 2021/22 – 2025/26 report (RD.35/20) be received.

2) That the Corporate Director of Finance and Resources provide Panel Members with further information on the number of applications for the Council Tax Reduction Scheme.

BTSP.74/20 REVENUE BUDGET OVERVIEW AND MONITORING REPORT – APRIL TO SEPTEMBER 2020

The Corporate Director of Finance and Resources presented the Revenue Budget Overview and Monitoring Report (RD.36/20) for the period April to September 2019.

The report provided an:

- overview of the Council’s overall budgetary position for the period April to September 2020 for revenue schemes only;
- details of the impact of COVID-19 on the revenue budget;
- details of balance sheet management issues;
- bad debts written off in the period;
- progress against the budget savings.

The Executive had considered the matter on the 9 November 2020 (EX.135/20 refers) and resolved:

“That the Executive:

- (i) Noted the budgetary performance position of the Council to September 2020;
- (ii) Noted the action by the Corporate Director of Finance and Resources to write-off bad debts as detailed in paragraph 6;
- (iii) Noted the release of reserves as set out in the table at paragraph 2.2, and noted the virements approved as detailed in Appendix A.”

In response to a question the Deputy Chief Executive confirmed that there was support available for leisure centres from government through a bidding process. There had not been an additional request for financial support against the contract from GLL. He assured the Panel that reports would be submitted to scrutiny on a regular basis on the performance of the contract and how the project was moving forward.

RESOLVED – That the Panel received the overall budgetary position for the period April to September 2020 as set out in the revenue Budget Overview and Monitoring Report (RD.36/20).

BTSP.75/20 CAPITAL BUDGET OVERVIEW AND MONITORING REPORT – APRIL TO SEPTEMBER 2020

The Corporate Director of Finance and Resources submitted report RD.37/20 providing an overview of the budgetary position of the City Council's capital programme for the period April to September 2020. Detailed therein were the capital budget overview; the overall budget position for the various Directorates; the monitoring and control of expenditure against budget allocations and the exercise of virement.

The Executive had considered the matter on the 9 November 2020 (EX.136/20 refers) and resolved:

“That the Executive:

- (i) Noted and had commented on the budgetary position and performance aspects of the capital programme for the period April to September 2020.
- (ii) Noted adjustments to the 2020/21 capital programme as detailed in paragraph 2.1.”

In response to a question the Corporate Director of Economic Development confirmed that developers were allowed to challenge Section 106 requirements for affordable housing in terms of viability. The Council did its own assessment to see if changes to Section 106's could be justified; the results were reported to committee. There had been no significant increase in challenges and the situation would be monitored.

RESOLVED – That the Panel receive the overall budgetary position for the period April to September 2020 as set out in the Capital Budget Overview and Monitoring Report. (RD.37/20)

BTSP.76/20 QUARTER 2 PERFORMANCE REPORT 2020/21

The Policy and Performance Officer presented the Quarter 2 Performance Report 2020/21 (PC.29/20).

The report contained the Quarter 2 performance against the current Service Standards and a summary of the Carlisle Plan 2015-18 actions as defined in the 'plan on a page'. Performance against the Panels' 2020/21 Key Performance Indicators were also included.

The Policy and Performance Officer drew the Panel's attention to the summary of exceptions which showed as red:

CSe14: Actual car parking revenue as a percentage of car parking expenditure

CSu05: Percentage of NNDR collected

SS05: Proportion of corporate complaints dealt with on time

SS08: Proportion of official local authority searches completed on time

The Policy and Performance Officer reminded the Panel that all three Scrutiny Panels had requested that Members were involved with the reviewing of the content of performance reports including setting of measures and targets. A Member working group would be set up and run over the Winter months.

RESOLVED – That the Panel had received the quarter 2 performance report PC.29/20.

BTSP.77/20 BREXIT RISK ASSESSMENT

The Corporate Director of Economic Development submitted report ED.45/20 which considered the potential impacts and implications of a 'Hard' or 'No deal' Brexit on Carlisle City Council and its services.

The Corporate Director of Economic Development gave a brief background to the Brexit vote and set out the key issues which may impact on Carlisle as a result.

The Corporate Director of Economic Development reported that UK was in a transition period having left the European Union (EU) on the 31st January 2020. The transition period was an 11-month period in which the UK was still bound to EU rules, whilst in transition the UK would remain in both the EU customs union and the single market. As negotiations continued to take place, there would be no extension of the transition period and the UK would leave the EU without a deal should negotiations be unsuccessful.

There were many variables surrounding the Governments negotiations with the EU on Brexit and City Council officers had been working with partners to prepare various scenarios. Like many other authorities the Council was not able to address many of the issues itself but may well have to respond to them.

The Corporate Director of Economic Development set out the impact to businesses, importation and exportation of goods, workforce and finance. She explained that officers continued to monitor the situation and review various scenarios and assess the risks with partners.

A Member had been disappointed that the report had not included an actual risk assessment. Although the report set out the key issues there was no assessment of how likely the risk would happen, what the impact would be and how the risk would be mitigated. He was concerned that there was less than a month to go until the UK left the EU and Members were not aware of the impact on the City Council. He asked if other organisations were dealing with the matter and, if so, could Members see the assessments they were producing.

The Corporate Director of Economic Development responded that there was a Corporate Risk regarding Brexit contained in the Corporate Risk Register. The Corporate Risk addressed how to ensure that the Council could monitor the situation, what government were advising and maintaining the Government Transition Tracker. She explained that the situation was fluid and changed on a daily basis however many issues were Cumbria wide and were being addressed through the Local Resilience Forum (LRF) and the Local Enterprise Partnership (LEP). The City Council continued to liaise and understand the risk and would put measures in place to address risks as appropriate. She agreed to circulate links to the assessments of the LRF and LEP so Members could see how the City Council fit into the overall plans.

RESOLVED – 1) That the Brexit Risk Assessment be noted (ED.45/20).

2) That the Corporate Director of Economic Development circulate the links to the risk assessments of the Local Resilience Forum and the Local Enterprise Partnership.

BTSP.78/20 OVERVIEW REPORT AND WORK PROGRAMME

The Overview and Scrutiny Officer presented report OS.27/20 providing an overview of matters relating to the work of the Business and Transformation Scrutiny Panel and the Panel's work programme.

RESOLVED – 1) That the Overview Report incorporating the Work Programme and Key Decision items relevant to the Business and Transformation Scrutiny Panel be noted (OS.27/20).

2) That the following items be confirmed for the Panel's agenda in January:

- Civic Centre Reinstatement and Development
- Budget Setting (including Treasury Management Strategy Statement)
- Covid-19 / Budget Item
- Update on the Gateway 44 Project (private report)

(The meeting ended at 11.20am)

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



Initial Draft Interim Audit Findings Report for Carlisle City Council

Year ended 31 March 2020

As at 07 December 2020

Note the 2019-20 audit is still ongoing



Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Carlisle City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The finance team have had to adapt to working remotely and access the systems using remote access.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely. We have used video calling to have regular meetings with finance staff and also confirm the accuracy of information produced by the entity.</p> <p>The accounts were provided to us on the 28 August 2020. The accounts were originally expected in July therefore we did need to re-schedule and re-assign team members. Working papers have been provided throughout the audit through our cloud based system we use called 'Inflo'.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Carlisle City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our audit work was completed remotely from the end of September and remains ongoing. Our findings to date are summarised on pages 6 to 19. We have identified three adjustments to the financial statements, although these have not resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is not complete but there are no matters of which we are aware that would require modification of our audit opinion, from our work completed to this date. The most significant outstanding area of work relates to the audit of land and buildings and investment properties. As a direct result of our audit challenges on the basis of valuations including assumptions and data sets used to determine the carrying value of the Council's asset base it has appointed a new external valuer to revalue material assets across the portfolio of asset categories. This includes the depreciated replacement cost basis of valuation on its specialist assets, existing use valuation of its operational assets as well as the fair value of its investment properties. We are unable to progress the audit at this stage until these revaluations are completed, the new valuation reports are provided to the Council, as planned for 18 December, and then the Council reflects on the impact, including if necessary appropriate changes to its fixed asset register and accounting entries in the accounts. Until this work is complete and we have undertaken our all of our property plant and equipment audit procedures all over again, as well as all our other final audit work as listed on page 6, we are not able to determine at this stage whether any material changes to the financial statements will be required.</p> <p>Subject to resolution of the asset valuation issues outlined above, our anticipated audit report opinion will be unqualified. However, it will include an Emphasis of Matter paragraph, highlighting property, plant and equipment and pension property valuation material uncertainties. This is in line with the national picture and does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. A paragraph has been added to the Council's Estimation and uncertainties Note 4.2 to indicate this matter, which is now adequately disclosed in the Council's financial statements and we consider it is fundamental to a readers' understanding of the financial statements.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p>
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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Carlisle City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Carlisle City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20 to 26.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our significant audit risks, as communicated to you in our audit plan on the 30 July 2020.

Conclusion

Our audit is ongoing, outstanding items include:

- re-performance and completion of audit work on the revaluation of operational and investment property assets once we have received the responses for the revised valuations;
- completion of a number of outstanding audit procedures following responses from officers including, review of the NDR appeals provision, finalising our work on the collection fund, existence testing for Heritage assets, completion of pension net liability work, related party transactions and financial instruments;
- overall review by manager and engagement lead;
- receipt of management representation letter; and
- review of the final set of financial statements and subsequent procedures.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,155,000	• This equates to 1.9% of your gross operating expenditure for 2018/19 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	808,500	• Based on 70% of materiality derived from the risk of misstatement
Trivial matters	57,750	• Based on a 5% of materiality
Materiality for Senior Officers Remuneration	5,000	• Due to the sensitive nature of the disclosure

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement

Auditor commentary

We:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28th August 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software.

Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). Your amended accounts have disclosed this material uncertainty within note 4.2.

Similarly, there is also an impact of Covid-19 on the valuation of Cumbria Local Government Pension Scheme's direct property investments and investments in unquoted property funds. The note states that fair value measurement of these investments at 31 March 2020 is subject to a material valuation uncertainty (issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards).

We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.

There are no other findings in respect of this significant risk.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

The revenue cycle includes fraudulent transactions - Rebutted

We rebutted this risk in our Audit Plan and no changes to our assessment have been reported in the audit plan.

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Carlisle City Council, means that all forms of fraud are seen as unacceptable.

Significant audit risks

Risks identified in our Audit Plan

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We;

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls to date.

Significant audit risks

Risks identified in our Audit Plan

Valuation of land, buildings and investment property

The Authority revalues its land, buildings and investment property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets and investment property) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved at £117 million, and the sensitivity of this estimate to changes in key assumptions.

Management has engaged the services of a valuer to estimate the current value as at 31 March 2020.

We therefore identified valuation of land, buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land, buildings and investment property is not materially misstated and evaluate the design of the associated controls
- evaluated management's assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- discussed with the valuer the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Authority's valuer's report and the assumptions that underpin the valuation
- evaluated the appropriateness, completeness and accuracy of the inputs used by the valuer in asset valuations, on a sample basis
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different

Management had not identified the material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic reported by their expert valuer as a significant issue. The statements were amended to include this disclosure in Note 3 to the financial statements.

Our testing identified that the Council's Asset Under Construction included one item of £1,678,000 relating to an investment property. This asset relates to Gateway 44 Development and should be classified as an Investment Property. The reclassification does not impact on the amount carried in the balance sheet.

As part of our detailed testing of asset revaluations, we challenged the approach taken by the valuer. In particular, we raised queries over the valuation of specialised assets on Depreciated Replacement Cost (DRC) basis. Our queries included:

- the use of insurance valuations as a starting point for the DRC exercise
- the use of RPI indices to update insurance valuations
- whether land value had been properly recognised in the valuations
- discounting of value for unexpired term of leases

As a result of this challenge the Council are completing further work on the asset base as a whole and have engaged a new valuer to complete valuations on assets valued on a DRC basis as well as a sample of operational assets and investment properties. Once the valuations have been received we will need to complete the above steps again on the new valuer.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved at £40.13 million in the Authority's balance sheet as at March 2019 and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We;

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary - Mercers) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- agreed any advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and
- obtained assurances from the auditor of Cumbria Local Government Pension Fund Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

The Pension Fund Auditor has included an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. In respect of the effects of Covid-19 on the valuation of property investments, this impacts both direct property and indirect pooled property funds. The Council has included additional disclosures within the financial statements and we have concluded an Emphasis of Matter in our opinion in relation to these findings.

Our audit work identified some disclosure issues which have been amended, and has not identified any further issues in respect of valuation of the net pension liability.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Commentary

Note 4.1 makes brief reference to IFRS16. We are satisfied that your disclosure is consistent with the requirements of IAS 8.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals- £1.7m	The Council is liable for successful appeals against business rates charged to business in 2019/20 and earlier financial years in their proportionate share. A provision has therefore been made for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the latest Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date. The provision has increased by £373,000 in 2019/20.	<ul style="list-style-type: none"> Our audit work in this area is still outstanding. At the time of writing we are waiting for responses to our queries. 	TBC

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other and Investment Property - £112.16m	<p>Other land and buildings comprises £17.097m of specialised assets including The Sands Centre and Tullie House Museum which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£15.158m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>Investment Property includes the Lanes Shopping Centre and Kingstown Industrial Estate and has been valued at £79.905m.</p> <p>The Council has engaged Carigiet Cowen to complete the valuation of properties as at 31 March 2020.</p> <p>All assets are revalued annually.</p> <p>Due to the profile of the portfolio of Council's assets, management do not deem it appropriate to value on an alternative basis. The assets valued on a DRC basis are sufficiently specialised that an alternate use would not be commercially viable for a prospective purchaser and there is little evidence of an active market for these assets to be able to value on an EUV basis.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council, however, made no reference to this in the financial statements.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £2.480m for Other Land and Building and a net decrease of £2.336m for Investment Property.</p>	<ul style="list-style-type: none"> We have evaluated the competence, capabilities and objectivity of the valuation expert used by the Council. The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including the assumptions that were going to be applied to this work. There have been no changes to the valuation methods this year. We have reviewed and are satisfied with the completeness and accuracy of the information provided to the valuer to determine the estimate We have reviewed the assumptions applied by the Valuer to the valuation performed, and have raised questions on the basis of these valuations. See page 10 of this report where our concerns on the valuations have been explained in further detail. <p>To address the concerns we have raised the Council has instructed another new external valuation firm to complete a sample of valuations. This work is ongoing and once the report has been received we will re- perform and complete our work in this area.</p>	TBC

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £47.322m	<p>The Council's net pension liability at 31 March 2020 is £47.322m (PY £40.124m) comprising the Cumbria Local Government Pension Scheme defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.2.</p> <p>The latest full actuarial valuation was completed as at March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.964m net actuarial gain during 2019/20.</p>	<p>In understanding how management have calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> assessed the use of a management's expert actuary (Mercers) assessed the actuary's roll forward approach taken used PwC as an auditor's expert to assess the actuary's approach and assumptions made by the actuary (see the table below) <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.4%</td><td>2.3% - 2.4%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.1%</td><td>2.1%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>3.6%</td><td>3.35% - 3.6%</td><td>●</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>24.2/ 22.6</td><td>22.5 - 24.7/ 20.9 - 23.2</td><td>●</td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>27.1/ 25.2</td><td>25.9 - 27.7/ 24.0 - 25.8</td><td>●</td></tr> </table> <ul style="list-style-type: none"> assessed the completeness and accuracy of the underlying information used to determine the estimate impact of any changes to valuation method undertook a reasonableness test of the Council's share of LGPS pension assets assessed the reasonableness of the movement in the estimate assessed the adequacy of disclosure of estimate in the financial statements. <p>Our own independent expert has also confirmed that they are comfortable that the assumptions used by Mercers are reasonable for the purpose of valuing the liabilities at 31 March 2020. We are satisfied that the estimate of your net pension liability is not materially misstated.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.3% - 2.4%	●	Pension increase rate	2.1%	2.1%	●	Salary growth	3.6%	3.35% - 3.6%	●	Life expectancy – Males currently aged 45 / 65	24.2/ 22.6	22.5 - 24.7/ 20.9 - 23.2	●	Life expectancy – Females currently aged 45 / 65	27.1/ 25.2	25.9 - 27.7/ 24.0 - 25.8	●	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.4%	2.3% - 2.4%	●																								
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Life expectancy – Males currently aged 45 / 65	24.2/ 22.6	22.5 - 24.7/ 20.9 - 23.2	●																								
Life expectancy – Females currently aged 45 / 65	27.1/ 25.2	25.9 - 27.7/ 24.0 - 25.8	●																								

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
The most significant events that occurred during the year was the Covid-19 pandemic.	During the year we have considered the challenges arising from Covid-19. We are satisfied that management responded swiftly and appropriately to the challenges of Covid-19.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	The Council's external valuation expert, Carigiet Cowen has raised a material uncertainty regarding how the impact of Covid-19 on market conditions may affect land and buildings valuations during 2020/21. The Council's amended accounts post audit include this disclosure.
Concerns about management's consultations with other accountants on accounting or auditing matters	Our work on the revaluation of land and buildings identified significant concerns on the revaluation methods use. We have raised these significant concerns with the Council. The Council has instructed a new external valuer to undertake revaluation work on its material asset base and to conduct a sample of remaining valuations to assist it in determining whether the carrying value of assets is not materially different from its current and fair value.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No disagreements with management occurred during the audit.
Other matters that are significant to the oversight of the financial reporting process,	None to report

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management has provided

- cash flow for the period ended 30 January 2022
- rationale for judgements and assumptions taken.

Auditor commentary

- The Council's use of the going concern basis of accounting is appropriate.
- The Council's going concern assessment is supported by its updated 2020/21 budget. The Council has updated its 2020-21 budget to reflect the impact of Covid 19 and has set a balanced budget.
- The Council's general fund balance is budgeted to be £3.063 million at 31 March 2021, in line with minimum balance of £3.1 million. Earmarked reserves are budgeted to be £3.041 million at 31 March 2021 and the MTFP does not assume any use of earmarked reserves beyond 2020/21.
- The Council expects to remain under-borrowed against its Capital Financing Requirement through to 31 March 2021.
- The Council has a strong Cash and Short Term Investment position. At 10 November, balances were £13.9m. On audit request the Council has prepared a forecast to support its Going Concern assessment through to 30 January 2022.

Work performed

Management has provided us with a written assessment of going concern, which we have reviewed in conjunction with cash flow forecasts and the MTFS.

Our work included:

- determining whether the conclusions made by the management regarding the decision not to disclose any going concern material uncertainties in the financial statements were prudent and appropriate;
- we have reviewed management's assessment in the light of the Council's position and the national context and assessed the underlying assumptions used to support management's preparation of the accounts on a going concern basis;
- reviewing cash flow forecasts up to January 2022 to assess the existence of any material uncertainties related to going concern.

Concluding comments

Based on the audit work performed over the going concern assumption adopted by management, we are satisfied that it remains appropriate for the Council to prepare accounts on a going concern basis as at 31 March 2020. The Council has a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason we consider it appropriate for the entity to continue to adopt the going concern basis in preparing the financial statements. We do not consider there to be a material uncertainty, which would cast doubt on the ability of the entity to continue as a going concern.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed from our work to date.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council, which will be included in future Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the bank, investment bodies and long term debtors. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management are being provided.</p> <p>Our audit identified some delays with the audit evidence provided with the financial statements, which has resulted in the audit taking longer to complete than in previous years. However, we acknowledge the challenging circumstances with the remote working environment and software reporting issues. This coupled with the significant matters on the basis of valuations highlighted earlier explains why we have not been able to meet the audit deadline of 30 November 2020.</p>

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified post audit adjustments as minor changes have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Carlisle City Council in the audit report opinion.</p>

Value for Money

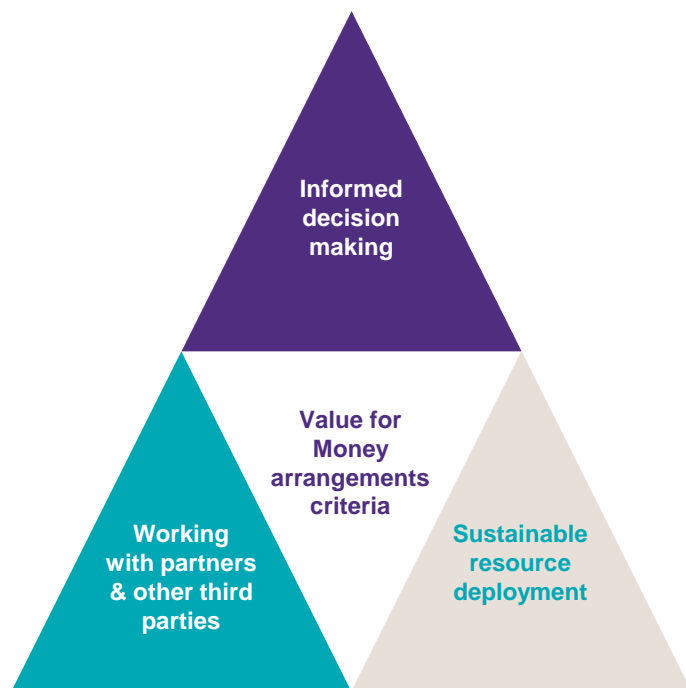
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VfM risks in relation to Covid-19. We do not consider Covid-19 to be a significant risk given the start of the pandemic was towards the financial year-end.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's financial sustainability

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 26.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Resilience and Sustainability

The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, such as internally reshaping the Council.

The Council continues to face a challenging environment in the medium term. The MTFP 2020/21 to 2024/25 from January 2020 shows a savings requirement of nil in 2020/21, £1m in 2021/22 and then increasing to £1.850m in 2023/24. The Council is reviewing how it works as a result to identify areas of potential savings or revenue generation.

There are considerable uncertainties over various revenue streams in the medium term due to the fair funding review outcome, investment property income and the uncertainty around the future of the Business Rates Retention Scheme. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.

The Council also has large-scale capital projects, commencing in 2019/20 which require significant levels of borrowing to fund their completion.

Audit response

This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.

We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.

We will review the sensitivity analysis and scenario planning undertaken by the Council, which support the estimates and judgements made in the MTFP

Findings:

The arrangements the Council has in place to compile the MTFP

The Council maintains a comprehensive approach to compile its Medium Term Financial Plan (MTFP). This adopts the core principles of the Council as outlined in the Carlisle Plan to prioritise the allocation of resources to best meet their key aims and objectives. A detailed budget timetable is in place and a budget pack guidance goes out in September to each budget holder.

The Councils current MTFP covers the period from 2021/22 to 2025/26 and to complete this the budget holders are given various principles to apply to the MTFP, including:

- a pay award of 2% and inflation of 2% on expenditure and 3% for income, as well as these assumptions the Council has also factored in the reduction in funding of £1.5m from Business Rates
- Commercial and income generation where the Council currently generates income from fees and charges of £5m, and expects to outline proposals to increase income by 3%
- Council Tax and Business Rate assumptions include an increase of Council Tax and Business Rate Retention
- Treasury management assumptions which include the rate for refinancing the stock issue and an assumption of the average return assumed at 1.2%
- Capital investment assumptions which confirms the current capital program is forecast to utilise all capital receipts and approved borrowing requirements.

Value for Money

Significant risk (cont)

Budget holders are required to set out the objectives of each charge it proposes to set. There are a number of factors which they are required to review when determining the amount to charge and also ensure relevant concessions are factored in. Finally, a review is completed to confirm the Council are maintaining value for money.

The 3% of increase in income is a challenge, as you will note the 2019/20 budget outturn review identified a number of key areas where the service did not perform as expected due to a reduction in income therefore we recommend the Council reviews this assumption to ensure it is realistic, especially in the current context..

The Council were waiting on the Comprehensive Spending Review 2020 to make changes to various services and staffing, but this has now been deferred until 2021. As the Council has been given a 1-year settlement for 2021/22 this increases the uncertainties in the MTFP. As well as this the Council will be affected by the Governments decision to pause the 75% Business Rate Retention Scheme. The impact of this has been included in the current MTFP.

How is the Council identifying, managing and monitoring financial information to regularly update the MTFP?

The original budget for 2019/20 was £14.259m, which was financed from by £1.2m from reserves and £13m grants. This was then revised to £16.6m which was financed using £2.9m from reserves and £13.7m grants. The actual spend was £14.2m using only £11,000 from reserves and the remaining £14.2m from grants. Instead of using £1.5m general fund reserves the Council put in £1.4m. The Council's budget report showed a net underspend of £2m of which £811,000 was carried forward to 2020/21 and £1.5m transferred to reserves. Of the amount carried forward £0.5m relates to released general fund reserves for COVID costs.

A number of underspends were identified and additional rental income was achieved at the Enterprise Centre, a net underspend in Bereavement Services due to increased cremation fee income which may be due to COVID-19. However, COVID 19 has also been the cause of a shortfall in car park income and other income streams. There was also an overspend in Leisure contract due to a variation to contract agreed on the approval of Sand Centre development. Going forward the Council needs to ensure budgets are more realistic setting out various scenarios more accurately to allow for better informed decision making and sustainable resource deployment. COVID will also impact on the income received and this needs to be continually reassessed and reflected as well.

COVID-19 has had minimum impact on the financial position as at 31st March 2020. However, emergency funding of £1.807m has been received to support Council services in 2020/21 to support additional expenditure and loss of income. Monthly returns are being submitted to the MHCLG to identify potential costs, with the expectation that further funding will be made available to local authorities. Early indications are that the estimated full year costs of COVID-19 equates to approximately £3.7m, while any loss of income from Business Rates and Council Tax will add to this sum. Again this is an ever changing position which requires very close monitoring.

The impact on COVID-19 on the Council's resources is one of the greatest risk to ensuring that the Medium-Term Financial Plan is able to support service delivery whilst ensuring that reserves are maintained. Looking into Q1 2020/21 revenue budget monitoring shows out of the annual budget of £16.7m the Council has spent £4.4m which equates to 27%. Although the budget to date was just short of £5m, this indicates an underspend of £0.5m.

Sensitivity analysis

The medium-term financial plan includes an assumptions section where it provides various assumptions regarding the main items of income and expenditure and a sensitivity analysis is completed for each assumption. The likelihood of change is given a risk rating of high, medium and low and the amount of the impact is provided as a guide. These assumptions include, pay award and pension contributions, inflation increases for both expenditure and income as well as investment returns and the property fund and borrowing rates.

Value for Money

Significant risk (cont)

A review of the Councils reserves and provisions is undertaken to show each purpose and to monitor usage and ongoing need for related balances. The table below shows the movement on reserves position which shows a gradual decline in both usable General Fund Reserves and earmarked reserves since 2017/18, with a large amount of reserves being utilised to fund the 2020/21 budget. The Council MTFP assumes no significant use of reserves beyond 2020/21.

	2017/18	2018/19	2019/20	2020/21 Budget	2021/22 Budget	2022/23 Budget
General Fund in C/f reserve	5,700	4,630	4,661	2,431	2,180	2,241
Earmarked Reserves including Capital	6,232	5,540	5,487	3,244	3,259	3,274

Whilst preparing the 2020/21 budget the Council was able to re-profile the savings target for 2020/21 of £1.13m to 2021/22. As the Fair Funding and Business Rate Retention Scheme Reviews were both deferred, which in turn enabled the County Wide Business Rates Pooling arrangements to continue for a further year into 2020/21, with a resulting £1.5m of income being factored into the budget albeit on a non-recurring basis.

The savings target for 2021/22 is now £1m with a further £0.850m from 2023/24. The savings strategy covers 3 main strands, asset strategy, service reviews and core budgets.

Reporting

The budget process begins in November of each year for the following year, so in November 2019 the 2020/21 Budget Process began. The Executive members receive the budget book, which is then discussed at individual committees. This included the Health and Wellbeing Scrutiny Panel, Economic Growth Scrutiny Panel and the Business and Transformation Scrutiny Panel. Feedback from these Panels are taken to the Executive Committee in December. There is then a formal consultation with public, trade unions, large employers, consultation with staff and advertising in the newspaper. The final budget is then approved by the Council in February, where there is still an opportunity to request changes. The Council regularly review budgets and reports to Executive each quarter prior to a detailed discussion at each committee.

The Council aims to use its assets to generate income to support the Council's revenue budget. Therefore, they are borrowing against these assets to generate revenue income in the future. However, they do need to ensure these costs are realistic and achievable. The Council has a number of key capital projects in place, including the Sands Centre where the scheme was originally budgeted to cost £14.5m and then increased to £25.5m in June 2019, with a more recent reprofile in October 2020 bringing the budgeted spend to £27.2m. Additional funding to fund part of this has been achieved from Sports England and a NHS Contribution being received due to the wider health and well-being benefits the project will bring. The Council has also requested additional funding from the Government as part of the emergency action fund as this helps with enhancing well-being and tackling obesity priorities. Remaining costs will need to be funded by the Council.

Value for Money

Significant risk (cont)

Another of the capital projects is Gateway 44, has also suffered delays due to COVID 19 and has had an impact on the planned occupation of the units. Although the Council is hoping to accommodate the remaining units as this is for bulky goods and not High Street the Council has had to reduce the rent per square metre, but is still expected to make a positive return. This may lead to a projected shortfall in income, which is still to be finalised and formally reported at this time.

As per previous VFM recommendations the Council continues to look at the costing of projects to ensure they are realistic reflecting the true costs and include built in contingencies. This will allow the Council to have a true picture of each option to ensure it offers value for money for the Council.

The Council's current capital commitments and related borrowing is significant. As at the 31/03/20 the Council was towards the top limit of its Treasury borrowing limits, with £28.8m of committed borrowing against an operational boundary limit of £39.1m. The Council did repay the £15m loan stock in May 2020 using additional borrowing made in 2019/20 of £14m. The Council is still looking to borrow further in the current year, in particular, for the Sands Centre.

The additional costs due to the pandemic are submitted to government through regular returns. This records additional expenditure the Council have had to undergo as well lost fees and charges income. However, current COVID 19 related funding and support is silent on the reimbursement for any losses of commercial income, which could also have a significant impact on the Councils budget position. The Council has received funding to cover some of these costs. The full-year impact for 2020/21 is still to be assessed with initial estimates indicating a potential annual cost of up to £3.7million. This excludes the impact of any cost savings or additional income generated which should be netted off this figure and doesn't reflect any receipt of any compensation payment for losses of Sales, Fees and Charges, nor does it reflect the impact on the Collection Fund. If this funding is not received in line with expectations this will have a detrimental impact on the Council's usable reserves.

During the year the Council also took part in a peer review, which is made up of various representatives from other councils and the Local Government Association. They have five questions which form core components. These include understanding the local place and priority setting, leadership of place, organizational leadership and governance, financial planning and viability and capacity to deliver. The Council also asked the team to provide observations on the Council's approach to commercialisation and effectiveness of performance management arrangements.

The feedback from the peer review confirmed the Council had a stable and experienced management and workforce with both political and managerial leadership being well regarded within the Council and externally. The Council has a healthy financial position with a strong property asset base which generates an income stream contributing around £4.3 million per annum to the net revenue account. However, the next step is to realign existing funding to a clear set of priorities to ensure the best use is made of the Council's resources. The review highlighted ten key recommendations to the Council which it has accepted and has plans in place to meet it. Each recommendation has a member of the senior management team allocated and a target date to meet the recommendations. These are all expected to be met by April 2022.

Value for Money

Significant risk (cont)

Conclusion

Based on the arrangements the Council has in place during 2019/20 we conclude that there are appropriate arrangements in place for the reporting and monitoring of the medium-term financial plan. However, the Council needs to review the:

Arrangements for costing current and future major capital projects to ensure they are realistic and carry sufficient contingency plans.

Ensure the MTFP assumptions are realistic especially with the current climate going forward and look to fine tune its sensitivity analysis and assumptions. Well established savings plans should be identified at the offset to avoid identifying back ended saving programmes.

The Council should monitor the run rate of usable reserves to ensure reserves are maintained at a reasonable level

Capital overruns should be managed closely as there is limited headroom for additional borrowing.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and Non-audit services


For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit service was identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription	5,000	Self-Interest -because this is a recurring fee	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total planned fee for the audit of £51,033 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. These fees have not been reflected in the accounts because of the timing of CFO Insights</p> <p>The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.</p>




These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 4 of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 High	Revaluations We identified significant concerns with the approach used to calculate DRC revaluations by the valuer.	Complete a quality assurance check on valuations to ensure the basis of valuation is appropriate and that the related revaluations key assumptions and data sets used are reasonable. Management response The Council will review its process for the appointment of external valuers to support the valuation process. This will include using sector specific valuers for different assets in the portfolio to ensure valuations are as accurate as possible and that the correct bases are used.
 Medium	Capital Projects The total costs on the Sands Centre Redevelopment continues to increase from the initial £14.2 million to £27.2m. Any capital programme overruns should be closely monitored to ensure the Council does not breach its treasury management limits.	Arrangements for costing current and future major capital projects need to be improved to ensure they are realistic and carry sufficient contingency plans. Capital costs need to be closely managed to keep additional borrowing to a minimum and to avoid breaching treasury management limits. Management response Capital schemes are monitored closely and option appraisals carried out to ensure the schemes offer value for money and affordability. The Sands scheme, although increasing in cost, was measured against the original aspiration of maintaining any borrowing costs within the subsidy saving achieved in the new leisure contract awarded in 2017.
 Medium	Run Rate A review of the Councils reserves from the past three years and looking at the budgets for the following two years shows the Council has continued to use reserves to fund the 2020/21 budget.	Monitor the run rate on usable reserves to ensure general fund unearmarked reserves are maintained at a reasonable level. Management response The Council monitors reserve levels at budget and outturns and ensures that where reserves are used in the short term, that there is a longer term plan to achieve minimum levels. The Council has a history of being underspent at year-end meaning that reserves are often higher than planned when budgets are set.
 Medium	Medium Term Financial Plan The medium term financial plan includes various assumptions which includes an increase of income over inflation. As the Council is heavily exposed to reliance on investment income to deliver its financial objectives, the impact on future revenue streams needs very close monitoring and management to maintain the Council's financial health.	Carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in future budget outturns and revisions to the MTFP to assist agile financial management to secure the Council's medium term financial sustainability, in the light of the uncertain context for Local Government. Management response Income budgets have been thoroughly reviewed at the budget setting process for 2020/21 and continue to be monitored closely as part of the budget monitoring process.

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and management are making progress but further ongoing work is required.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	There is a savings gap in the MTFP of £1.242m. General fund balances have fallen by 19% from £5.7m at 31 March 2018 to £4.6m at 31 March 2019. Overall usable reserves have fallen by 15% from £12.1m to £10.3m as at 31 March 2019.	Work is progressing on the base budget review and the overall savings target to identify £1million of savings for 2021/22. Reports will be represented to SMT and Members as part of the 2021/22 budget process. A commercialisation Strategy will be developed, a recommendation from the recent Peer Challenge and BTSP will provide support in the shape of a Task & Finish Group.
Partial	There has been a significant increase in the capital cost of the Sands Centre redevelopment. The total cost of the Sands Centre redevelopment project has increased from an initial £14.2 million then £20.122 million to £27.2 million.	Further reports have been considered by the Executive with a final report approved by full Council (Special 13th October 2020) which approved the project and increased funding required scheme after considering potential additional costs including the impact of COVID-19. This also included a further analysis to ensure that the project continued to be financially viable and was supported by an update Business case including the impact on treasury management projections. This is now reflected in the MTFP, which also provides a sensitivity analysis on the main items of Council income and expenditure. Detailed reports and business cases continue to be considered for major capital schemes; with monitoring of progress forming part of the quarterly monitoring process
Partial	The Council is involved in significant capital projects relating to the Sand Centre, Gateway 44 and the Southern link road, which require significant external borrowing.	These are kept under review as part of the Capital Investment Plan, TMSS and quarterly treasury management reporting. Forward balance sheets have been reviewed with the Council's Treasury Advisors to understand future borrowing requirements based upon market conditions, and in accordance with its capital programme and agreed borrowing limits.

Assessment

✓ Action completed

x Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Construction costs of £1,678,000 relating to the Gateway 44 Development were included as Assets Under Construction within the Property Plant and Equipment (PPE) balance. The Code specifies that when assets are being constructed as investment properties they should be held within the Investment Property balance. The statements were amended to reclassify £1,678,000 from PPE to Investment Property.	Nil	1,678 Investment Property (1,678) Property, Plant and Equipment	Nil
Disclosure amendments have also been made to Note 4.26 (Property Plant and Equipment) and 4.28 (Investment Property).			
Land at Greymoorhill was disposed of in 2019/20 for £3,256,000. Of this total sum, £1,628,000 was not received by the Council until 2020/21. The Council incorrectly treated this £1,628,000 as a usable capital receipt and applied it against capital expenditure in 2019/20. The statements were amended to treat £1,628,000 correctly as a deferred capital receipt.	Nil	1,628 Capital Adjustment Account (1,628) Deferred Capital Receipts	Nil
Disclosure amendments have also been made to Note 4.4 (Adjustments between accounting basis and funding basis under Regulations) and Note 4.40 (Capital Expenditure and Capital Financing).			
The Council incorrectly included £7m as short term investments, as it is in 31 day access accounts. Therefore, as it is accessible within 3 months it should be included as cash and cash equivalents.	Nil	(7,000) Short Term Investments 7,000 Cash and Cash Equivalents	Nil
Overall impact	£0	£0	£0

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Area	Account Balance	Adjusted
Note 4.26b Capital Commitments	The Note was amended to disclose capital commitments of £1,712,000 in respect of Sands Centre redevelopment.	✓
Note 4.2 Critical judgements in applying Accounting Policies	Additional disclosure has been added to reflect mater estimation uncertainty on property revaluations. Pensions liability narrative updated to reflect pension property fund valuation material uncertainty as disclosed within Cumbria LGPS's financial statements.	✓
Note 4.26 Property, plant and equipment	Amendments were made to Dwellings & Other Buildings to show the rate as 10 – 50 years and Intangible Assets where the rate should be 5 years.	✓
Note 4.18 Officers' Remuneration	A disclosure was included in the incorrect banding. The accounts have been amended £90,000-94,999 band to £80,000-84,999	✓
Note 4.41 Disclosure of Net Pension Assets/Liabilities	Additional narrative added to refer to the latest triennial valuations and revise market commentary.	✓
Collection Fund Statement – Council Tax	The collection fund was amended to separately disclose the contribution towards prior year surplus. Other minor misclassification errors were also corrected.	✓
Note 5.2 Notes on the Collection Fund	Council tax base table was amended to agree to the council tax setting report to Council in March 2019.	✓

Fees

We confirm below our final fees charged for the audit and **provision of non-audit services**.

Audit fees	Proposed fee	Final fee
Council Audit	51,033	TBC
Total audit fees (excluding VAT)	51,033	TBC

The final audit fees cannot be determined at this stage as a result of the matters raised earlier in this report. However, the Council can expect fees to be significantly more than the revised planned fees as we have had substantial additional time being charged to the audit through a combination of a rescheduled start to the audit and our audit on property Plant and Equipment and Investment Property will require full re-performance.

The fees disclosed in the financial statements include £4,500 in relation to the 2018/19 Audit as well as an audit rebate from Public Sector Audit Appointments of £3,780.

Non-audit fees for other services	Proposed fee	Final fee
Non- Audit Related Services – CFO Insights Licence	5,000	5,000
Total non- audit fees (excluding VAT)	£5,000	£5,000

Audit opinion

We anticipate we will provide the **Council** with an unmodified audit report

Not in a position to provide a draft audit report opinion at this time



Report to Audit Committee

Agenda
Item:

A.3

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework: Yes
Public / Private: Public

Title: STATEMENT OF ACCOUNTS 2019/20 AND 2020/21
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD 46/20

Purpose/Summary:

The report provides a brief summary of the progress on the 2019/20 accounts and informs the Committee of the outstanding work that still needs to be completed before the accounts for 2019/20 can be signed off.

This report also provides information regarding the 2020/21 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 draft accounting policies that will be used in the closedown of the 2020/21 accounts.

Recommendations:

Members are asked to note current position on the 2019/20 accounts and to consider the draft accounting policies to be used in the preparation of the 2020/21 accounts.

Tracking

Audit Committee:	18 December 2020
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1. BACKGROUND

- 1.1 The Accounts and Audit Regulations 2015 require that the City Council's Statement of Accounts for 2020/21 be submitted to a relevant body of the Council (the Audit Committee) for approval by 31 July 2021 (unless notified otherwise). 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 Panel 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 2021 (unless notified otherwise). 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 (unless notified otherwise). The Corporate Director of Finance and Resources 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. 2019/20 STATEMENT OF ACCOUNTS

- 2.1 At the time of writing the audit of the 2019/20 Statement of Accounts has not yet been completed. The audit process has identified some areas with the valuation of Property Plant and Equipment and Investment assets that are held by the Council that require further clarification. This issue was brought to light when looking at the valuation methodology used for those assets carried Depreciated Replacement Cost (DRC) and affects assets that have no real market alternative such as the Crematorium, Tullie House and Leisure assets. Therefore, in order to gain assurances around the valuations and the measurement bases used, the Council has appointed an external valuer to carry out physical inspections of those assets

carried at Depreciated Replacement Cost as well as a sample of other assets from across the portfolio. In total twenty-eight assets are to be inspected and revalued to determine whether they are carried at the correct values. This work is expected to be completed before the end of December 2020.

- 2.2 Once the work is completed on the valuations, any adjustments to asset carrying values will need to be determined and this may require previous years' valuations to be amended as well.
- 2.3 The rest of the audit process is largely complete (see Draft Audit Findings Report considered elsewhere on the agenda) with any required amendments being agreed with the auditors and reflected in the final statements that will be brought to the Committee for approval once the asset valuations and Audit Findings Report are finalised.

3. CHANGES ARISING FROM THE 2020 CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

- 3.1 There was due to be a significant change to the 2020 Code of Practice on Local Authority Accounting with the adoption of IFRS16 on how leases were to be accounted for, however, in early December the CIPFA LASAAC Local Authority Accounting Code Board agreed to defer the implementation of IFRS 16 Leases in the *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)* until the 2022/23 financial year.
- 3.2 There is an amendment to the way some figures on pension measurements are reported through the requirements of IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement. This amendment requires the re-measurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after a change to the plan. This only applies to changes from 1 April 2020 and, since this could result in positive, or negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact on the Council.

When a plan amendment, curtailment or settlement occurs during a reporting period, entities use updated actuarial assumptions to determine current service cost and net interest for the remaining annual reporting period (only relevant where the treatment is material for the readers of the accounts).

4. ACCOUNTING POLICIES

- 4.1 The existing Accounting Policies have been updated for the 2020/21 Statement of Accounts. However, at the time of writing, the 2020/21 Code of Practice Guidance notes have yet to be published showing the required changes in Accounting Policies for 2020/21. The updated 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 2020/21 Accounts. If there are any subsequent significant changes to the policies following publication of the Guidance Notes, these will be reported to the Committee at the next meeting.
- 4.2 To facilitate Members understanding of the accounts, the accounting policies and the main changes required as a result of the 2020 Code of Practice, a training session will be proposed for Members in June/July.

5. RECOMMENDATIONS

Members are asked to note current position on the 2019/20 accounts and to consider the draft accounting policies to be used in the preparation of the 2020/21 accounts.

Contact Officer: Steven Tickner

Ext: 7280

Appendices **Appendix A – Draft Accounting Policies 2020/21**
attached to report:

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS:

LEGAL - 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.

PROPERTY SERVICES - The statement of accounts include the valuations of the Council's assets. The Valuation process to provide the value of the assets is carried out by property services in conjunction with external expert valuers.

FINANCE – contained within body of the report

EQUALITY – none

INFORMATION GOVERNANCE – none

Draft Accounting Policies 2020/21**4.0 Accounting Policies****4.0.1 General Principles**

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21, 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 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 on a straight-line basis. 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 on the earlier of when the Council can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring that is within the scope of section 8.2 of the Code and IAS37 and involves the payment of termination benefits.

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

Post-Employment Benefits

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

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

- The liabilities of the Cumbria Local Government Pension Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method. This basis uses an assessment of the future payments that will be made in relation to the retirement benefits earned to date by employees, after considering assumptions about mortality rates, employee turnover and earnings projections for employees.
- Liabilities are discounted to their value at current prices using a real discount rate of xx%.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value.
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value

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

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

Service Cost comprising:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year is charged to service revenue accounts, based on where employees worked, within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement.
- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years is charged to Non-Distributed Costs within Net Cost of Services in the Comprehensive Income and Expenditure Statement.
- **Net Interest on the defined pension liability (asset)** – i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net

defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising:

- **The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the Cumbria Local Government Pension Fund** – cash paid as employers' contributions to the pension fund. This is not accounted for as an expense.

Measurement bases applied in respect of the LGPS assets and liabilities are set out in note XX 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 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 Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost or either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit and Loss

Financial assets that are measured at Fair Value through Profit and Loss 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets 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.

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.

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

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 2018 - 2021 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 4.0.16 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 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.

4.0.13 Investment Property

Investment properties are those that are used solely to earn rentals and for capital appreciation or both. The definition is not met if the property is used in the production or supply of goods or services or for administrative purposes 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.

4.0.14 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.

4.0.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service. 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.

4.0.16 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.

De-minimis 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 current 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 – depreciated historical cost
- assets under construction – historic cost
- dwellings – current 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 current 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 current 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).

Depreciation 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 current value less costs to sell. Where there is a subsequent decrease to current value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in current 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.

4.0.17 Current and 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 current or fair value at each reporting date. Current or 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 current or 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 current or 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 current or fair value is measured or disclosed in the council's financial statements are categorised within the current or 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.

4.0.18 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.

4.0.19 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.

4.0.20 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.

4.0.21 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.

4.0.22 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 2020/21 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 Cumbria County Council (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.

Report to Audit Committee

Agenda
Item:

A.4

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and Budget Framework YES
Public / Private Public

Title: INTERNAL AUDIT PROGRESS 2020/21 (OCTOBER TO DECEMBER)

Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number: RD45/20

Purpose / Summary:

This report provides an overview of the work carried out by Internal Audit between October and December of 2020/21. 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 2020/21;
- ii) note the progress made on audit recommendations to date outlined in Appendix B.
- iii) approve the suggested amendments to the 2020/21 audit plan in section 5

Tracking

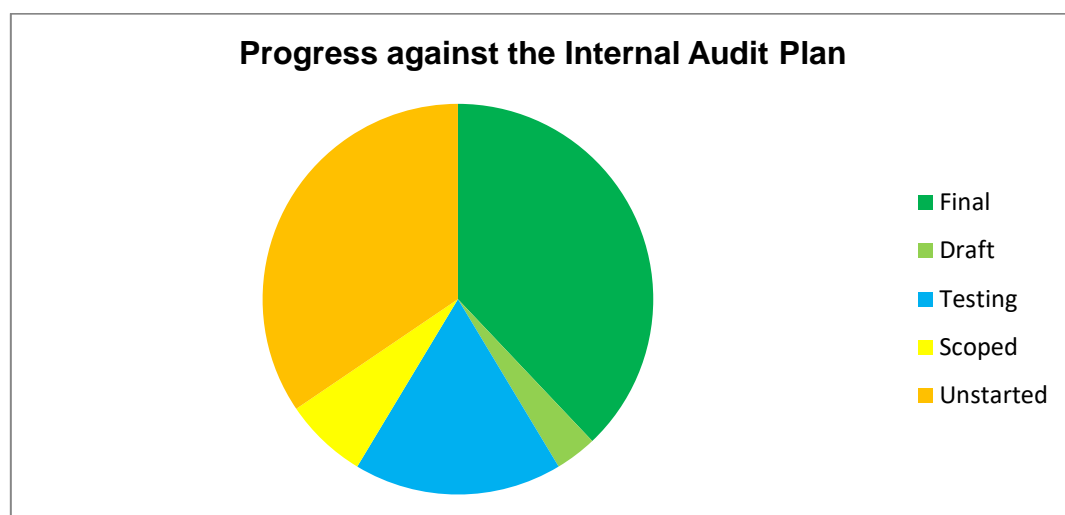
Audit Committee:	18 December 2020
Scrutiny Panel:	Not applicable
Council:	Not applicable

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 the 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 October 2020 to December 2020.

2. PROGRESS AGAINST AUDIT PLAN

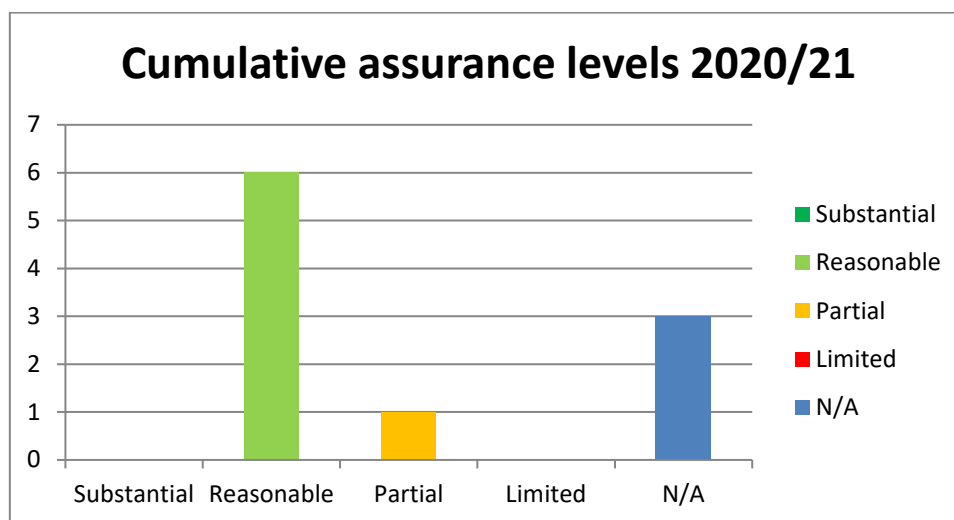
- 2.1 Progress against the 2020/21 audit plan is detailed at **Appendix A**. 38% of planned reviews have been finalised to draft stage, with 3 further reviews expected to be completed in draft by the end of Q3 (48%).



- 2.2 5 planned pieces of work were completed in the period.

Review Area	Assurance Level
Local Air Quality Management	Reasonable
City Centre (Inc events and inspections)	Reasonable
Carlisle Partnership VFM	Reasonable
Income Management (See Part B)	Reasonable
Annual Fraud Review 2019/20 (See Part B)	N/A

These are considered elsewhere on the agenda.



2.3 Audit resource was also utilised on the following during the period:

- Counter-fraud lead for Covid-19 grant payments (reviewing ad-hoc queries from fraud intelligence services N>B No fraudulent activity identified to date)
- Review of Counter-Fraud Policy, providing management with suggested amendments/additions;
- Audit advice to Revenues & Benefits in relation to implementation of new process to administer Track and Trace support payments;
- Ongoing audit advice to Accountancy in relation to amendment of process to issue invoices electronically;
- Audit advice to Senior Management in relation to proposed restructure;
- Audit management activity to recruit to vacant Auditor post (See below)

2.4 Having been scoped in May 2020, an audit review of Development Control was also due to be completed; however, ongoing attempts to liaise with the client to arrange audit testing were unsuccessful. A satisfactory explanation for these delays has now been provided and this audit has been postponed to Q4.

2.5 Internal Audit was also involved in preparation of materials and attending an Effectiveness Review of the Audit Committee. Further work is planned as a result of the review, including preparation of a skills assessment to inform future training provided to Committee Members.

3 PERFORMANCE INDICATORS

3.1 To provide an effective internal audit service, there needs to be a measure of the performance it achieves. The table below shows progress against indicators agreed for 2020/21.

Indicator	Target (YTD)	Performance	Comments
Planned Audits Completed	62%	35%	Annual target 90%
Timely Draft Reports (within 3 months of fieldwork starting)	80%	56%	
Timely Final Reports (within 8 days of client response)	90%	83%	
Recommendations Agreed	95%	100%	
Assignments completed (within 10% of allocated resource)	60%	60%	
Positive feedback	90%	100%	
Chargeable time	80%	73%	
Recommendations implemented	80%	75%	

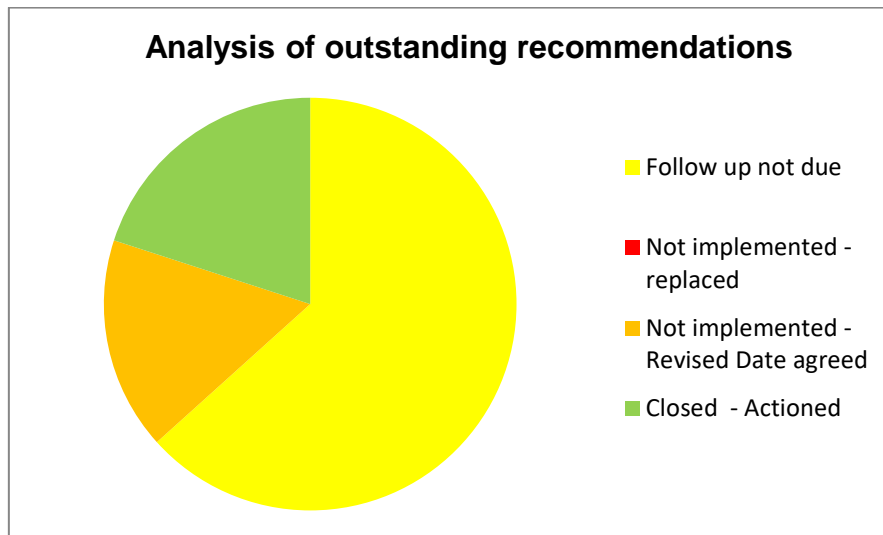
3.2 Due to the disruption of Covid-19 (alongside a vacancy within the team) completion of the Internal Audit plan is currently below target. Proposed actions are in place to review audit plan/resources (see section 5). In addition, priority is being given to those planned reviews that will ensure sufficient coverage to allow Internal Audit to provide an annual audit opinion of the Council's Governance, Risk Management and Internal Control framework.

3.3 This disruption has also resulted in delays in finalising fieldwork, resulting in some draft reports taking longer to complete than normally expected.

4 AUDIT RECOMMENDATIONS

4.1 **Appendix B** 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 29 out of 46 recommendations followed up were found to have been fully implemented (28 of which were followed up for the first time).



- 4.3 The primary reason for delays again relates to the Covid-19 pandemic, which has caused disruption to all Council services. Internal Audit have updated processes to work more closely with Senior Management to ensure recommendations not implemented within agreed timescales are actioned on a timelier basis.

5. AMENDMENTS TO THE AUDIT PLAN/AUDIT RESOURCES

- 5.1 As identified above Internal Audit are currently behind target to achieve the audit plan. A recruitment exercise is underway to fill the vacant post. Internal Audit are also carrying out further work to identify and employ additional temporary resource to assist with the completion of the 2020/21 Internal Audit Plan.
- 5.2 A review of the Internal Audit plan has also been undertaken, including relevant discussion with responsible managers and the following amendments are proposed to the Internal Audit plan:

Corporate Review of Risk Management (Remove)

During 2020/21 the Council's insurers carried out a comprehensive external review of the Council's risk management framework (including consideration of comments provided by Internal Audit. A draft report (including recommendations for improvement) is currently being reviewed by officers within the Council. Internal Audit can take assurances from this review and a further review of risk management would not add value during 2020/21.

ICT Specialist review (Remove)

A new Head of Service is now in post within ICT Services. It would not currently add value to utilise specialist ICT work in this area, until the service is fully established. A scheduled follow-up of all outstanding Internal Audit recommendations will provide assurances on progress against previously identified control issues in this area, enabling a more targeted approach for specialist ICT audit in 2021/22.

Small Business Grants (Remove)

The Internal Audit plan included 10 days consultancy in relation to a proposed project within Economic Development; however, the agreed budget for the project is relatively low, minimising the level of risk involved and the extensive consultancy assignment will not add significant value. Some ad-hoc advice has been provided and consideration will be given to reviewing the scheme in 2021/22.

- 5.3 Given the current resource shortfall it is not considered appropriate to replace these reviews with alternative Internal Audit activity.

6. RISKS

- 6.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

7. CONSULTATION

- 7.1 not applicable

8. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is requested to

- i) note the progress against the audit plan for 2020/21;
- ii) note the progress made on audit recommendations to date outlined in Appendix B.
- iii) approve the suggested amendments to the 2020/21 audit plan in section 5

9. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 9.1 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: Michael Roper

Ext: 7520

**Appendices
attached to report:**

**Appendix A – Progress against Audit Plan and Timeline of
audits**

**Appendix B – 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:

Legal – 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.

Finance – Contained within the report

Equality – None

Information Governance – None

CARLISLE CITY COUNCIL
PROGRESS AGAINST REVISED AUDIT PLAN 2020/21

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Financial Services / Revenues & Benefits	MFS	Internal Control Questionnaires - Non Audited Systems	2	2	Final	Jul 20	N/A	
Council-wide	Governance	Good Governance Principals / Local Code of Conduct	10	11	Final	Jul 20	N/A	
Council-wide	Corporate	Environmental Strategy	15	12	Final	Sep 20	Partial	
Financial Services	Directorate	Insurance	20	22	Final	Sep 20	Reasonable	
Council-Wide	Value for money	Fees & Charges	10	8	Final	Sep 20	Reasonable	
Regulatory Services	Directorate	Local Air Quality Management	20	19	Final	Dec 20	Reasonable	
Health & Well-being	Directorate	City Centre (inc special events/inspections)	20	28	Final	Dec 20	Reasonable	
Financial Services	MFS	Income	15	19	Final	Dec 20	Reasonable	
Carlisle Partnership	Value for money	Carlisle Partnership	10	12	Final	Dec 20	Reasonable	
Council-wide	Counter	Annual fraud review	5	5	Final	Dec 20	N/A	
HR & Payroll	Directorate	Safe recruitment (including health checks etc).	10	13	Draft			
Revenues & Benefits	Counter-Fraud	Business Grants (Covid 19)	10	3	Testing			
Revenues & Benefits	MFS	Housing Benefits	20	3	Testing			
Revenues & Benefits	Directorate	Rev & Ben Revenue Recovery	5	0	Testing			
Electoral Services	Directorate	Electoral Registration	20	14	Testing			
Financial Services	MFS	Financial Services Governance Arrangements	3	3	Testing			
Financial Services	MFS	Debtors	15	3	Scoped			
Development Management	Directorate	Development Control	20	6	Scoped			Postponed

Service Area	Review Type	Audit Area	Plan	Actual	Status	Audit Committee	Assurance Evaluation	Comments
Council-wide	Follow-up	Environmental Strategy	5	1				
Council-wide	Corporate	Risk Management	15	0				Propose removal
Health & Well-being	Directorate	Community Centres	20	0				
Waste Services	Directorate	Waste Services Culture Review	15	0				
Homelessness Services	Directorate	Homeless Accommodation (Part 2)	5	0				
Property Services	Directorate	Property Income	20	0				
Financial Services	MFS	Payroll	15	0				
ICT Services	Follow-Up	ICT Various	10	0				
Council-wide	Follow-up	Driver Checks	5	0				
Regeneration	Consultancy	Small business Grants	10	0				Propose Removal
ICT Services	ICT	Specialist Review	14	0				Propose removal
		Follow-up contingency	10	10				
		Counter Fraud Contingency	20	10				
		Advice & Guidance Contingency	10	13				
		General Contingency	17	19				
		Audit Committee	16	12				
		Planning & Management	58	48				
		OVERALL TOTAL	495	296				

* Days taken as at 6th December (excludes leave and training days)

Ass Code	Audit	Recommendation	Priority	Agreed action	Responsible Manager	Original Completion Date	Revised Completion Date (if applicable)	No.	Status
B1703	Flexitime & Toil (Reasonable)	The use of the Flexi bank procedures should be reviewed to ensure they are applied consistently.	M	Use of flexi bank procedures will be reviewed alongside the flexi policy and additional guidance issued to Managers and staff, if appropriate.	HR Manager	31 March 2019	31 December 2020	2	A wholesale review of flexi system will be undertaken during 2020 linked to the iTrent development plan.
B1703	Flexitime & Toil (Reasonable)	The policy should be more specific with regards to guidance for travel for courses / training.	M	Existing guidance for travel time, expenses and mileage will be updated for Managers and staff to supplement the current Flexitime scheme.	HR Manager	31 March 2019	31 December 2020	2	A wholesale review of flexi system will be undertaken during 2020 linked to the iTrent development plan. 3rd follow-up scheduled Q4 2020/21
H1707	IT General Controls (N/A)	Given the criticality of data accessible through Active Directory, logs of information security events (i.e., login activity, unauthorised access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.	N/S	Funding for an ICT Security Specialist and an Active Directory auditing tools, SteathBits was included in the 2018/19 ICT Services' budget. The ICT Security Specialist post has been job evaluated based on a new job description. I intend to advertise the post in January 2019. The current issues with recruiting ICT talent for an existing post, has required me to investigate options for making the post more attractive to potential applications, such as adding a market factor supplement and relocation packaged; funding for these needs to be identified. I am also looking at the possibility of converting the post into an apprenticeship. The procurement process for the Stealthbits software will start in December, it anticipated that the software will start monitoring our Active Directory infrastructure in April 2019.	ICT Services Manager	31 December 2017	01 April 2020	3	A contract has been sign with a supplier to provide a managed Security Information and Event Management (SIEM) service; it is anticipated that this service will be 'live' by August 2019. In addition, software has been procured to automate the monitoring of Active Directory; this service will be 'live' by August 2019. To mitigate, the delay in implementing the automated monitoring of Active Directory, manual processes have been put in place to provide ICT management with information on key Active Directory activity. To be included in full formal follow up of ICT Services - Q3/4 2020/21
H1707	IT General Controls (N/A)	Documented policies and procedures addressing change management processes and related control requirements (such as change testing, approvals, and documentation requirements) within Civica Authority Financials, Trent, and Academy should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them	N/S	Following an review of change management methodologies and consultation with my senior managers, I have decide to adopt the Information Technology Infrastructure Library (ITIL) Service Management best practice processes throughout ICT Services. The development of an ITIL implementation plan will be completed by the end of December and implementation will begin in January. Change management and incident management will be the first ITIL processes implemented.	ICT Services Manager	Not stated	01 April 2020	3	All ICT Services staff are undertaking formal training with the aim of gaining ITIL accreditation. A small team has been created to oversee the introduction of ITIL processes throughout ICT Services. This team are currently working on the introduction of Change Management for the management of the council's firewalls; once this is completed, the same process will be expanded to include all services provided by ICT Services. It is anticipated that this will be completed by December 2019. To be included in full formal follow up of ICT Services - Q3/4 2020/21
H1802	Corporate Charge Card (Reasonable)	Card holders should sign a declaration to confirm their adherence to the credit card procedures (including ensuring only they use the card and that the suitable supporting documentation is obtained and completed). Card usage should be independently spot checked to ensure procedures are being adhered to.	H	A declaration form will be prepared and issued to all card holders to sign. This will be updated annually.	Financial Services Manager	30 June 2018	30 May 2020	3	Further developments being undertaken by the Council to introduce virtual Credit Cards. Project delayed due to long-term sickness, followed by impact on Accountancy team due to global pandemic. Internal Audit are continuing to work with finance to ensure new project is adequately controlled. Review progress quarterly.

A1802	Smarter Service Delivery (Reasonable)	A process should be developed to archive and/or delete personal information held within both Salesforce and My Account, in line with suitable retention periods.	M	Scheduled deletion and disposal report tool is currently being configured. MyAccount specific privacy policy is being introduced with appropriate retention schedules applied.	Customer Services Manager	31 August 2018	31 August 2020	3	My Account retention schedules in place. Progress on Salesforce limited due to ongoing vacancy in ICT Services. Extension agreed.
F1804	Council Tax (Reasonable)	Appraisals should be undertaken with all officers and the appraisal documents should be completed timely and processed in line with the Council's processes.	M	Team Leader appraisal notes to be formally agreed. Team Appraisal to be completed in the Revenues Section.	Revenues & Benefits Operations Manager	31st March 2019	31 January 2020	2	Previous documents drafted but not finalised. Delayed due to other priorities in 2020, revised dates to be scheduled for 2020/21 Appraisal. As above, to be scheduled for 2020/21.
F1804	Council Tax (Reasonable)	The GDPR legislation needs to be complied with and data records deleted appropriately.	H	Records to be reviewed, data deletion remains subject to appropriate software functionality	Revenues & Benefits Operations Manager	30 th September 2019	31 March 2020	2	Database review commenced, archiving software used to delete dormant bank details for DD accounts. Further record deletion on an ongoing basis to be evaluated and progress monitored
E1802	Homelessness Services (Substantial)	The Council should obtain clarity on their responsibility for data processed by the Choice-Based Lettings project	M	Meeting of CBL Executive arranged to approve data breach policy.	Homelessness Services Manager.	31 January 2019	31 March 2021	2	Data Impact Assessment completed and draft document circulated for full group approval.
B1804	Casual, Interim & Agency (Reasonable)	The review form should be completed for all agency workers who exceed the 12-week agency rule.	M	Form developed, and process will be updated to ensure compliance. Current Agency agreement with Adecco finished 31st January 2019.	HR Manager	31 March 2019	01 June 2020	2	The whole process for recruiting and employing casuals and agency staff is being reviewed. This is a significant process and has started with a review of all current casual employees. The casual contract needs reviewed together with an update and consolidation of all relevant policies. Review delayed due to impact of Covid-19. Finance team are assisting in making timesheets electronic where possible and a small working group is to be established to review Casual process and paperwork.
B1804	Casual, Interim & Agency (Reasonable)	A process should be developed to ensure HR are aware of all new agency, casual and intermediary staff to ensure relevant employment checks and processes can be performed	M	A new process will be implemented to ensure that the recommendations are met.	HR Manager	30 April 2019	01 November 2020	2	
B1804	Casual, Interim & Agency (Reasonable)	A process to cover the administration of agency, casual and intermediary staff should be completed and approved, including ensuring all posts are approved and that use is monitored on an ongoing basis.	H	Existing council policies will be reviewed and amended, as necessary, to include all classes or workers and employees.	HR Manager	30 April 2019	01 November 2020	2	
A1801	Information Governance (Reasonable)	Recommendation 5 – Assurances should be obtained that all officers without access to a network account have received appropriately targeted training regarding their obligations in relation to records management.	M	Managers with staff who do not have network access will be listed, provided with support and asked to confirm in writing that they have ensured their staff have received appropriate training and information.	Health and Wellbeing Manager	14 June 2019	01 March 2020	2	Training was scheduled for March 2020, but has been postponed due to Covid-19 pandemic (minimal risk due to limited amount of personal records maintained by relevant officers). Revised timescales agreed.
A1801	Information Governance (Reasonable)	Recommendation 9 – Further work is required to ensure the Council stores and disposes of records in line with what is stated in its retention schedules, including particular work required from an ICT perspective.	M	The Council's ICT systems will be reviewed to enable and support the deletion of electronic data. A review of the retention schedules and disposal logs will be added to the Information Governance Inspection Checklist.	ICT Services Manager/ Information Governance Manager	02 August 2019	Review quarterly	N/A	This is a significant exercise, which requires input from ICT Services, who are currently holding a number of vacancies (including Head of Service). It is anticipated that the project will take some time to fully embed. Progress will be reported regularly until completed once a Head of Service is in place.
A1801	Information Governance (Reasonable)	Recommendation 14 – The Council's Home-working guidance and self-assessment should be updated to reflect GDPR requirements	M	The Council's Home-working guidance and self-assessment will be updated to reflect GDPR requirements and re-issued for completion and sign off by managers of staff who work from home	Information Governance Manager / HR Manager	21 June 2019	30 November 2020	2	Covid Pandemic of 2020 has resulted in identifying the need for a wholesale review of the Council's homeworking and agile working policies to be undertaken. Draft revised policies to be drafted and approved - Information Governance Manager has provided model policies to ensure GDPR requirements are addressed.
B1801	Allowances, Travel & Subsistence (Employees) Reasonable	Recommendation 4 – The Council's Scheme of delegation should be amended to include the approval of 'Travel & Subsistence Expenditure'.	M	SST will refer to the Council's Scheme of Delegation for authorised approvers. A general email reminder will be sent to all staff.	Service Support Supervisor / Financial Services Manager	31 July 2019	30 June 2020	2	Scheme of delegation now includes reference to mileage payments. Closed.

B1801	Allowances, Travel & Subsistence (Employees) Reasonable	Recommendation 8 – Consideration should be given to implementing an electronic claim form to improve the legibility, efficiency and internal controls of the travel payment process, including consideration of set mileage for common journeys.	M	This needs to be discussed & investigated further to see if it is time and cost effective. This will be looked in line the i-Trent review which is due to be undertaken in 2020.	Payroll & i-Trent Supervisor / HR Manager	30 April 2021			First informal follow-up scheduled
B1803	Safeguarding (Reasonable)	Recommendation 3 – The Council should ensure all staff required to complete corporate training in relation to adult and child protection complete the relevant modules within Skillgate.	M	A reminder will be issued to all relevant officers asking them to complete the relevant Skillgate training modules.	Corporate Director of Finance and Resources	01-Jul-19	01 July 2020	2	Review of e-learning system indicated various individuals have not yet completed training - revised date agreed.
D1803	Garages (Reasonable)	Recommendation 1 - The Draft Fleet Strategy should be completed, approved and shared corporately	H	Fleet Strategy to be agreed.	Fleet and Depot Manager	30 September 2019	31 March 2020	2	Strategy finalised, but approval delayed due to other priorities (as a result of Covid-19).
D1803	Garages (Reasonable)	Recommendation 8 – Cash banking should be undertaken regularly, and risk assessment should be completed for cash carrying.	M	Cash to be banked on a monthly basis. New reception facilities will reduce risks to staff. Chip and Pin payment system to be installed to reduce cash handling risks / costs / values.	Fleet and Depot Manager	30 April 2019	31 March 2020	2	Changes to banking process in progress. Revised date agreed.
M1801	R&B Shared Service (VFM) (Reasonable)	Recommendation 2 - The Service Level agreement should be signed by all parties.	M	Agreement to be signed, subject to any amendments, as the arrangements are currently being reviewed.	Revenues and Benefits Operations Manager	31 st December 2019	30th November 2020	1	In progress. Delays due to absence of ICT Services Manager . Revised date agreed.
M1801	R&B Shared Service (VFM) (Reasonable)	Recommendation 3 – The Data Sharing Agreements should be checked to ensure compliance with GDPR and should be signed by all parties to formalise the arrangement.	H	Sharing Agreement to be check for GDPR compliance and then signed by all parties.	ICT Service Manager	31 st July 2019	30th November 2020	1	In progress. Delays due to absence of ICT Services Manager .
M1801	R&B Shared Service (VFM) (Reasonable)	Recommendation 5 - Prior to the renewal of the Partnership arrangements consideration should be given to the impact of additional work undertaken by Carlisle City Council staff. Consideration should be given to charging for work undertaken in addition to the SLA agreement.	M	Additional work to be evaluated and options for charging, if required, determined	Revenues & Benefits Operations Manager/ICT Service Manager	30 th September 2019	30th November 2020	1	In progress. Delays due to absence of ICT Services Manager .
M1801	R&B Shared Service (VFM) (Reasonable)	Recommendation 6 - A fully costed option appraisal analysis should be undertaken prior to Carlisle City Council's decision to remain in the Shared Service to ensure financial implication are fully understood. The financial benefits such as the software upgrades and training discounts should be quantified as should the non-financial advantages and disadvantages.	M	Analysis of Partnership costs to be produced to inform decisions on future service provision	Revenues & Benefits Operations Manager	31 st December 2019	30th November 2020	1	In progress. Delays due to absence of ICT Services Manager.
B1901	Customer Services Performance Data (Reasonable)	Recommendation 3 - The Customer Services Manager should liaise with ICT Services to ensure that the telephony system needs are correctly assessed and that a suitable solution is procured.	M	Preliminary demos have taken place with all findings forwarded to IT Services / ICT Services to implement Civic wide telephony plan prior to the implementation of the new Customer Contact Centre system.	Customer Service Manager / ICT Services	Completed	30 September 2020	1	Completion delayed due to ICT Services Manager vacancy. Revised date agreed.
C1902	Affordable Housing Register (Reasonable)	Recommendation 7 - Current processes and systems should be reviewed in conjunction with ICT to ensure a more efficient, fit-for-purpose solution is in place.	M	Review current systems with Senior ICT Officer and identify areas where processes and/ or systems can be improved, with a view to identifying a preferred option.	Investment & Policy Manager	31st December 2019	31 December 2020	1	Register transferred to spread-sheet format - closed.
I1901	Mobile Devices (Partial)	Recommendation 1 – The mandatory cyber-security e-learning module should be updated to include latest issues/trends relating to cyber security and enhanced to cover both the physical security of assets and the Council's ICT policies	H	The Skillgate training module will be updated regularly and mandatory for staff to re-take once refreshed.	ICT Services Manager	1st April 2020			Formal follow-up scheduled
I1901	Mobile Devices (Partial)			With members we will highlight key areas during their migration to Windows 10 on an individual basis and then provide a briefing prior to full Council on cyber security, physical security and council assets					

I1901	Mobile Devices (Partial)	Recommendation 2- All device users (Officers and Members) should confirm they have read key ICT policies on an annual basis.	M	A Skillgate module will be created to use the ICT Policy website and test users on key parts of the policies. This will be mandatory for new starters as part of their induction process and all staff annually. With Members we will work with Democratic Services to ensure councillors confirm they have read these policies during the induction/re-election process	ICT Services Manager	1st April 2020			Formal follow-up scheduled
I1901	Mobile Devices (Partial)	Recommendation 3 – An exercise should be undertaken to ensure all individuals assigned mobile devices have completed a custodian form acknowledging responsibility for their allocated device.	M	Work underway to retrospectively sign custodian forms for users issued with equipment before the policies were implemented. Custodian forms obtained for all users receiving equipment after policies implemented	ICT Lead Officer (Support)	1st December 2019			Formal follow-up scheduled
I1901	Mobile Devices (Partial)	Recommendation 4 – Action should be taken to ensure all Members have access to suitable cyber-security training	H	With Members we will highlight the key areas during their migration to Windows 10 (commencing October 2019) on an individual basis and then have a briefing prior to full Council on cyber security, physical security and council assets at a suitable meeting	ICT Services Manager	1st April 2020			Formal follow-up scheduled
I1901	Mobile Devices (Partial)	Recommendation 5 – The Council should obtain an application locker to prevent device users from being able to download software that does not require administration rights.	M	Application lockdown policies for Microsoft in-tune will be tested with the new version of Windows 10 (1809/1909) - to be deployed to the Council's devices in Q1 2020 – for compatibility. If not suitable, Application lockdown within Windows 10 will be enabled through group policies on the network to restrict software being installed where admin privileges are not required e.g. browsers	ICT Lead Officer (Infrastructure)	1st May 2020			Formal follow-up scheduled
I1901	Mobile Devices (Partial)	Recommendation 6 – There should be a regular ongoing review of mobile phone usage to ensure devices are still required.	M	Working with current contract supplier (Social Telecoms) to have them review mobile phone usage for misuse and identify unused devices on a monthly basis	ICT Lead Officer (Infrastructure)	1st December 2019			Formal follow-up scheduled
D1902	Bereavement Services (Reasonable)	Recommendation 1 – A review of the procedure notes should be undertaken.	M	Procedure notes will be reviewed and updated where necessary.	Bereavement Services Manager	30 th Nov 2020	30th December 2020	1	Progress has been made towards procedural notes being reviewed and updated with out of date documents have been deleted. Further work required to complete.
D1902	Bereavement Services (Reasonable)	Recommendation 2 – Management should ensure that the identified team priorities are addressed.	M	Once R3 is implemented a new appraisal will be completed and team priorities addressed.	Bereavement Services Manager	30 th June 2020	28 February 2021	1	In-house training has happened, however, alongside Covid-19, annual leave and staff shortage more progress required. The priority during the last 7 months has been to provide meaningful funerals for the bereaved in a Covid safe environment subject to Government guidelines. Further work required to complete.
D1902	Bereavement Services (Reasonable)	Recommendation 3 – A review of the staffing at the Crematorium should be undertaken to ensure the current level can adequately provide the service.	M	A review of the current staffing is currently being undertaken and recruitment process has been commenced.	Bereavement Services Manager	30th April 2020		1	Review complete and recruitment exercise undertaken, with all posts either filled or in process of being filled. Closed.
D1902	Bereavement Services (Reasonable)	Recommendation 4 - The Provision of Crematoria Mutual Aid agreement should be reviewed and updated to ensure that it complies with legislation.	M	Discussions will be held with Copeland Council and Legal Services to update the agreement to ensure it is covering the necessary legislation	Bereavement Services Manager	30th April 2020	30 December 2020	1	Initial contact made with other parties, but no progress to date.

D1902	Bereavement Services (Reasonable)	Recommendation 5 – The retention schedule and privacy statement should be reviewed to ensure the same retention period is applied.	M	The retention schedule will be updated to reflect the current practices and the privacy statement. Discussion will be held with the Information Governance Manager.	Bereavement Services Manager	30th April 2020	30 December 2020	1	No progress to date. Conversation required with Information Governance Manager.
D1902	Bereavement Services (Reasonable)	Recommendation 6 – All personal data should be stored securely.	M	All personal data is now stored securely.	Bereavement Services Manager	Implemented		1	Additional secure storage space identified and utilised.
D1902	Bereavement Services (Reasonable)	Recommendation 7 – The memorial forms should be reviewed so that service users are aware their data is being sent to a third-party provider.	M	Memorial forms will be reviewed and updated accordingly.	Bereavement Services Manager	30 March 2021	01 March 2021	1	Process changed to stop sharing of personal information; however, forms still need to be revised. Revised date agreed.
D1902	Bereavement Services (Reasonable)	Recommendation 8 – The Contract with ClearSkies Software should be updated to include reference to meeting GDPR legislation.	M	Discussions will be held with ClearSkies and Legal Services to update the Contract to ensure it is covering the necessary legislation.	Bereavement Services Manager	30th April 2020		1	Evidence provided that contract updated to include clause to ensure appropriate handling of personal information. Closed.
D1902	Bereavement Services (Reasonable)	Recommendation 9 – A record of the Green Spaces job sheets issued should be retained within Bereavement Services, which can then be followed up to ensure jobs are completed.	M	A register will be designed and updated to ensure that all Job Sheets issued are recorded in Bereavement Services.	Bereavement Services Manager	30th April 2020		1	Evidence provided that register of jobs (including completion) is now maintained. Closed.
D1902	Bereavement Services (Reasonable)	Recommendation 10 – The premises handbook should be completed in full.	M	Full review of the premise's handbook will be completed.	Bereavement Services Manager	30th Nov 2020	31 March 2021	1	No progress to date. Revised timescales agreed.
D1902	Bereavement Services (Reasonable)	Recommendation 11 – The premises handbook should be used to record any incidents at the crematorium.	M	Incident forms will be completed as necessary.	Bereavement Services Manager	Implemented		1	Staff informed of procedural change and will use hand-book for future incidences.
D1902	Bereavement Services (Reasonable)	Recommendation 12 – The Surveillance Camera Operating Procedure should be completed, and the signage updated in line with the procedure.	M	The Surveillance Camera Operating Procedure will be completed and implemented.	Bereavement Services Manager	30th April 2020	31 December 2021	1	No progress to date. Revised timescales agreed.
D1905	Tourist Information Services (Reasonable)	Recommendation 1 - Procedures should be updated to ensure all tasks are documented.	M	All tasks will be documented including the opening and closing procedure, Assembly Room hire, stock control, Lone working guidance specific to this service and processing till discrepancies.	Destination Manager	02 January 2020		1	Closed - evidence of revised procedures provided.
D1905	Tourist Information Services (Reasonable)	Recommendation 2 - Risks including the control strategy / mitigating actions should be reviewed and updated on a quarterly basis in line with the Corporate Risk Management Policy.	M	All risks are now identified and are updated in line with Corporate Risk Management Policy and timetable.	Destination Manager	11 November 2019		1	First informal follow-up scheduled.
D1905	Tourist Information Services (Reasonable)	Recommendation 3 - Tourist Information Services should update their retention schedule and disposal log in line with the current corporate template.	M	Data retention to be reviewed and new procedures for each type of data to be implemented.	Destination Manager	03 February 2020		1	Retention schedule updated in line with corporate requirements. Closed.
D1905	Tourist Information Services (Reasonable)	Recommendation 4 - Formal agreements, including data processing agreements should be set up with all third parties that the service processes personal information for. A copy of each third party's privacy notice should be provided and retained.	M	Formal agreements, including data processing agreements will be set up with all third parties.	Destination Manager	03 February 2020	31 January 2021	1	Not been possible to complete due to disruption of Covid-19. Proposed review date agreed.
D1905	Tourist Information Services (Reasonable)	Recommendation 5 - All credit and debit card slips and personal information should be securely retained.	M	Store rooms to upper floor of the Town Hall to be made secure for storage of credit and debit card slips and personal information. Working / live documentation will be retained in a lockable cabinet.	Destination Manager	03 February 2020		1	Closed - assurances provided that work complete to improve security arrangements.
D1905	Tourist Information Services (Reasonable)	Recommendation 6 - All stock should be adequately insured.	M	TIC staff to liaise with the Insurance Officer to make sure that all stock held in the TIC is covered by the Council's insurance policy.	Destination Manager	06 January 2020		1	Closed - evidence provided that stock is included in Council's insurance policy.

D1905	Tourist Information Services (Reasonable)	Recommendation 7 - The electronic data currently stored on the Google Drive should be brought in-house and stored on the Council's network.	M	OFS staff to introduce an alternative in house (SharePoint) solution for shared access between Council departments.	Healthy City Team Manager & Destination Manager	31 March 2020		1	Confirmation provided that shared drive now deleted and alternative data sharing arrangements now in place.
D1905	Tourist Information Services (Reasonable)	Recommendation 8 - Casual officers should be given access to and complete the Skillsgate GDPR and Cyber-Security training.	M	This action plan is being prepared off season. Implementation will be held until spring when casual officers are required.	Destination Manager	01 May 2020		1	Closed - confirmation from Organisation Development that casual officers employed by TIC registered for mandatory e-learning.
D1905	Tourist Information Services (Reasonable)	Recommendation 9 - Casual officers should receive the annual pay uplift.	M	Casual officers will receive the annual pay uplift.	Destination Manager	31 March 2020		1	Closed - confirmation that casual officers employed by TIC being paid 2020-21 casual rates (with uplift included)
D1905	Tourist Information Services (Reasonable)	Recommendation 10 - To comply with the financial procedure rules all value should be accounted for and the number of petty cash floats should be reduced. Petty cash returns should be regularly completed.	M	The spare float used for events is to be eliminated. The £105.52 will be accounted for.	Destination Manager	31 January 2020		1	Closed - rationalisation action confirmed as completed, reducing petty cash floats in place.
D1905	Tourist Information Services (Reasonable)	Recommendation 11 - The relevant fees and charges schedule should be reviewed as part of the next budget process to ensure it accurately reflects all rates and charges.	M	All fees and charges are now included in the financial process.	Destination Manager	01 October 2019	30 May 2021	1	Relevant update not included as part of latest fees and charges reporting cycle. To be included in 2021/22 exercise.
D1905	Tourist Information Services (Reasonable)	Recommendation 12 - An agreement / contract should be implemented between the Council and Booking.com and signed by both parties.	M	The Destination Manager will contact Booking.com to establish if this is possible.	Destination Manager	31 January 2020	31 January 2021	1	Not been possible to complete due to disruption of Covid-19. Proposed review date agreed.
D1905	Tourist Information Services (Reasonable)	Recommendation 13 - A key list should be documented, and staff should sign for the keys that they have been issued with. Arrangements should be made to have an additional safe key cut. Safe keys should not be retained on the premises overnight.	M	All keys & alarm fobs will be accounted for and signed for by officers in possession of keys for Town Hall.	Destination Manager	31 January 2020		1	Reported as implemented - but currently unable to access relevant evidence to allow closure.
D1905	Tourist Information Services (Reasonable)	Recommendation 14 - The Health and Safety file should be reviewed, and all outstanding services / checks should be completed, and a procedure implemented for raising the alarm with adjoining businesses in the event of a fire.	M	Health and Safety files to be reviewed and all outstanding checks completed including arrangements for fire alarms with adjoining businesses.	Destination Manager & Facilities Manager	31 January 2020		1	Closed - confirmation that files updated provided (unable to access due to Covid-19 and files to large to scan)
E1902	Contaminated Land (Substantial)	Recommendation 1 – Individual and team meetings should be carried out more frequently.	M	One to ones to be put in place every 16 weeks.	Principal Health and Housing Officer	Immediately		1	Fortnightly pop-up meetings and quarterly one to ones now in place for team. Evidence provided that appointments are included in team calendars. Closed
E1902	Contaminated Land (Substantial)	Recommendation 2 – Individual training undertaken without Organisational Development involvement should be logged accordingly.	M	The team have started to update their records and this information has been passed to OD. Will ensure all staff with professional training are completed.	Principal Health and Housing Officer	31 January 2020		1	Records updated (minimal returns currently due to pandemic, but process now in place). Closed.
E1902	Contaminated Land (Substantial)	Recommendation 3 – Procedures should ensure that the GIS system is updated timely.	M	This will be incorporated and updated with IT support.	Principal Health and Housing Officer	31 May 2020		1	Procedure confirmed as updated. Closed.
E1902	Contaminated Land (Substantial)	Recommendation 4 – The correct fees should be published for environmental searches and guidance provided on when to apply the charges.	M	Information has been updated.	Regulatory Services Manager	Immediately		1	Fees no longer included on the website - closed.
A1903	Information Security (N/A - Memo)	R1. - A joint ICT and Information Governance document detailing planned and ongoing action to implement Information Security improvements should be created and managed.	M	A joint ICT and Information Governance Action Plan detailing planned and ongoing action to implement Information Security improvements will be created and managed.	Lead ICT Officer Infrastructure Management/ Information Governance Manager	31-Aug-20			Informal follow-up scheduled

A1903	Information Security (N/A - Memo)	R2. - The development and implementation of an Information Asset register should be included within a joint ICT and Information Governance action plan.	M	Development of a corporate Information Asset Register will be added to the joint ICT and Information Governance action plan and will take into consideration existing lists of assets and information processing, with the potential to link them together.	Information Governance Manager	31-Aug-20			Informal follow-up scheduled
A1903	Information Security (N/A - Memo)	R3. – Corporate risks relating to Information Governance and Information Security should be formally identified, recorded, assessed and managed.	M	A review of existing risks and identification of other potential risks will be undertaken to ensure the Council's risk exposure is accurate and up to date.	ICT Lead Officer Infrastructure/ Information Governance Manager	31-Aug-20			Informal follow-up scheduled
A1903	Information Security (N/A - Memo)	R4. - Existing records relating to ICT risks, both Corporate and Operational should be reviewed/ revised to clearly identify and segregate current embedded controls from planned actions.	M	Existing records relating to ICT risks will be reviewed/ revised to clearly identify and segregate current embedded controls from planned actions.	ICT Lead Officer Programme and Project Management	31-Jul-20			Informal follow-up scheduled
C1901	Building Control (Substantial)	Recommendation 1 – A copy of system reports used for performance reporting should be retained on file.	M	This is now in place.	Building Control Services Manager	Implemented		1	Evidence provided that audit trail of reports now retained on new SharePoint site. Closed.
C1901	Building Control (Substantial)	Recommendation 2 – A review of all documentation retained by the team should be carried out to determine which records should be retained and for how long. Duplicate and outdated records should be deleted.	M	The storage of information on shared drives will be reviewed and obsolete information removed as part of the transfer of data onto one drive. Completed files on submit-a-plan will be removed and the information retained on IDOX document management system only.	Building Control Services Manager	01 June 2020		1	Records reviewed, reduced and retained on new SharePoint site. Closed.
C1901	Building Control (Substantial)	Recommendation 3 – Access to IDOX should be reviewed on a regular basis. Users that no longer require access should have their accounts removed.	M	This work has now been actioned and will be reviewed regularly as an officer's status changes.	Building Control Services Manager	Implemented		1	Latest access report indicates only relevant and current officers have access to system. Closed.
D1901	Tullie House (Reasonable)	Recommendation 1 – The monitoring meetings should be scheduled in a way that minimises disruption for both parties but allows for timely & complete reporting	M	Reschedule meetings to ensure that they fit in with both parties schedules	Health & Well-Being Manager	26 February 2020		1	Minute notes (Aug 2020) indicate this joint action has been agreed with THT and parties negotiate meeting dates together. Closed.
D1901	Tullie House (Reasonable)	Recommendation 2 – Monitoring meeting minutes should be developed to ensure all actions are logged and only removed once confirmed as completed.	M	Contract monitoring meetings minutes to be reviewed to ensure adequate information is contained	Health & Well-Being Manager	26 February 2020		1	Meeting minutes amended to include list of outstanding action. Closed.
D1901	Tullie House (Reasonable)	Recommendation 3 – Monitoring meeting minutes should be made available to both parties on a timelier basis.	M	Contract monitoring meetings minutes to be issued within 7 days of the meeting	Health & Well-Being Manager	26 February 2020		1	Evidence provided that minutes issued to all parties on a timelier basis - closed.
D1901	Tullie House (Reasonable)	Recommendation 4 – A process should be established to obtain assurances over the Trust's adherence to the collection and loans agreement	M	To be discussed at next contract monitoring meeting and actions agreed and recorded	Health & Well-Being Manager	26 February 2020		1	Letter issued to THT clarifying position. Closed.
D1901	Tullie House (Reasonable)	Recommendation 5 – The risk register should be reviewed and updated to include all current risks, including achievement of saving targets specified in the Council's Medium-Term Financial Plan	M	Update risk register to ensure that all current risks are included	Health & Well-Being Manager	1st April 2020		1	Risk register reviewed and up to date, including consideration to funding disputes.
D1901	Tullie House (Reasonable)	Recommendation 6 – The Council should obtain regular assurances regarding the Trust's risk management and develop a system to manage shared risks.	M	Explore option for shared risk register at next contract monitoring meeting and implement	Health & Well-Being Manager	31st May 2020	31 March 2021	1	Started, but further work needed to implement. Revised date agreed.
D1901	Tullie House (Reasonable)	Recommendation 7 – The SharePoint site should be developed to include all relevant records.	M	This has been developed and will be the default site for all information	Health & Well-Being Manager	26 February 2020		1	Evidence SharePoint site has been developed. Closed.
D1901	Tullie House (Reasonable)	Recommendation 8 – The Council should obtain assurances that performance information represents value for money and continuous improvement	M	To be discussed at next contract monitoring meeting and actions agreed and recorded	Health & Well-Being Manager	26 February 2020	31 March 2021	1	Started, but on hold as both organisations need to prioritise response to Covid-19 pandemic. Revised date agreed. Revised date agreed.

D1903 / G1901	Car Parking (inc Income) (Reasonable)	Recommendation 4 - All existing agreements (including Loomis if necessary) should be reviewed to ensure that they cover the service provided / received, reflect the correct charges and are signed by an authorised signatory from both parties.	M	Agreements will be reviewed/set up.	Team Manager (Parking & Enforcement)	30 April 2020			Informal follow-up scheduled
D1903 / G1901	Car Parking (inc Income) (Reasonable)	Recommendation 5 - The Outstanding debts should be resolved, and a revised service level agreement should be presented to M&S including relevant fees.	H	Will liaise with Legal Services and Finance to draw up new SLA and outstanding debt.	Team Manager (Parking & Enforcement)	31 March 2020			Informal follow-up scheduled
D1903 / G1901	Car Parking (inc Income) (Reasonable)	Recommendation 8 - A full review should be completed and brought up to date including setting up a Traders Licence and agreement.	M	A car park strategy is currently being developed in partnership with Councillors to support our Local economy, some projects in place including Free after 3. Current activity will be looked at and actioned following Legal advice.	Team Manager (Parking & Enforcement)	31 March 2020			Informal follow-up scheduled
D1903 / G1901	Car Parking (inc Income) (Reasonable)	Recommendation 9 - Management should review the current safe-key holding arrangements and ensure a suitable process is in place to ensure income is fully covered by the Council's insurance.	M	Clarification being sought from insurance.	Team Manager (Parking & Enforcement)	12 February 2020			Informal follow-up scheduled
D1903 / G1901	Car Parking (inc Income) (Reasonable)	Recommendation 12 - Car Park inspections should be undertaken within the required frequency.	M	Programme of inspections have started in January 2020 and will be completed by the end of February 2020	Team Manager (Parking & Enforcement)	29 February 2020			Informal follow-up scheduled
D1903 / G1901	Car Parking (inc Income) (Reasonable)	Recommendation 13 - The Council should obtain assurances that the Sands Centre monitors both current and future car parking arrangements.	M	Further discussions to held with GLL. CEOs will carry out routine checks to ensure virtual permits issued correctly.	Team Manager (Parking & Enforcement)	19 February 2020			Informal follow-up scheduled
D1904	Driver Checks (Partial)	Recommendation 1 – All officers should be regularly reminded of their responsibility for carrying out necessary driver checks.	H	All managers given guidance and reminded of their responsibilities via email (November 2018 and December 2019). Payroll & Fleet to co-ordinate regular quarterly reminders to all officers. Payroll to review feasibility of loading relevant documents into iTrent and issuing automated reminders from the system Skillgate module to be developed for managers and permitted drivers to further embed checking process and highlight improved guidance.	Fleet and Depot Manager	Completed			Formal follow up scheduled
D1904	Driver Checks (Partial)	Recommendation 2 – The Driver Handbook should be presented to and reviewed by Senior Management to determine if it should be implemented and to what extent it replaces the current road risk policy.	M	Handbook for Drivers to be reviewed and approved by SMT.	Fleet and Depot Manager	31 March 2020			Formal follow up scheduled
D1904	Driver Checks (Partial)	Recommendation 3 – Current processes should be reviewed to ensure there are assurances that driver checks are carried out for all relevant officers.	H	Managers to ensure checks are carried within their remit in line with existing policy and repeated guidance. Payroll to check 'permitted drivers list' before paying any mileage allowance for staff using their own vehicles. Fleet office will continue to provide advice and remind all officers of their responsibilities in line with existing policy to check drivers. Fleet office to also provide monitoring role to ensure compliance prioritising risk-based approach (highest mileage first).	All managers	30 April 2020			Formal follow up scheduled

D1904	Driver Checks (Partial)	Recommendation 4- A process should be in place to ensure all staff driving a pool car have an appropriate licence in place.	H	Additional check to be introduced as part of pool car booking system (Fleet and SST to review option to share list of checked drivers to allow for a more efficient checking process) (Fleet office will continue to provide advice and remind managers of their responsibilities in line with existing policy to check drivers.)	Service Support Supervisor	30 April 2020			Formal follow up scheduled
E1903	Homeless Accommodation (Substantial)	Recommendation 1 - Budgets should be reviewed to ensure that they are realistic and suitable to meet the demands of the service.	M	To review staffing budgets in line with budget cycle review periods. NOTE: caution will need to be applied this financial year given the additional costs and loss of income as a result of dealing with the COVID pandemic	Homelessness Prevention & Accommodation Manager	31 Dec 2020 (2020/21 – 2021/22 financial year)			First informal follow-up scheduled.
E1903	Homeless Accommodation (Substantial)	Recommendation 2 - Casual staff should complete all mandatory training within Skillsgate including GDPR and Cyber Security training.	M	To arrange with OD to set up all casual staff access to Skillsgate for all mandatory units. Once established ensure all casual staff have completed this	Homeless Accommodation Manager & Assistant Homeless Accommodation Manager	30 June 2020 / 30 September 2020			First informal follow-up scheduled.
E1903	Homeless Accommodation (Substantial)	Recommendation 3 - Individual training undertaken without Organisational Development involvement should be logged accordingly.	M	To establish system to collate and notify OD quarterly of training directly arranged on an ongoing basis.	Homeless Accommodation Manager & Assistant Homeless Accommodation Manager	30 June 2020			First informal follow-up scheduled.
G1902	Treasury Management (Substantial)	Recommendation 1 - Risks should be reviewed by another officer in the absence of the risk owner, in line with the Corporate Risk Management Policy.	M	Risk Register contact details to be updated to include a Deputy should the Risk Owner be absent for any reason. Risk Management Assurance Framework to be updated to ensure deputy risk owners are nominated.	Principal Accountant/ Office Manager & PA to Chief Executive	01 July 2020			First informal follow-up scheduled.
G1902	Treasury Management (Substantial)	Recommendation 2 - Access to the Accountancy Drive and the folders within this including treasury management should be reviewed and restricted to officers who only need access.	M	Password protection to be added to the master cash flow spreadsheet and the password shared with relevant officers. Restrictions were previously in place to limit access for certain individuals to specific folders only. Unsure when or why these have been removed. A review of access to the Accountancy drive to be undertaken with IT and access restricted again where required. Roll out to Office 365 would resolve this going forward.	Technical Finance Officer / Principal Accountant	May 2020 / October 2020			First informal follow-up scheduled.
G1903	NNDR (Substantial)	Recommendation 1 – Job descriptions should be updated to reflect the current roles and reporting lines	M	Job Descriptions to be reviewed and amended as required	Revenues and Benefits Operations Manager	30th June 2020			First informal follow-up scheduled.
G1903	NNDR (Substantial)	Recommendation 2 – Appraisals should be undertaken with all officers and the appraisal documents should be completed timely and processed in line with the Council's processes.	M	Appraisals to be held for Team Leaders / Team Appraisal to be determined for completion	Revenues and Benefits Operations Manager	30th June 2020			First informal follow-up scheduled.
G1903	NNDR (Substantial)	Recommendation 3 – Action should be taken to ensure electronic records containing sensitive personal information can be deleted within acceptable timeframes	M	Subject to suitable software upgrades providing functionality, retention schedule to be reviewed to reflect record deletion timescales	Revenues and Benefits Operations Manager	31st December 2020			First informal follow-up scheduled.
A1902	Absence Management (Partial)	Recommendation 1 – the policy should be reviewed on a regular basis and managers should be made aware of any amendments.	M	Initial review to be carried out (see Recommendation 3). Review date to be included in new policy (suggestion likely to be every two years)	HR Manager	31 st December 2020.			Formal follow-up scheduled

A1902	Absence Management (Partial)	Recommendation 2 – The current training provision should be reviewed to avoid duplication, as well as ensuring any amendments made to the policy are incorporated into future training.	M	Training will be provided once new policy is developed and approved. Will roll out through VAR Management briefing but then look at Skillsgate modules as well as regular Managers' sessions.	HR Manager and Organisational Development Manager	31 st March 2021			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 3 – the policy should be revised to ensure it can deliver a consistent and fair approach, including incorporation of actions to address the issues identified within this audit.	H	Task and finish group has been established made up of members and HR to review. First virtual meeting scheduled w/c 15 th June 2020	HR Manager	31 st December 2020			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 4 – Current responsibilities should be reviewed to ensure all are still appropriate and streamlined where possible. Retained responsibilities should be documented in the policy.	M	As Recommendation 3 review of Policy will ensure responsibilities are reviewed and made clear in the policy document.	HR Manager	31 st December 2020			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 5 - A process should be adopted to ensure regular formal communication between responsible functions, including maintaining a list of agreed actions	M	As Recommendation 3 review of Policy will ensure clarity of responsibility and trigger points will allow for easier monitoring and action.	HR Manager	31 st December 2020			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 6 – Absence information should be reported to BTSP on a more frequent (quarterly) basis when sickness levels rise above target levels. (subject to the agreement of the Chair of the Panel).	M	Agreed that from January 2021 this will be in place – following review and implementation of the new Policy (subject to agreement from BTSP Chair)	HR Manager	31 st January 2021			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 7 – Template forms should be revised and consideration should be given to developing a more intuitive electronic process.	H	As Recommendation 3 review of Policy will ensure new and easier forms & recoding methods. Every attempt will be made to utilise our current systems and/or electronic reporting.	HR Manager	31 st December 2020			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 8 – Monitoring, training and support should be provided to managers to ensure a consistent approach is taken towards managing individuals who have hit key trigger points.	H	As Recommendation 4 review of Policy will ensure new and easier triggers and policy should limit any ambiguity.	HR Manager	31 st March 2021			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 9 – Reference to the employee privacy statement should be included on absence management notification forms	M	Reference to be made on all forms which share personal information. Wording to be agreed between Information Governance Manager and HR Manager.	Information Governance Manager & HR Manager	31 st December 2020			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 10– Retention periods should be reviewed to ensure they are aligned with all relevant legislation and guidance	M	Retention periods to be reviewed and agreed with Information Governance Manager and OH Provider.	HR Manager & Information Governance Manager	31 st December 2020 (could be earlier as not dependent on Policy review)			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 11 – A process for ensuring absence information is retained in one location by Human Resources (avoiding duplicate records) should be undertaken, including ensuring information is deleted once it has expired.	H	HR and Payroll are moving to electronic only records. All referrals and absence related data should only be kept by HR and Payroll and revised policy will include sections on data retention.	HR Manager	31 st December 2020 (could be earlier as not dependent on Policy review)			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 12 – the service level agreement in relation to Physiotherapy should be updated and include reference to data protection legislation	M	The service level agreement in relation to Physiotherapy should be updated and include reference to data protection legislation.	H&S Manager and Legal	31 st December 2020 (could be earlier as not dependent on Policy review)			Formal follow-up scheduled
A1902	Absence Management (Partial)	Recommendation 13 – all third parties handling sensitive personal absence data should be required to complete the Information Governance Manager's questionnaire.	M	This to form part of the OH and third-party contracting processes.	H&S Manager	31 st December 2020 (could be earlier as not dependent on Policy review)			Formal follow-up scheduled

A2001	Environmental Strategy - Baseline Data (Partial)	Recommendation 1 – A documented Project/Activity Action Plan should be developed to clearly communicate objectives, required actions, responsibilities, timescales and inform risk management activity related to Environmental Strategy data collection/assessment activity and reporting.	H	An action plan to complete the organisational carbon footprint is being progressed, this plan will be a detailed sub-plan of an action in the Policy & Communication Service Plan. This plan will allocate roles and set a timescale for the completion of the work.	Policy & Communication	31/07/2020			Formal follow-up scheduled
A2001	Environmental Strategy - Baseline Data (Partial)	Recommendation 2 – Clear and comprehensive local data definitions should be formally developed relevant to the City Council to inform and support Environmental Strategy data collection/assessment activity and reporting.	H	Ongoing work to formally develop local data definitions will be completed and definitions will be subject to regular review/revision as data availability/maturity improves.	Policy & Communication	31/08/2020			Formal follow-up scheduled
A2001	Environmental Strategy - Baseline Data (Partial)	Recommendation 3 – Details and arrangements for the completion of data quality activity should be developed and communicated accordingly.	M	Policy and Communications Team arrangements and responsibilities for ensuring the quality of data processed by the Team in accordance with local data definitions will be developed and communicated to team members. The Policy and Communications Team will develop a dashboard to monitor data quality and highlight issues to be followed up with source data owners.	Policy & Communication	31/08/2020			Formal follow-up scheduled
A2001	Environmental Strategy - Baseline Data (Partial)	Recommendation 4 - The process and associated responsibilities for monitoring and managing data collection, assessment and reporting activity should be developed and communicated accordingly.	M	The Policy and Communications Team process and associated responsibilities for monitoring and managing data collection, assessment and reporting in accordance with local data definitions will be developed. This will be communicated to Policy and Communications Team members and shared with source data owners.	Policy & Communication	31/08/2020			Formal follow-up scheduled
F2002	Insurance (Reasonable)	Recommendation 1: Procedures / guidance should be documented to cover the Finance Officer's (Corporate Insurance & Governance) role.	M	A procedure manual and guidance notes are in the process of being completed and will be undertaken alongside the main activities as they occur. This was put in place prior to the audit as a succession planning strategy.	Financial Services Manager	31/03/2021			First informal follow-up scheduled.
F2002	Insurance (Reasonable)	Recommendation 2: The Risk Management Sub-Group should ensure suitable tracking of outstanding actions and meeting minutes should be formally recorded as presented to the Corporate Risk Management Group (CRMG).	M	Agreed	Office Manager and PA to Chief Executive	30/09/2020			First informal follow-up scheduled.
F2002	Insurance (Reasonable)	Recommendation 3: Access to the insurance documentation should be reviewed and restricted to appropriate officers only.	M	Agreed – This has been completed	Financial Services Manager	31/08/2020			First informal follow-up scheduled.
F2002	Insurance (Reasonable)	Recommendation 4: All relevant officers should receive formal training to ensure full compliance with the Council's Managing Occupational Road Risk Policy. Ongoing monitoring should continue to take place to ensure that all incidents / accidents are appropriately recorded and reported.	M	Further & ongoing training for staff in terms of road risk, standards and incident reporting and training / briefings to support managers. Ongoing monitoring to ensure compliance. The approved Handbook for Drivers (approved by SMT) will be circulated to all drivers, relevant managers and supervisors.	Fleet & Depot Manager	31/12/2020			First informal follow-up scheduled.
F2002	Insurance (Reasonable)	Recommendation 5: Guidance should be issued to officers to ensure that the Finance Officer (Corporate Insurance & Governance) receives copies of all third party insurance documentation to ensure appropriate cover is in place.	M	Agreed – A reminder will be issued to appropriate officers.	Financial Services Manager	30/09/2020			First informal follow-up scheduled.

M2001	Fees & Charges - VFM (Reasonable)	Recommendation 1 Formal records of annual fees and charges review activity should be created and retained to demonstrate consideration of all elements and principles of the Corporate Charging Policy.	M	Corporate Charging Policy will be amended to incorporate a requirement for records of review activity to be retained.	Corporate Director of Finance and Resources (supported by Principal Accountant)	31-Jul-21			First informal follow-up scheduled.
M2001	Fees & Charges - VFM (Reasonable)	Recommendation 2 Annual Fees and Charges reports prepared/presented in accordance the Corporate Charging Policy should be required to include content to demonstrate how all elements and principles of the policy have been considered/applied in each service area.	M	Corporate Charging Policy will be amended to incorporate a requirement for annual fees/charges review reports to include content to demonstrate/confirm all policy elements and principles have been considered/applied.	Corporate Director of Finance and Resources (supported by Principal Accountant)	31-Jul-21			First informal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 1 - The Firewall Management Procedure (policy) should be reviewed to include other key issues e.g. procurement, frequency, completion and management of independent penetration testing review, conditions for and completion of internal vulnerability testing / checks including monitoring, results and action(s) taken.	M	Update Policies and implement regular reviews around policies, external penetration testing (including remedial actions). Create a centralised log of reviews taking place and actions taken. Create Centralised Calendar for reviews with dates and times accordingly	ICT Services Manager	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 2 - A Change Management policy should be drafted.	M	Update change management policy with a specific policy for firewalls	ICT Services Manager	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 3 - Key ICT policies should be approved by Executive Management and / or Elected Members.	M	Seek approval of key policies Executive Management and / or Elected Members	ICT Services Manager	1 st May 2019			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 4 - Review the action(s) planned and the target dates in the ICT Services Risk Register.	M	Carry out regular reviews of the Corporate ICT risk register and send updates to policy & performance who update this.	ICT Services Manager	31-Mar-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 5 - ICT should formally agreed and document operational arrangements with the external supplier (TNP).	H	Speak to TNP and get a written statement of understanding/SLA around support	ICT Lead Officer (Infrastructure)	31-Mar-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 6 - ICT management should ensure an appropriate management framework is established to oversee operations and management of the Sonicwall firewall.	H	Speak to Elitetele and get a written statement of understanding around support	ICT Lead Officer (Infrastructure)	31-Mar-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 7 - Change management procedures should be drafted, approved and implemented. Firewall specific testing should be formally recorded and attached to the Service Desk (Remedyforce) application records.	H	Formalise change management procedures for the firewall including roles and responsibilities. Rule checking and testing should be documented and formalised. Formalise rule testing as part of change management	ICT Lead Officer (Infrastructure)	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 8 - Day-to-day management tasks should be documented and diarised accordingly. In addition to this ICT management should ensure others members of ICT undertake tasks on a rotational basis to aid familiarity.	M	Update/document all firewall management tasks. Firewall changes to be checked by a 2nd officer once done and signed off in the change management call in Remedyforce	ICT Lead Officer (Infrastructure)	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 9 - ICT should ensure the configuration of the Fortiguard (firewall) application is documented. This documentation would in the event of a need to re-install software ensure all agreed settings are known.	M	Document the firewall configuration e.g. ports used connectivity etc and show changed from default config.	ICT Lead Officer (Infrastructure)	1 st June 2019			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 10 - ICT should ensure all connected network devices are documented and subject to a periodic evidenced review.	M	Document all network devices and configuration for them.	ICT Lead Officer (Infrastructure)	30-Sep-19			First formal follow-up scheduled.

N1801	Firewall (Partial)	Recommendation 11 - ICT should complete the work surrounding monitoring the Windows Defender Anti-Virus software as soon as possible and establish processes for managing any exceptions identified.	M	Continue to deploy Windows Defender ATP on devices and enhance configuration	ICT Lead Officer (Infrastructure)	30-Sep-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 12 - ICT Management review the Incident Management Procedure (Policy) ensuring it relates to the Council's structures and operations.	M	Incident management policy to be reviewed and ensure reporting structure is accurate	ICT Lead Officer (Service Support)	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 13 - ICT Management should take steps to put in place a contract for the services provided by TNP.	H	Speak to TNP and Elitetele around a formal contract for support. Support agreement is in place and evidenced but is around support hours etc.	ICT Lead Officer (Infrastructure)	31-Mar-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 14 - ICT Management should take urgent action to address leaving the automatic fire protection system in automatic mode when individuals / external suppliers are working in the computer suite unattended. In addition to this logs should be established for access / work completed in the computer suite. On a periodical basis this should be reviewed by management to confirm it is completed and adhered to by all staff and third parties. Finally, server cabinets should be made secure.	M	Implement sign in system for external contractors explaining the use of FM200 in the datacentre. Refresh training for ICT staff on FM200 system. Ensure where there is a risk of accidental system activation that it is put into manual during the work period and activated afterwards Computer room is in a secure fob area with CCTV. Cabinet doors won't fit due to newer fibre patch leads more rigid than the older ones. Adjusting door hinges so door will fit and if not possible will look at moving firewall to a different cabinet with lockable door at next refresh in Summer 2019. Implement sign-in system for external contractors. Additional IT only fob on build room/computer room door. Signage on all doors and procedures that no-one can enter without being escorted by ICT Services and approval	ICT Lead Officer (Infrastructure)	31-Mar-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 15 - ICT Management should establish a framework for managing the request, completion and action(s) identified for external testing completed. Specifically the following should be addressed: 1) Managing reports received highlighting responsibilities, timescales for action(s) identified by category, records to be maintained with evidence, reporting as well as long term monitoring (if applicable). 2) Restricting access to reports and action(s) to ICT staff with specific responsibilities for this area. 3) Ensuring summary information on outcomes and action(s) taken with reports received are issued to the Senior Management Team and Elected Members accordingly.	H	Document the management procedure for external ICT Health check reports / Review and update Remedial actions plans from ICT health check / Folder on K Drive now locked down to specific individuals who need access - ICT Management & infrastructure only. This will be carried forward when moved to SharePoint as it contains Penetration testing reports etc which are security sensitive. / Use Remedyforce for all change management/incidents relating to firewalls and reference this when producing management reports / Implement a governance framework for reporting outcomes and remedial action plans of external testing with SMT	ICT Lead Officer (Infrastructure)	01 May 2019			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 16 - ICT Management should ensure significant network incidents are handled as required via the agreed incident management policy and reported.	H	Network core issue in November wasn't raised retrospectively in Remedyforce. Senior management were kept informed and staff were updated accordingly. All incidents will be documented.	ICT Lead Officer (Infrastructure)	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 17 - Management should develop firewall incident specific procedures for such events with first steps clearly documented.	H	Create an incident management process for firewall incidents specifically and ensure staff are aware	ICT Lead Officer (Service Support)	01-May-19			First formal follow-up scheduled.

N1801	Firewall (Partial)	Recommendation 18 - ICT should ensure the issue relating to installing the latest Fortiguard (firewall) application software is formally tracked. The reasons for not installing the latest version should be formally documented and signed off by senior management.	M	Review console in infrastructure meetings based on FortiGate release schedule. Remedyforce regular task and liaise with TNP over suitable software versions so they are installed promptly / Current version is minor release and TNP advised against it as they had seen issues in their testing and at other clients. /Reviews and reasons need documented in Remedyforce	ICT Lead Officer (Infrastructure)	31-Mar-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 19 - Steps should be taken to ensure the backup process for the Fortiguard (firewall) application is formalised with a copy stored outside of the Fortiguard environment.	M	Take weekly off-device firewall backups through the console and seek advice from TNP whether this can be automated. Backups are created automatically on the devices but are then not stored off-device. Create a Remedyforce regular task and document procedure.	ICT Lead Officer (Infrastructure)	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 20 - ICT should look to deploy a solution relating to the management of network devices and logs produced as soon as possible. A suitable management framework should be in place to report on alerts accordingly.	M	SIEM solution currently being evaluated for central log management/alerting	ICT Services Manager	01-Jul-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 21 - ICT should look to implement a firewall solution between the Council and Allerdale Borough Council.	M	Investigate enabling the ASA's firewall functions on both Allerdale and Carlisle devices already in place, beyond the current IP address limiting functions to control traffic. Need agreement from Allerdale BC and steer on R&BS shared service as this may impact service and replication speeds.	ICT Lead Officer (Infrastructure)	01-Sep-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 22 - Firewall security for the FortiGate solution should be reviewed and action taken to address the weaknesses identified.	H	Implement password changes on all firewalls every 3-6 months and document when they have taken place. Use remedy force regular tasks to ensure regular changes take place / Implement password complexity settings available in firewall /Implement idle time out override to 30 mins / Speak to TNP and get a written statement of understanding around support / Carry out regular reviews of firewall admin accounts and document reviews - Use Remedyforce regular tasks and review same time as password changes / Implement management audit log reporting/alerting via SMTP to Remedyforce / Update procedures for firewall admin account approval - must be signed off by head of ICT Services	ICT Lead Officer (Infrastructure)	01-May-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 23 - Firewall rule management for the FortiGate solution should be reviewed and action taken to address the weaknesses identified.	H	Update descriptions on all rules and review external supplier rules on a regular basis using Remedyforce tasks / Rule rationalisation exercise need to be completed./Update descriptions on all rules as part of rule rationalisation project. / Create a central review repository that is updated when regular reviews take place use Remedyforce regular tasks baseline against last set number of rules. / Document all rules and carry out 6 monthly review to confirm additions/deletions. All changes must go through Remedyforce change control.	ICT Lead Officer (Infrastructure)	31-Mar-19			First formal follow-up scheduled.

N1801	Firewall (Partial)	Recommendation 24 - Alerts should be defined for the FortiGate firewall for any key failures / events. In addition to this ICT Management should consider using visual displays in the main ICT office to alert staff of any key failures / events on the firewall.	H	Implement SMTP alerts for Critical and High alerts to come to Infrastructure and automatically into Remedyforce for assignment/investigation. Look at an Alert display in the ICT office with the SIEM solution to show alerts.	ICT Lead Officer (Infrastructure)	30-Sep-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 25 - Internal vulnerability testing should be established urgently. ICT Management should agree and document the processes and management framework for undertaking internal vulnerability testing, storing and recoding and remedial action(s) as well as securing outputs and evidence.	H	Framework to be designed and signed off by SMT / Security folder on K Drive now locked down to specific individuals who need access - ICT Management & infrastructure only. This will be carried forward when moved to SharePoint as it contains Penetration testing reports etc which are security sensitive. Any remedial actions plans need referenced back to Remedyforce.	ICT Services Manager / ICT Lead Officer (Infrastructure)	30-Sep-19			First formal follow-up scheduled.
N1801	Firewall (Partial)	Recommendation 26 - Steps should be taken to review the storage of log information for the Fortianalyzer solution and alerting should be established for significant / key events.	M	Check current retention schedules. Speak to TNP to see if auto-archiving can be implemented / Implement SMTP alerts for Critical and High alerts to come to Infrastructure and automatically into Remedyforce for assignment/investigation.	ICT Lead Officer (Infrastructure)	01-Jun-19			First formal follow-up scheduled.

Recommendation evidenced as actioned (Closed)
Recommendations evidenced as part actioned and replaced by new recommendation (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 (or rec replaced)
Follow up scheduled for recommendation previously identified as unactioned
Recommendation reviewed and not confirmed as actioned (no response/revised timescales have passed)

Report to Audit Committee

Agenda
Item:

A.5

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and Budget Framework YES
Public / Private Public

Title: INTERNAL AUDIT REPORT LOCAL AIR QUALITY
MANAGEMENT

Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number: RD47/20

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress and considers the review of Local Air Quality Management

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Audit Committee:	18 December 2020
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 An audit of Local Air Quality Management was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The report, appended as Appendix A of this report was found to provide reasonable assurances and contains 3 medium graded recommendations.

2. RISKS

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. CONSULTATION

- 3.1 Not applicable

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

- i) receive the final audit report as outlined in paragraph 1.1;

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 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:

Michael Roper

Ext: 7280

Appendixes

**APPENDIX A - INTERNAL AUDIT
REPORT LOCAL AIR QUALITY
MANAGEMENT**

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:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of Local Air Quality Management

Draft Report Issued: 09 July 2020
Director Draft Issued: 26 November 2020
Final Report Issued: 27 November 2020



Audit Report Distribution

Client Lead:	Principal Health and Housing Officer Regulatory Services Manager
Chief Officer:	Corporate Director of Governance and Regulatory Services Chief Executive
Others:	Information Governance Manager
Audit Committee:	The Audit Committee, which is due to be held on 24 September 2020 will receive a copy of this report.

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

1.0 Background

- 1.1. This report summarises the findings from the audit of Local Air Quality Management. This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30 July 2020.
- 1.2 The Environment Act 1995 places a duty on Local Authorities to review and assess air quality in their districts to establish if related standards and objectives are being achieved. Where review and assessment activity identify related standards and objectives are not being achieved 'Air Quality Management Areas' (AQMA) are to be designated for each relevant area and a documented action (improvement) plan is required to be prepared and managed.
- 1.3 Details of the action plan and implementation progress is included within an annual Air Quality Annual Status Report (ASR) forwarded to the Department for Environment, Food and Rural Affairs (DEFRA).

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 Client Lead for this review was Principal Health and Housing Officer 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 scope areas:
 - Failure to achieve business objectives due to insufficient governance.
 - Loss or breach of information / fines and sanctions / reputational damage due to failure to securely process, retain, share and dispose of records and information.
 - Failure to meet statutory duty to review and assess local air quality and other Air Quality Management duties under the Environment Act 1995.
 - Budget reduction leads to an inability to procure the services of an external specialist consultant and results in an inability to assess local air quality and complete other Air Quality Management duties under the Environment Act 1995 with existing resources.

- 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 intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Local Air Quality Management 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**. Audit recommendations arising from this audit review are summarised below:

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

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

4.3 Findings Summary (good practice / areas for improvement):

A generally good governance framework is in place that ensures direction and guidance is available to officers to support the achievement of service objectives. It is evident a largely informal approach to team management and associated communication is applied and it is noted this approach meets the needs of the team and is based on the outcomes of team review activity. Personnel are encouraged and supported to undertake professional development with specific provision for time to undertake related activity included within job description documents. Opportunities for governance improvement exist in relation to Risk management, staff training records and document retention schedules.

A comprehensive level of information related to Local Air Quality is published on the City Council (public) website. No personal or sensitive information is processed or published, and managers/staff involved in local air quality management activity have completed GDPR/Cyber Security training.

The specialist consultant engaged to support local air quality management has set out formal terms and conditions related to ensuring the security and processing of information. However, this information sets out requirements of the consultant but there is no evidence to demonstrate the City Council has communicated its own requirements for the control of shared information/documents.

Controls are in place to support compliance with the associated statutory duty, although reliance is placed on the knowledge and experience of the personnel involved and the knowledge and experience of specialist consultants engaged to support the activity.. Annual report submissions to DEFRA should be subject to management review and approval prior to submission.

Evidence to provide assurances that use of the specialist consultant is undertaken in accordance with City Council procurement guidance could not be located and there is a need to revisit this in light of ongoing use of the same consultant.

Activity to formalise budget expenditure related to the use of consultant services is ongoing.

Comment from the Corporate Director of Governance and Regulatory Services

The content of the audit is noted and agreed.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** There is a documented structure in place. Job descriptions are in place and the purpose and responsibility of the roles are well defined. Reference to monitoring and managing 'pollution' is clearly referenced at all levels. Job description documents include specific provision for time to undertake professional development activity.
- 5.1.2** A wide range of information and guidance is available to staff involved in the management of local air quality. The main source of information and guidance is via the EMAQ subscription and the RIAMS website and it is evident this website is professionally maintained, and content is regularly reviewed/updated.
- 5.1.3** Records of training completion are maintained but the quality and content of these records is variable. Formal records of cross-training are not maintained as reliance is placed on the recruitment of suitably qualified and experienced individuals and the informal completion of personal development activity/on-the-job training. It would add value to formally record details of cross training completion and embed consistent recording of staff training/development.
- 5.1.4** Team communication is largely informal, but it is understood this meets the needs of team members. Appraisal activity is undertaken in accordance with City Council guidance, though it would be beneficial to consider progress against previously agreed objectives as part of the process.
- 5.1.5** Service and business plans are in place that include objectives related to Local Air Quality Management. However, the Service Plan has not been updated for 2020/21 as a result of the Covid-19 pandemic. It is advised that Service Plans are reviewed and updated for 2021/22.
- 5.1.6** There is evidence to indicate risks are formally recorded and monitored. However, audit enquiries revealed a risk relating to ladder use was identified/assessed but not registered and a ladder log referenced within the assessment is not currently maintained. It is acknowledged that further risk review activity in relation to ladder use is planned as a result of audit enquiries.
- 5.1.7** It is unclear how the 'control strategy/mitigating actions' recorded for risk #174 are actually controlling the identified risk and it is advised mitigating actions are updated to fully reflect the controls in place

5.1.8 There is no evidence to indicate risks related to the use of 'consultants' have been identified or assessed in accordance with City Council Guidance related to the use of consultants.

Recommendation 1 – A review of risk management should be undertaken to gain assurance all risks are appropriately identified, recorded and managed.

5.1.9 Performance objectives are set out within related legislation and replicated within local air quality documentation/reports published on the City Council website.

5.1.10 A formal air quality management action plan was prepared and approved by Executive in 2012. An updated plan is expected to be presented during 2020/21. Progress against action plan measures are reported to DEFRA on an annual basis and retained on the City Council website. Data included within the latest submission was found to be accurate and formal feedback provided by DEFRA indicated they have accepted the contents of the report.

5.1.11 The audit identified that the data submission is not currently subject to any management review and it is suggested consideration should be given to the implementation of formal quality checks and report approval to reduce the potential for communication of incorrect/inaccurate information/data.

5.1.12 Regular budget monitoring takes place and activity is ongoing to formalise funding for the continuing engagement of a specialist consultant.

5.1.13 A wide range of information, guidance and links to other sources of related information is present on the website. While comprehensive, the information on the website would benefit from improvements to document control, to identify when information is due to expire and/or be reviewed/replaced.

5.1.14 Formal contract agreement documents produced by the external consultant engaged to support Local Air Quality Management includes terms and conditions prepared by the consultant related to ensuring the security and processing of related information. However, there is no evidence to demonstrate the City Council has communicated its requirements for the control of shared information/documents.

Recommendation 2 - Action should be taken to ensure the terms and conditions detailed within contract agreement documents developed by external consultants are consistent with City Council requirements.

5.1.15 Evidence is available to demonstrate action has been initiated in 2020 to formally include associated funding requirements within departmental budgets for use of the external consultant.

5.1.16 Information/or evidence to demonstrate compliance with the City Council Procurement Guidance Note associated to the use of consultants, such as preparation of a brief to support use of the consultant and completion of a review post engagement of the Consultant could not be located.

Recommendation 3 - Action should be taken to evidence compliance with City Council Procurement Guidance associated to the use of consultants.

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

5.2.1 Members of Regulatory Services with specific responsibilities related to Local Air Quality Management have completed GDPR and Cyber Security training.

5.2.2 Knowledge of current statutory duties is maintained and responsibility for related activity is allocated appropriately.

5.2.3 Air Quality Assessment Areas and associated Air Quality Management Areas are clearly defined and have been established in accordance with technical guidance published by DEFRA and audit sample testing confirmed data is accurately reported for each area.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 Review of data and information related to Air Quality published on the City Council website did not identify any inclusion of personal data or sensitive information. A comprehensive Data Protection Privacy Notice is also widely available on the website.

5.3.2 A central document retention schedule is in place and accessible within the City Council and it is evident the schedule is routinely maintained. However, the value and use of the schedule is not clear as it lacks detail and the absence of document control identification/practice within the City Council significantly reduces the potential to identify specific documents. Audit testing indicates the schedule does not fully encompass the nature of records held and it is advised the schedule is developed further to give a more accurate representation.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – A review of risk management should be undertaken to gain assurance all risks are appropriately identified, recorded and managed.	Medium	Risk management activity is not completed or recorded consistently. Resulting in potential exposure to unidentified and/or uncontrolled risk.	This will be undertaken at the next service review, which is undertaken annually with the service.	Regulatory Services Manager	30 April 2021
Recommendation 2 - Action should be taken to ensure the terms and conditions detailed within contract agreement documents developed by external consultants are consistent with City Council requirements.	Medium	Lack of communication of City Council requirements for the control of information/documents shared with a third party leads to uncontrolled exposure to information governance risks.	To be undertaken before next annual report is required to DEFRA. (Summer 2021)	Principal Health and Housing Officer	30 June 2021.
Recommendation 3 - Action should be taken to evidence compliance with City Council Procurement Guidance associated to the use of consultants.	Medium	Lack of compliance with City Council Procurement guidance leads to a lack of assurance in relation to the use of consultants and an inability to demonstrate value for money and inform organisational learning.	Linked into Recommendation 2, to action before next report is required. Guidance has been read and now aware of what is required going forward for use of specialist external consultants.	Principal Health and Housing Officer	30 June 2021.

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.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>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 embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
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 that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
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.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

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; 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).

Report to Audit Committee

Agenda
Item:

A.6

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and Budget Framework YES
Public / Private Public

Title: INTERNAL AUDIT REPORT CITY CENTRE
Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number: RD48/20

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress and considers the review of City Centre

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Audit Committee:	18 December 2020
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 An audit of City Centre was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The report, appended as Appendix A of this report was found to provide reasonable assurances and contains 11 medium graded recommendations.

2. RISKS

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. CONSULTATION

- 3.1 Not applicable

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

- i) receive the final audit report as outlined in paragraph 1.1;

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 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: Michael Roper

Ext: 7280

Appendixes

**APPENDIX A - INTERNAL AUDIT
REPORT CITY CENTRE**

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:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of City Centre (Inc Events & Inspections)

Draft Report Issued: 2nd November 2020
Director Draft Issued: 25th November 2020
Final Report Issued: 2nd December 2020



Audit Report Distribution

Client Lead:	Destination Manager
Chief Officer:	Deputy Chief Executive Chief Executive
Others:	Health & Wellbeing Manager City Centre Officer Team & Events Co-ordinator Information Governance Manager Health and Wellbeing Project Manager
Audit Committee:	The Audit Committee due to be held on 18 th December 2020 will receive a copy of this report.

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

1.0 Background

- 1.1. This report summarises the findings from the audit of the City Centre (Inc Events & Inspections). This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 1.2 Events and promotions in the City Centre are important to the Council as they promote the district and grow the city's culture, heritage and visitor economy through increasing footfall, overnight stays, encouraging use of Carlisle city centre and supporting high street businesses.
- 1.3 The City Centre events and promotions also support the Council's priority to promote Carlisle regionally, nationally and internationally.
- 1.4 There is a signed Memorandum of Understanding between the City Council and Cumbria County Council which gives the City Council authority to undertake maintenance work in the city centre such as repairing benches, bollards etc.
- 1.5 Carlisle City Council has the power to grant licences for street cafés under section 115(E) of the Highways Act 1980 and are required to consult with Cumbria County Council as the Highways Authority.

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 Client Lead for this review was the Destination 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 scope areas:
 - Failure to achieve business objectives due to insufficient governance.
 - Loss or breach of information / fines and sanctions / reputational damage due to failure to securely process, retain, share and dispose of records and information.
 - Partnership arrangements / contracts / agreements are not formally agreed resulting in conflict and reputational damage to the Council.
 - Failure to effectively manage events / promotions resulting in financial risk and reputational damage to the Council.

- Budgets are not effectively managed resulting in financial risk to the Council.

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 intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within the City Centre (Inc Events & Inspections) 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**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	3
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	4
3. Information - reliability and integrity of financial and operational information (see section 5.3)	-	2
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.4)	-	2
Total Number of Recommendations	-	11

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

4.3 Findings Summary (good practice / areas for improvement):

While eleven recommendations have been made, the majority relate to minor non-compliance of existing controls. No significant areas of weakness have been identified and therefore reasonable assurances are in place.

There is an up to date structure in place and the team have relevant job descriptions. Delegated authority / responsibility for approving / issuing pavement café licences should be included in the relevant scheme of delegation.

A Discover Carlisle – Visitor Economy Recover Plan from the COVID-19 pandemic which includes the city centre recovery has been completed. Promotional videos have been produced to try to increase consumer confidence in both retail and hospitality sectors.

Whilst there is guidance and application forms for the public to complete for promotions, events, funding and pavement café licences there are no documented procedures for the tasks that officers complete to review and action such applications.

The Fees & Charges Report should be updated to ensure it accurately reflects all fees and charges in relation to the City Centre.

There are three operational risks recorded, which need to be regularly monitored in line with the Corporate Risk Management Policy.

Controls are in place for data security, but there is a need to further the controls to comply with data protection legislation, including preparing a privacy notice specifically for the service, ensuring that all documentation is included in the Councils retention schedule and putting a document disposal system into place. Document retention should be streamlined to aid day to day working practices.

Although the Events Risk Management Group review and approve / reject promotions and events, there is a need for this to be clearly documented in the group's meeting minutes to ensure that there is a clear audit trail of decisions made.

Comment from the Deputy Chief Executive

This report has already proven to be a valuable internal intervention for our Destination Management team assisting them to strengthen their procedures, record keeping and decision making. The recommendations and management responses will provide the Council with assurance and confidence that city centre management and events are being managed to a high professional standard.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** The Council's Constitution dated April 2020, delegates responsibility for city centre management to the Deputy Chief Executive.
- 5.1.2** There is a structure in place, which was reviewed in May 2020, which is supported by job descriptions that reflect current roles.
- 5.1.3** The City Centre Officer reports directly to the Destination Manager. The City Centre Officer's role includes responsibility for:
- Providing the key point of contact for city centre management and event bookings and lead on the day to day promotions, regulation and management of the city centre pedestrian area;
 - Provide advice to applicants on the protocol for the issuing of licences and the approval of pavement café licences;
 - Commission planned and reactive repairs to street furnishings, utilities and components and to monitor and manage city centre maintenance budgets.
- 5.1.4** Both the City Centre Officer and Destination Manager's roles are subject to basic DBS check which have been completed.
- 5.1.5** The team are currently working from the 2019/20 service plan, the Destination Manager confirmed that no further service planning has been completed at the time of the audit due to the current COVID-19 pandemic. A Discover Carlisle – Visitor Economy Recover Plan, which includes the city centre recovery has been completed as a response to the pandemic. Promotional videos have also been produced to try to increase consumer confidence in both retail and hospitality sectors.
- 5.1.6** The events programme is included within the Carlisle Plan Priority which links into the Council's Corporate Plan 2018 - 2021.
- 5.1.7** Whilst various guidance is available to officers, there are no documented procedures for tasks including the process for booking events and promotions, commissioning city centre maintenance / repairs and the processes undertaken for pavement café licences.

Recommendation 1 – Procedures / guidance for tasks should be documented, including pavement café licenses, events (external & internal), promotions and commissioning maintenance work in the city centre.

5.1.8 The Charges Review Report 2020/21 for Community Services was approved by the Executive in December 2019. This report includes City Centre promotional booking charges, which includes pavement café licenses. The City Centre officer confirmed there was an increase of 3% on charges from the previous year.

5.1.9 Audit testing during this review highlighted that the following are not included in the current fees & charges report:

- Fees for a single pitch in the city centre;
- Legal fees for the preparation of the pavement café licences;
- Pitch fees for speciality events which included the Christmas Light Switch On 2019, Audit was advised that the pitch fees were calculated specifically for each event and the formulas used are not detailed within the fees and charges report.

Recommendation 2 – The fees and charges report should include all fees in relation to the city centre.

5.1.10 Team meetings, 1 to 1's and annual appraisals are undertaken.

5.1.11 The City Centre Officer's training record was up to date and a review highlighted that training is actively undertaken which is relevant to the role.

5.1.12 Three risks are recorded in SharePoint in relation to this audit area, each with an appropriate control strategy / mitigating actions recorded. Two of these risks were last reviewed in January 2020 and the third was last reviewed in June 2020.

Recommendation 3 - Risks including the control strategy / mitigating actions should be reviewed and updated on a quarterly basis in line with the Corporate Risk Management Policy.

5.1.13 City Centre updates are included with the Tourist Information Centre and Discover Carlisle and are detailed in the quarterly Portfolio Holder reports for Culture, Heritage & Leisure.

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

- 5.2.1** There is no specific privacy notice to cover the city centre management and events. Application forms for events and promotions do not include the Council's privacy information.

Recommendation 4 – A privacy notice should be completed to cover the city centre management, including pavement café licenses, promotions and events. Application forms should also be updated to include the relevant privacy information.

- 5.2.2** Both the Destination Manager and the City Centre officer have completed GDPR and Cyber Security Training.
- 5.2.3** Documentation is retained in relation to booking promotions, internal and external events, applications for pavement café licences and funding applications all are stored electronically with restricted access. This documentation is retained in several different areas, including team sites on the intranet, SharePoint and in an officer's outlook calendar. In addition, application forms and supporting documentation for pavement café licences is also retained in a locked drawer. Document retention should be streamlined, for example: pavement café license application forms and supporting documentation should be retained in the team SharePoint site along with the copy of the licence, external events and promotion documentation should be stored in the event team intranet site.

Recommendation 5 – Documentation retained should be streamlined to minimise records retained and should be easily accessible for all relevant officers.

- 5.2.4** City Centre Management and events are included within the Council's Retention Schedule; however, it was noted that there is no reference to Pavement Café Licences and there was no disposal log or process in place to dispose of documentation once the appropriate time has lapsed.

Recommendation 6 – Documentation retention relating to Pavement Café Licences should be reviewed and added to the Council's Document Retention Schedule and a disposal log / process implemented to dispose of documentation once the appropriate time has lapsed.

- 5.2.5** The Council shares information with partner organisations including the Police and Cumbria County Council (Fire & Rescue, Trading Standards and the Probation Service). An information sharing agreement (ISA) is in place with these organisations. The Police have confirmed that they have a copy of the ISA that has been signed by all parties and the Information Governance Manager has requested a copy of this document for the Council's files.
- 5.2.6** A weekly update meeting with partners known as the 'Local Focus Hub' is held as well as a monthly 'Tasking Group' both of which are minuted. The minutes are shared with the group, read and deleted as they contain sensitive data. A copy of the minutes / notes from both groups are retained by the Police.
- 5.2.7** There is a signed Highways Residual Agreement between Cumbria County Council and Carlisle City Council. The agreement delegates specific work to the City Council.
- 5.2.8** The City Council authorises contractors to complete work such as repairs to seating, bollards and bus shelters in the City Centre. The audit highlighted that there is no documented guidance for officers to follow for this type of work. **See Recommendation 1**
- 5.2.9** A sample of payments reviewed was found to generally be appropriately authorised, though one instance was identified of an individual approving a payment over their limited delegation and one example was identified of an individual approving both the order and invoice payment. It is advised individuals are reminded of the requirements of the Council's financial procedures.
- 5.2.10** The city centre maintenance budget is regularly monitored, and monthly FIS reports are received.
- 5.2.11** The City Council on behalf of Cumbria County Council review and approve / decline pavement café licences. Audit testing highlighted the following weaknesses in relation to pavement café licences:
- no formal scheme of delegation for the approval / issue of pavement café licences could be found other than in the key areas of responsibility in the City Centre Officer's job description;
 - although there is guidance documented and available for individuals applying to the Council for a pavement café licence there are no documented guidance for officers' tasks when reviewing and processing these applications (**See Recommendation 1**);
 - application forms and supporting documentation was stored in a lockable desk drawer and not always available to all relevant officers (**See Recommendation 6**);

- It was not possible to check the legal fees for the preparation of the licences. **(See Recommendation 2).**

Recommendation 7 – Delegated authority / responsibility for issuing pavement café licences should be included in the relevant Scheme of Delegation.

5.3 Information – reliability and integrity of financial and operational information

5.3.1 Promotional events can be booked for the city centre, it was noted there are no documented officer procedures for this and that documentation including application forms are currently retained in an officer's calendar on the date of the promotion. **See Recommendations 1 and 6.**

5.3.2 A sample of city centre promotions were chosen for audit testing and the following was noted:

- the fees charged agreed to the fees and charges report;
- the relevant documentation has been completed and retained which includes application forms, risk assessments and insurance details;
- all the promotions tested were recorded on the Events Weekly List spreadsheet;
- the Events Weekly Spreadsheets confirmed that all the promotions had been approved by the Health & Wellbeing Project Manager, however these approvals were not recorded in any of the minutes from the Events Risk Management Group;
- written confirmation of the promotion approval to the promoter had only been retained for two out of five of the sample. It should be noted that the application form states that "Only promotions or events that have been given specific written approval by the City Centre Management may take place".

Recommendation 8 – Approvals / rejections for promotion and event applications should be documented within the minutes of the relevant Event Risk Management Group to ensure that there is a clear audit trail of decisions made.

5.3.3 The Event Risk Management Group is responsible for reviewing and approving application forms for events held on Council property or land. Roles, responsibilities and membership of this group has been included in the Events Guidance. Three different versions of this guidance were provided during the audit review. Two different versions of this guidance are available to relevant officers in the private Events Risk Management group on SharePoint.

Recommendation 9 – All officers should be working from the most up to date version of the Events Guidance. Older versions should be removed from the Events Risk Management Group on SharePoint.

5.3.4 A sample of city centre events was chosen for testing and the following weaknesses were noted:

- internally run city centre event documentation is electronically retained on the intranet events team site and externally run event documentation is stored in an Officer's outlook calendar on the date of the event (**See Recommendation 5**);
- the fees for the farmers' market in December 2019 was marginally lower than the standard rates used by the Council due to an historic arrangement. It was recently agreed that stalls from the market will pay the same fees as other users from April 2021.
- The pitch fees for the Christmas Light Switch On 2019 did not agree to the fees detailed in the fees and charges report, audit was advised that the fees were worked out specifically for this event and the formulas used are not detailed within the fees and charges report (**See recommendation 2**);
- All seven of the events tested appeared on the Events Weekly List Spreadsheet and this stated that all seven had been approved, however the Event Risk Management Group minutes do not formally record when an event had been approved. (**See Recommendation 8**).

5.3.5 The City Centre Officer confirmed that he receives a monthly FIS report and a quarterly budget monitoring report. The two Finance Officers who support the city centre team confirmed that they had no major concerns with the budgets. Income budgets are not expected to be met due the cancellation of events as a result of the COVID-19 pandemic.

5.3.6 Budgets are set for special events held in the city centre, such as the Christmas Light switch on, based on the previous year's actual spend. A spreadsheet was set up to monitor income and expenditure for both the City of Lights and the Christmas Market. At the time of the audit the Destination Manager confirmed they were discussing the budget (income & expenditure) for the City of Lights event with the Finance Officer as there is a difference between figures on the budget monitoring spreadsheet and those provided by Finance.

5.3.7 Audit testing confirmed that realistic budgets had been set for the sample of events reviewed and they are regularly monitored.

5.4 Value – effectiveness and efficiency of operations and programmes

- 5.4.1 The Community Events Support Panel manages the Community Events Support Fund budget, which is used to encourage local people to come together, enhance community spirit and celebrate the city and its heritage.
- 5.4.2 The panel's aim is to add value to the local economy by supporting local businesses and partners and encourage visitors to come to Carlisle.
- 5.4.3 At the time of the audit the panel were reviewing the funding criteria and assessing the application form and guidance notes. It was noted that there are no terms of reference including roles and responsibilities for this panel, nor are there documented step by step guidance for officer tasks or tasks that are undertaken by this panel, for example: process for reviewing and approving / rejecting funding applications.

Recommendation 10 – A terms of reference including roles and responsibilities should be documented for the Community Events Support Panel along with documented procedures relating to individual officer and the panel's tasks.

- 5.4.4 Audit tested a sample of grant applications which confirmed that all grants had been approved by the Community Events Support Panel and documented within the minutes and application forms had been completed.
- 5.4.5 Events are advertised on the Discover Carlisle website, social media, the digital banner on the side of the Civic Centre and on the screens in the Tourist Information Centre.
- 5.4.6 The Council actively seeks involvement with third parties in the provision of events, for example the City of Lights held earlier this year where the Council worked with Cumbria County Council and the Cathedral.
- 5.4.7 No external funding or sponsorships have been received towards any city centre events in either 2019/20 or so far this year. The Destination Manager confirmed they are pursuing options going forward.
- 5.4.8 Economic impact assessments are now being completed for key events, the first one was completed for the City of Lights event held in Carlisle Cathedral earlier this year. An external research company was commissioned to carry out independent research during the event, which identified both successes and highlighted potential improvements to marketing, publicity and promotion to help improve awareness of and participation in any future events.

5.4.9 Feedback received for events is used as part of the planning to improve future events, such as considering use of external companies to run events where considered necessary.

5.4.10 Audit testing confirmed that debriefing meetings were held and minuted for two of the sample tested, no debrief was held for the other events tested as they were all external run events.

Recommendation 11 - Debrief sessions should be held for all city centre events (internal and external) so that feedback and ideas can be discussed to help improve future events.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1: Procedures / guidance for tasks should be documented, including pavement café licenses, events (external & internal), promotions and commissioning maintenance work in the city centre.	M	If procedures are not clearly documented, officers may be unsure of their roles and responsibilities and incorrect practices may occur.	City Centre Officer to review procedures and document procedure notes for pavement café licenses, events (external & internal), promotions and commissioning maintenance work in the city centre.	Destination Manager	29 January 2021
Recommendation 2: The fees and charges report should include all fees in relation to the city centre.	M	Failure to obtain value for money for services provided.	City Centre Officer to identify any fees and charges not currently contained in the fees and charges report for inclusion in financial cycle 2021/22.	Destination Manager	31 October 2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 3: Risks including the control strategy / mitigating actions should be reviewed and updated on a quarterly basis in line with the Corporate Risk Management Policy.	M	Risk management activity is not completed or recorded consistently which may result in potential exposure to unidentified and / or uncontrolled risk.	Destination Manager will monitor the risks on a quarterly basis in line with the Corporate Risk Management Policy and identify and include any new risks.	Destination Manager	29 January 2021
Recommendation 4: A privacy notice should be completed to cover the city centre management, including pavement café licenses, promotions and events. Application forms should also be updated to include the relevant privacy information.	M	Non-compliance with GDPR legislation. Failure to control records management.	Destination Manager to prepare a privacy notice for the service.	Destination Manager	29 January 2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 5: Documentation retained should be streamlined to minimise records retained and should be easily accessible for all relevant officers.	M	Failure to effectively control records management.	Team and Events Coordinator to structure shared documents and ensure all relevant officers have access.	Destination Manager	29 January 2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 6: Documentation retention relating to Pavement Café Licences should be reviewed and added to the Council's Document Retention Schedule and a disposal log / process implemented to dispose of documentation once the appropriate time has lapsed.	M	Non-compliance with GDPR legislation. Failure to control records management.	City Centre Officer to liaise with Licensing Manager and Trainee Legal Executive and add documents to Council Retention Schedule.	Destination Manager	29 January 2021
Recommendation 7: Delegated authority / responsibility for issuing pavement café licences should be included in the relevant Scheme of Delegation.	M	Pavement café licences may be granted / rejected without proper authorisation which may lead to reputational damage to the Council.	Health and Wellbeing Services Manager to include pavement café licences in the relevant Scheme of Delegation.	Health and Wellbeing Services Manager	29 January 2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 8: Approvals / rejections for promotion and event applications should be documented within the minutes of the relevant Event Risk Management Group to ensure that there is a clear audit trail of decisions made.	M	Promotions and events may be approved / rejected without proper authorisation which may lead to reputational damage to the Council.	Approvals / rejections for promotion and event applications will be documented within the minutes of the relevant Event Risk Management Group.	Health and Wellbeing Project Manager	12 January 2021
Recommendation 9: All officers should be working from the most up to date version of the Events Guidance. Older versions should be removed from the Events Risk Management Group on SharePoint.	M	Incorrect practices may occur which may lead to reputational damage to the Council.	The older version of the events guidance will be removed from SharePoint and in future when a new version is uploaded the previous version will be removed.	Health and Wellbeing Project Manager	30 November 2020

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 10: A terms of reference including roles and responsibilities should be documented for the Community Events Support Panel along with documented procedures relating to individual officer and the panel's tasks.	M	If procedures are not clearly documented, officers may be unsure of their roles and responsibilities and incorrect practices may occur this may lead to reputational damage to the Council.	Destination Manager and City Centre Officer to write terms of reference and procedures for Community Events Support Panel.	Destination Manager	29 January 2021
Recommendation 11: Debrief sessions should be held for all city centre events (internal and external) so that feedback and ideas can be discussed to help improve future events.	M	Missed opportunities to further improve future events.	Team and Events Coordinator to identify all events and convene meetings with relevant parties once events have taken place.	Destination Manager	31 December 2021

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.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>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 embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
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 that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
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.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

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; 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).

Report to Audit Committee

Agenda
Item:

A.7

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Not applicable
Within Policy and Budget Framework YES
Public / Private Public

Title: INTERNAL AUDIT REPORT CARLISLE PARTNERSHIP
Report of: CORPORATE DIRECTOR FINANCE & RESOURCES
Report Number: RD49/20

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress and considers the review of the Carlisle Partnership

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Audit Committee:	18 December 2020
Scrutiny Panel:	Not applicable
Council:	Not applicable

1. BACKGROUND INFORMATION

- 1.1 An audit of the Carlisle Partnership was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2020/21. The report, appended as Appendix A of this report was found to provide reasonable assurances and contains 5 medium graded recommendations.

2. RISKS

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. CONSULTATION

- 3.1 Not applicable

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

The Committee is asked to

- i) receive the final audit report as outlined in paragraph 1.1;

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 5.1 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:

Michael Roper

Ext: 7280

Appendixes

**APPENDIX A - INTERNAL AUDIT
REPORT CARLISLE PARTNERSHIP**

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:

Legal – In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement.

Finance – Contained within the report

Equality – None

Information Governance – None

Audit of Carlisle Partnership Value-For-Money

Draft Report Issued: 13 November 2020
Director Draft Issued: 02 December 2020
Final Report Issued: 02 December 2020



Audit Report Distribution

Client Lead:	Partnership Manager
Chief Officer:	Deputy Chief Executive Chief Executive
Audit Committee:	The Audit Committee, which is due to be held on 18 th December 2020 will receive a copy of this report.

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

1.0 Background

- 1.1. This report summarises the findings from the audit of the Carlisle Partnership. This was a value-for-money internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 1.2 The Carlisle Partnership is a forum for key organisations from the public, private and charity sectors to work together to achieve an agreed over-arching objective to “*fight the corner for Carlisle, influencing existing partnerships (whilst carefully avoiding duplication), delivering shared priorities for the City that would not be addressed in other ways, and building relationships that will form the basis for highly effective future collaboration.*”

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 Client Lead for this review was the Partnership 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:
- The City Council fails to achieve / demonstrate value for money from the activity of the Carlisle Partnership
- 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 intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).
- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Carlisle Partnership 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**. Audit recommendations arising from this audit review are summarised below:

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

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

4.3 Findings Summary (good practice / areas for improvement):

There is evidence the Partnership achieves value for money through undertaking significant activity to achieve a shared top-level objective to improve life for the people of Carlisle. However, the Partnership does not have an up to date, agreed strategy in place with agreed shared objectives and priorities, limiting the opportunity to measure the success of partnership activity and the extent of value added.

It is acknowledged that significant activity has taken place to prepare a strategy and the development of co-chairs with individual responsibilities partly mitigates against the lack of strategy. However, the most significant risks to the partnership centre around the resourcing and achievement of shared objectives, making implementation of both strategy and a framework to measure progress against the strategy once agreed is a top priority.

The Partnership hold regular meetings, which are well attended and activity and discussion is appropriately documented. The development of an action tracker would ensure all agreed actions are completed in a timely manner.

There is a need for the existing risk register to be updated in line with the new strategy to ensure the risk of not achieving shared objectives is appropriately managed. The Partnership should have responsibility for jointly identifying, assessing, mitigating and monitoring the risk register.

There is also a need for the Partnership to review it's use of resource against it's intended objectives to ensure sufficient shared resource is utilised to achieve these in a controlled manner.

Comment from the Deputy Chief Executive

This internal audit report has provided some useful recommendations for both the City Council and partners to consider an act upon. We are grateful for the assurance this provides and the clarity of the report recommendations.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** Historically, the Partnership had a Community Plan in place, setting out shared objectives and priorities for the Partnership; however, this plan expired in 2017.
- 5.1.2** The need to prepare an updated plan has been recognised as a priority for the Partnership, including being listed as the top priority within the City Council's own internal Service Plan for the partnership in 2019/20. It is noted that an updated Service Plan has not been completed for many Council services as a result of the timing of the Covid-19 global pandemic i.e. Service Plans are usually prepared in March.
- 5.1.3** The Partnership has engaged in significant activity to prepare a new strategy. Workshops have taken place to develop a Prioritisation Plan that includes significant analysis and a situational analysis of the Carlisle district, resulting in the over-arching agreed shared priority listed at paragraph 1.2.
- 5.1.4** In addition, the Partnership Manager has identified six high level objectives for the Partnership and established co-chairs from different organisations within the partnership to take a lead role in responsibility for each objective.
- 5.1.5** Progress against completing the new plan/strategy has been delayed due to Covid-19 global pandemic, as meetings have been cancelled and the Partnership Manager has been supporting emergency planning work. The Partnership Manager has begun drafting a new strategy, mapping objectives against the individual co-chair's areas of responsibility.
- 5.1.6** Risks included in the Council's internal risk register centre around the use of resource and strategic commitment to shared objectives. Mitigating controls for the risks rely on the Partnership having shared and agreed objectives. While there is evidence of the partners working towards shared objectives, the lack of a shared strategy increases exposure to these risk areas, making it essential the shared strategy is finalised.

Recommendation 1 – Work to complete the Partnership's plan/strategy, specifying shared objectives and priorities should be finalised.

- 5.1.7** Regular meetings take place which monitor Partnership activity; however, given there is no approved strategy with shared objectives and priorities, it automatically follows there is no formal monitoring of performance against shared priorities.

- 5.1.8** The Partnership has used a number of key indicators relating to health and the economy, which benchmark Cumbria against national and regional performance, to help define current priorities. However, while these indicators are useful to identify areas where Cumbria can improve, they are too high a level to measure achievement of refined priorities and objectives.
- 5.1.9** Once priorities and objectives are agreed there is a need to identify a way to monitor progress against their achievement, using a combination of narrative and quantitative analysis (such as performance indicators).
- 5.1.10** Historically the Partnership also held an Annual General Meeting and prepared an annual report of Partnership activity. This has not been produced in recent years due to limited resource, though it is noted a Partnership update was presented to the Executive in December 2019 outlining key activity undertaken. A proposition paper produced by the Partnership Manager also includes some reporting of action against priorities. While it may not be possible to re-introduce the Annual Meeting and Report to the same extent as previous with less resource, consideration should be given to including some form of annual assessment to help define and refine strategic objectives.
- Recommendation 2 – Once an approved strategy with agreed shared objectives and priorities has been established a framework for measuring progress against objectives should be designed and monitored by the Partnership on a regular basis, using a combination of narrative and quantitative measures.**
- 5.1.11** A partnership Executive is in place, managed by the Partnership Manager and co-chaired by the six co-chairs (see above). Meetings are attended by a variety of representatives from organisations considered key stakeholders within the Carlisle area.
- 5.1.12** The Partnership met quarterly until March 2020, when activity was halted by the global pandemic. Regular newsletters have been issued to members in the meantime to keep partners up to date on relevant issues. Informal feedback indicates these updates have been well received. The Partnership also has a website in place that includes details of news and events, but this has not been updated for some time and is out of date.
- 5.1.13** Meetings are generally well attended by appropriate representatives on a regular basis, including the appointed co-chairs. However, it was identified that attendance from two key partners (Cumbria County Council and NHS) was limited. The Partnership Manager is aware of this and continues to engage with both partners in order to develop their involvement within the Partnership.

5.1.14 Meetings are well documented and as a rule actions are followed up on a regular basis. However, a review of minutes identified that on occasion actions can disappear before they are confirmed as resolved. Issues such as developing a strategy and reviewing the risk register have been raised in meetings without subsequent follow-up.

5.1.15 It is advised that an action tracker is implemented for the meetings to ensure all agreed actions are only closed when completed or considered no longer necessary.

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

5.2.1 A risk register is in place for the Partnership in line with the Council's risk management framework. The register is an internal document, owned and updated by the Partnership Manager on behalf of the City Council. The register has not been presented to the Partnership Executive, though it is noted a request was made to see the register in March 2019.

5.2.2 Given the risks are collectively owned by the partners, shared responsibility for monitoring and updating the register should be established.

5.2.3 As identified above several the existing mitigating controls are not fully embedded, due to the lack of a formal strategy. There is a need to review and update the risk register once the strategy has been approved.

5.2.4 Suggested improvements to the register, made by the Council's operational risk working group in January 2019 have not been implemented.

Recommendation 3 – Once the Partnership's strategy has been agreed the risk register should be reviewed to ensure it includes all risks relevant to the achievement of agreed shared objectives.

Recommendation 4 – The register should be owned, assessed, monitored and updated collectively by the full Partnership Executive on a regular basis.

5.3 Value – effectiveness and efficiency of operations and programmes

- 5.3.1** Carlisle City Council are currently the only partner to contribute financially to the Partnership. Other partners contribute their time in attending meetings and preparing funding applications, alongside other in-kind contributions such as provision of venues for the meetings and provide expertise in their relevant areas.
- 5.3.2** The majority of administration and monitoring of the Partnership is carried out by the Partnership Manager. While the audit recognises all resource is finite, the lack of an effective strategy makes it difficult to assess what the priorities should be addressed by the limited available resource, though it is clear certain elements of activity would benefit from some attention.
- 5.3.3** Should the Partnership collectively wish to increase its impact and deliver objectives there is a need for all partners to assess the time and resource it wishes to contribute towards achieving agreed objectives. These considerations would be best placed within the Partnership's strategy, specifying how it intends to achieve agreed shared objectives (including ensuring suitable administrative support to ensure a sound system of Governance, Risk Management and Internal Control)

Recommendation 5 – The Partnership should determine its current priorities and review the level of resource and activity required from all partners to achieve these in a suitably controlled, risk managed manner.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 - Work to complete the Partnership's plan/strategy, specifying shared objectives and priorities should be finalised.	High	Failure to achieve objectives due to lack of strategy in place to ensure progress is made to achieve priorities.	A "State of the Place" session was held with partners in October 20. It was felt given the nature of the situation a short term plan (6-12 months), should be developed (recognised by partners and the DCE). This would then allow for recovery to be considered as we come out of the pandemic.	Partnership Manager	31 March 2021
Recommendation 2 – Once an approved strategy with agreed shared objectives and priorities has been established a framework for measuring progress against objectives should be designed and monitored by the Partnership on a regular basis, using a combination of narrative and quantitative measures	Medium	Failure to ensure suitable progress being made to achieve priorities.	Options to be discussed as part of preparation of Strategy, including potential Task and Finish Group and further consultation with Internal Audit.	Partnership Manager	31 June 2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 3 – Once the Partnership's strategy has been agreed the risk register should be reviewed to ensure it includes all risks relevant to the achievement of agreed shared objectives.	Medium	Emergence of unexpected and unmitigated risks.	Task and finish group to be established to review existing register and then become regular agenda item at a future meeting	Partnership Manager	30 June 2021
Recommendation 4 – The register should be owned, assessed, monitored and updated collectively by the full Partnership Executive on a regular basis.	Medium	Failure of Partnership to take joint responsibility of achievement of shared objectives.	Register currently reviewed by Partnership on a quarterly basis. Identify a co-chair who can support / lead on risk and assist with regular checks / updates.	Partnership Manager	30 June 2021
Recommendation 5 – The Partnership should determine its current priorities and review the level of resource and activity required from all partners to achieve these in a suitably controlled, risk managed manner.	Medium	Failure to achieve objectives due to a lack of resource	To be discussed with Partnership Executive in terms of both resourcing development of a strategy and delivery of the strategy going forward.	Deputy Chief Executive	31 March 2021

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.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>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 embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
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 that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
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.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

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; 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).

Report to Audit Committee

Agenda
Item:

A.8

Meeting Date: 18 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD 25/20
Within Policy and Budget Framework YES
Public / Private Public

Title: DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,
INVESTMENT STRATEGY AND MINIMUM REVENUE
PROVISION STRATEGY 2021/22
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD 44/20

Purpose / Summary:

This report sets out the Council's Treasury Management Strategy Statement for 2021/22, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2021/22 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 2021/22.

Tracking

Executive:	14 December 2020, 13 January 2021
Audit Committee:	18 December 2020
Council:	2 February 2021

Report to Executive

Agenda
Item:

Meeting Date: 14 December 2020
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD.25/20
Within Policy and Budget Framework YES
Public / Private Public

Title: DRAFT TREASURY MANAGEMENT STRATEGY STATEMENT,
INVESTMENT STRATEGY AND MINIMUM REVENUE
PROVISION STRATEGY 2021/22
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD 44/20

Purpose / Summary:

This report sets out the Council's draft Treasury Management Strategy Statement for 2021/22, in accordance with the CIPFA Code of Practice on Treasury Management. The Investment Strategy and the Minimum Revenue Provision (MRP) Strategy for 2021/22 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 2021/22, which incorporates the Investment Strategy and the MRP Strategy, together with the Prudential Indicators for 2021/22 as set out in Appendix A and the Treasury Management Policy Statement as set out at Appendix D, and to seek comments from the Business and Transformation Scrutiny Panel in January 2021.

Tracking

Executive:	14 December 2020, 13 January 2021
Scrutiny:	BTSP 7 January 2021
Audit Committee:	18 December 2020
Council:	2 February 2021

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, 2011 and 2017. The City Council formally adopted this Code in March 2002 and adopted the 2017 revision in February 2018.
- 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 2021/22, 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 are monitored via the quarterly Treasury Management monitoring reports.

- 2.5 The council recognises its responsibilities in terms of climate change and environmental sustainability and that consideration of these responsibilities may form part of its Investment Portfolio; however, consideration must also be given to ensure the security of principal, portfolio liquidity and return on investment when making investment decisions. Work continues to review the Investment Strategy in line with these recognised responsibilities and this will involve ensuring that counterparties have a relevant environmental strategy that sets out their position on climate responsibilities.

3. CONSULTATION

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

4. RISKS

- 4.1 The Treasury Management function must ensure the security of Council funds at all times over the yield that is gained. It must also ensure it follows the key principles as outlined in the Treasury Management Code of Practice and the Prudential Code.
- 4.2 There is a risk that interest rates could change over the period of the Treasury Management Strategy Statement, particularly in respect of BREXIT and the recovery from the COVID-19 pandemic, but close monitoring of the situation will be maintained, particularly if there are forecast changes to interest rates that could have an impact on borrowing decisions or reduce the availability of counterparties with which the Council can invest its funds.

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 5.1 The Executive is asked to note the Treasury Management Strategy Statement for 2021/22, which incorporates the Investment Strategy and the MRP Strategy, together with the Prudential Indicators for 2021/22 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 Act 1972 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS:

LEGAL – 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.

PROPERTY -

FINANCE – contained within the report.

EQUALITY – not applicable

INFORMATION GOVERNANCE – There are no information governance issues in this report

Draft Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Statement

Carlisle City Council
2021/22

1. INTRODUCTION

- 1.1 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
- 1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising

usually from capital expenditure), and are separate from the day to day treasury management activities.

- 1.6 CIPFA defines treasury management as:
“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.7 Revised reporting was required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital investment strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital investment strategy has been reported separately.
- 1.8 The suggested strategy for 2021/22 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
 - Capital Investment Strategy

2. CAPITAL INVESTMENT STRATEGY

- 2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare a Capital Investment Strategy report, which will provide the following:
- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed

- the implications for future financial sustainability
- 2.2 The aim of the Capital Investment Strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 2.3 The Capital Investment Strategy is reported separately from the Treasury Management Strategy Statement alongside the Medium-Term Financial Plan with non-treasury investments being reported through this document. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Investment Strategy will show:
 - The corporate governance arrangements for these types of activities;
 - Any service objectives relating to the investments;
 - The expected income, costs and resulting contribution;
 - The debt related to the activity and the associated interest costs;
 - The payback period (MRP policy);
 - For non-loan type investments, the cost against the current market value;
 - The risks associated with each activity.
- 2.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
- 2.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 2.6 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Investment Strategy.

3. TREASURY LIMITS 2021/22 TO 2023/24

- 3.1 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'.
- 3.2 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 6, 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.

4. **USE OF TREASURY CONSULTANTS**

- 4.1 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.
- 4.2 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 not lessen the ultimate responsibility of the City Council in dealing with treasury matters and taking relevant decisions.

5. **CURRENT PORTFOLIO POSITION**

The Council's treasury portfolio position at 18 November 2020 comprised:

Table 1		Principal £m	£m	Ave Rate %
Fixed Rate Funding	PWLB Market	13.5 0.0	13.5	1.63
Variable Rate Funding	PWLB Market	0 0	0	0.00
Other Long Term Liabilities			0	0.00
Gross Debt			13.5	1.63
Total Investments			24.2	0.83

6. **PRUDENTIAL AND TREASURY INDICATORS 2021/22 – 2023/24**

- 6.1 The Prudential and Treasury Indicators have been based on current projections for capital spending and resources in 2021/22 to 2023/24. 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	2019/20 actual £000	2020/21 revised estimate £000	2021/22 estimate £000	2022/23 estimate £000	2023/24 estimate £000
Capital Expenditure	8,111	19,390	18,638	15,229	3,664
Ratio of financing costs to net revenue stream	2.97%	4.47%	5.15%	8.28%	13.40%
Net borrowing requirement in year (Internal & External)	1,025	2,431	8,565	14,923	5,731
Capital Financing Requirement as at 31 March	16,113	24,678	39,601	45,332	45,344
Annual change in Cap. Financing Requirement	(1,026)	8,565	14,923	5,731	12
Incremental impact of capital investment decisions					
Increase in council tax (band D) per annum (£)	0.71	7.45	12.82	4.88	0.01

6.2 The estimates of financing costs include both current capital commitments and the capital programme. 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.

6.3 **The Council's Borrowing Need (Capital Financing Requirement)**

6.3.1 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 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 as it will be funded from borrowing.

6.3.2 The CFR does not increase indefinitely. The Minimum Revenue Provision (MRP) is a statutory annual charge to the revenue budget which reduces the CFR in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2019/20 actual £000	2020/21 revised estimate £000	2021/22 estimate £000	2022/23 estimate £000	2023/24 estimate £000
Authorised Limit for External Debt:					
- Borrowing	44,000	44,000	45,000	50,000	50,000
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	44,100	44,100	45,100	50,100	50,100
Operational Boundary for external debt:					
- Borrowing*	32,500	39,000	40,000	45,000	45,000
- Other Long Term Liabilities	100	100	100	100	100
TOTAL	32,600	39,100	40,100	45,100	45,100
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%

Notes:

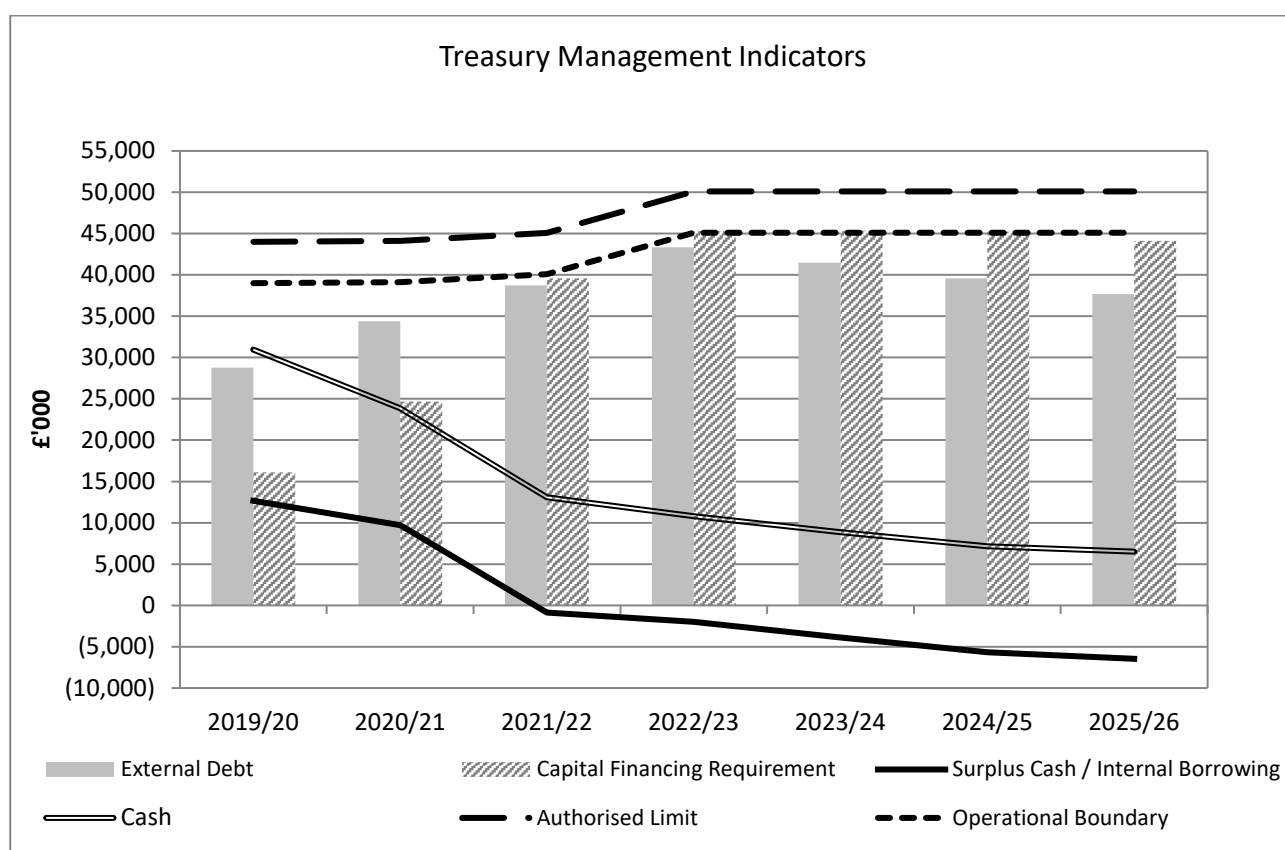
The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external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

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2019/20 actual £000	2020/21 revised estimate £000	2021/22 estimate £000	2022/23 estimate £000	2023/24 estimate £000
External Debt B/Fwd	15,000	28,775	34,380	38,745	43,357
New External Debt (Actual & Planned)	14,000	22,000	6,000	6,507	0
External Debt Repaid	(225)	(16,395)	(1,635)	(1,895)	(1,895)
External Debt C/fwd	28,775	34,380	38,745	43,357	41,462

6.3.3 The graph below shows the level of external debt currently forecast against the Capital Financing Requirement. This chart makes assumptions included in the Executive's budget regarding the use of external borrowing. However, funding of capital expenditure could change, for example, if additional assets are sold

generating capital receipts or expenditure requirements change. Therefore, this chart could be subject to change in the future. This shows that external debt is not forecast to rise above the authorised limit over the next five years. However, this is predicated on the assumption that capital receipts can be generated that will be used to fund some of the capital expenditure requirements identified. Should these receipts not be achieved, then the use of borrowing will need to be re-examined. The Medium-Term Financial Plan assumes that external borrowing will be undertaken to support expenditure on major capital schemes such as the leisure development, Gateway 44 and the Southern Relief Road project. These areas will be closely monitored prior to any further external borrowing being undertaken.



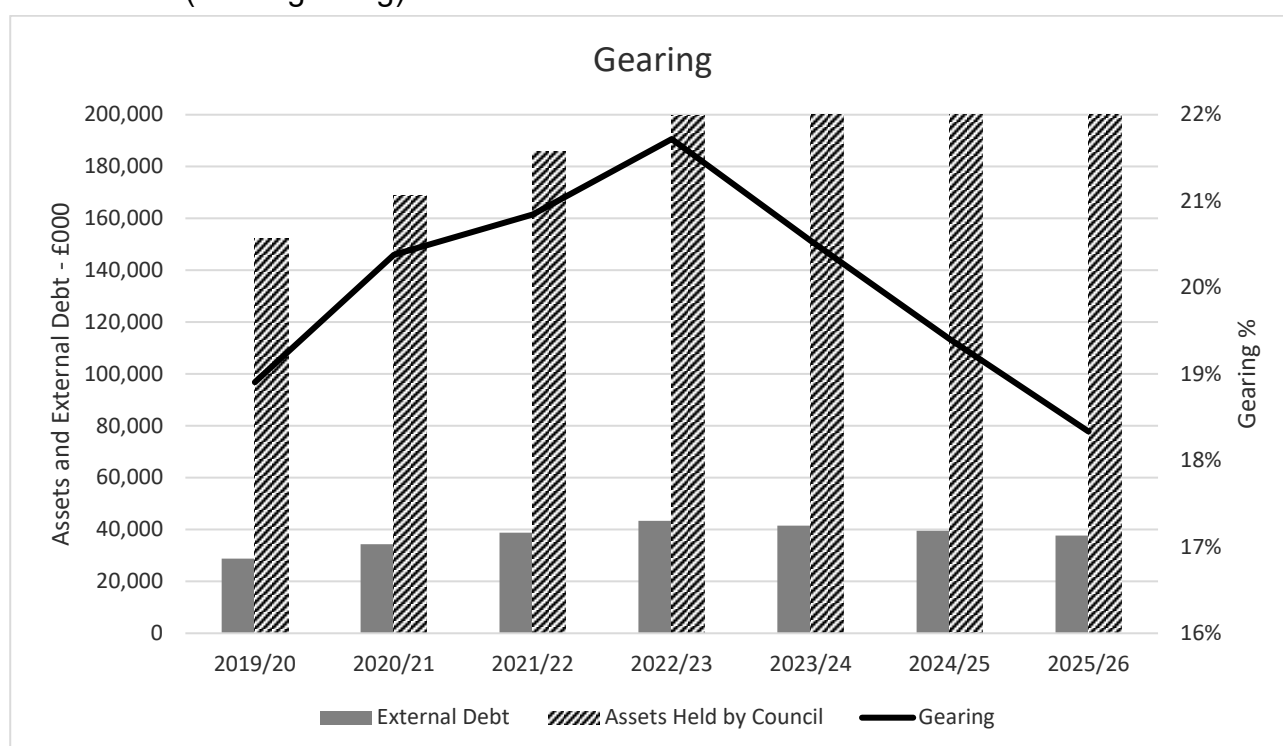
Maturity structure of any fixed rate borrowing during 2020/21	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

6.3.4 In respect of its external debt, it is recommended that the Council approves the authorised limits as outlined above 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 Corporate Director of Finance and Resources, 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.

6.3.5 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.**

6.3.6 In setting the Authorised Limit consideration should be made to the chart below which demonstrates the level of indebtedness against the Council's overall asset base (i.e. its gearing).



6.3.7 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 Corporate Director of Finance and Resources 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.

6.3.8 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.

7. **PROSPECTS FOR INTEREST RATES**

- 7.1 The Council has appointed Link Asset Services as its treasury adviser 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 differing views among the various economic forecasters regarding the future pattern of these rates:

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%

- 7.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings up to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is anticipated as economic recovery is expected to be only gradual and, therefore, prolonged.

7.3 **Bond yields/PWLB rates**

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there

has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

7.4 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

7.5 As the interest forecast for PWLB rates shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

7.6 **Brexit**

The interest rate forecasts provided by Link in paragraph 7.1 are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31 December 2020. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So, what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

7.7 Investment and borrowing rates

- Investment returns are likely to remain low during 2021/22 with little increase in the following two years.
- Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 2020/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for amending the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)*
- On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -
 - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
 - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
 - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- While this authority will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new short or medium-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

8. BORROWING STRATEGY

- 8.1 The Link Asset Services forecast for the PWLB new borrowing rate (repayment at Maturity) is as follows:

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
5 Yr PWLB	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%	0.80%
10Yr PWLB	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%	1.10%
25Yr PWLB	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
50Yr PWLB	1.30%	1.30%	1.40%	1.40%	1.40%	1.40%	1.50%	1.50%	1.50%	1.50%	1.60%

8.2 The Council is, as stated above, expecting to have to borrow externally between 2020 and 2023 to finance significant capital expenditure on new leisure facilities and other assets. Approval was given as part of the Capital Investment Strategy approved in September 2016, for the Section 151 Officer to undertake external borrowing at a time it was felt to be most appropriate to be used for the repayment or refinancing of the £15million stock issue and/or to fund the capital programme where a borrowing requirement has been identified, taking into account forecasts for potential rises in interest rates and utilising any favourable borrowing rates. It is anticipated that although a combination of capital grants and internal resources will be used to meet most capital commitments in the new financial year there will be a requirement to borrow externally. Nevertheless, the use of external borrowing is planned for in future years. The Corporate Director of Finance and Resources will therefore continue to monitor the interest rate market as regards borrowing opportunities as well as in respect of investment policy.

8.3 Against this background and the risks with the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Corporate Director of Finance and Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *If it was felt that there was a significant risk of a sharp FALL in long term and short-term borrowing rates (e.g. due to a marked increase in the risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into shorter term borrowings will be considered.*
- *If it was felt that there was a significant risk of a much sharper RISE in long and short-term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

8.4 Policy on borrowing in advance of need

8.4.1 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 Investment Strategy approved by Council in September 2016, approval in principle was given to the Council's S.151 Officer to borrowing in advance of need for the re-financing of the stock issue loan and/or to fund the capital programme where a borrowing requirement has been identified, if interest rates were favourable and would be cost effective over the term of any new loan.

8.5 External v. Internal Borrowing

- 8.5.1 This Council currently has differences between gross debt and net debt (after deducting cash balances). This is shown in the graphs at 6.3.3.
- 8.5.2 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 10.2) 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.
- 8.5.3 The next financial year will likely be one of continued low Bank Rates. This provides a continuation of the current window of opportunity for local authorities to fundamentally review their strategy of undertaking new external borrowing.
- 8.5.4 Over the next three years, investment rates are expected to continue 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 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.
- 8.5.5 However, short term savings by avoiding new long-term external borrowing in 2021/22 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. By utilising internal cash balances consideration will also need to be given to the availability of cash to service the day-to-day cash flow of the Council. This could require the Council to undertake short-term borrowing to cover cash-flows.

8.5.6 Against this background caution will be adopted with the 2021/22 treasury operations. The Corporate Director of Finance and Resources 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.

9. DEBT RESCHEDULING

9.1 There is unlikely to be much scope for debt rescheduling in either the current financial year or in 2021/22.

10. INVESTMENT STRATEGY

10.1 Principles

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

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

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

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

10.1.4 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.

10.1.5 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means (Further details of limits and timescales for all approved investments are shown at **Appendix B**): -

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus

avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

- 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 Corporate Director of Finance and Resources 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 Corporate Director of Finance and Resources 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.
- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
- **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.
- This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix B under the categories of ‘specified’ and ‘non-specified’ investments.
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex

instruments which require greater consideration by members and officers before being authorised for use.

- **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 50% of the total investment portfolio.
- **Lending limits**, (amounts and maturity), for each counterparty are set. Total investments with any one counterparty or group currently will not exceed £10m 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.
- **Transaction limits** are set for each type of investment are set.
- This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**.
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**.
- This authority has engaged **external consultants**, (see paragraph 4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- All investments will be denominated in **sterling**.
- As a result of the change in accounting standards for 2019/20 under **IFRS 9**, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (The Ministry of Housing, Communities and Local Government [MHCLG], have recently issued a statutory override for Local Authorities so that the impact of IFRS9 does not affect a Council's General Fund. This override is currently in place for 5-years from 1st April 2018.)
- Due care will be taken to consider the country, group and sector exposure of the Council's investments. In addition:
Country limits:

- 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.

10.1.6 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 4.00% in the MTFP.

10.1.7 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.

10.2 Creditworthiness Policy

10.2.1 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.

10.2.2 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

**The Council does not usually invest for longer periods than 2-years, however if it were to it would follow the same creditworthiness policy provided by Link Asset Services*

10.2.3 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.

10.2.4 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.

10.2.5 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.

10.3 Investment Strategy

10.3.1 With bank base rate forecast to remain at 0.1% until 2023 and with no expectation of significant rises beyond then, investment conditions will continue to be difficult. The view of Link Asset Services is that bank rate will be at the following levels:

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%

10.3.2 The Council has historically outperformed bank rates in its investment returns.

Therefore, the suggested budgeted average investment earnings currently included in the MTFP projections are as follows:

	Investment Balances	CCLA Property Fund
2021/22	0.30%	4.00%
2022/23	0.30%	4.00%
2023/24	0.30%	4.00%

10.3.3 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 likely to rise more slowly. At this stage, the budget for 2021/22 has assumed an average yield of 0.30% 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 and there will be some shorter dated instant access 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 4.00% in the MTFP.

10.3.4 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. However, should the council use internal cash balances to support the capital programme rather than undertaking external borrowings this will have a significant impact on the investment returns achieved, but will be offset by reduced costs of borrowing.

10.3.5 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.

10.4 End of Year Investment Report

In line with current practice, the Council will receive a report on its investment activity as part of the Annual Treasury Report at the end of the financial year. It should also be noted that best practice now requires a mid-year report on the treasury function. This has long been the practice within the City Council where quarterly reports are presented to the Executive. In addition, the Audit Committee has taken on the role of the 'strategic committee' that oversees treasury matters.

11. **THE MINIMUM REVENUE PROVISION STRATEGY**

11.1 The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2008/09 and will assess their MRP for 2020/21 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.

11.2 The Council is currently forecasting to undertake additional external borrowing in 2021/22 to facilitate the delivery of its capital programme. Current estimates include this borrowing on a principal and interest repayment basis. Any principal repaid would be a cash outflow for the Council and cash would be replenished through the charging of MRP from the General Fund to reduce the underlying borrowing requirement.

11.3 The Council is obliged to make proper provision for the repayment of its outstanding debt liabilities. 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.

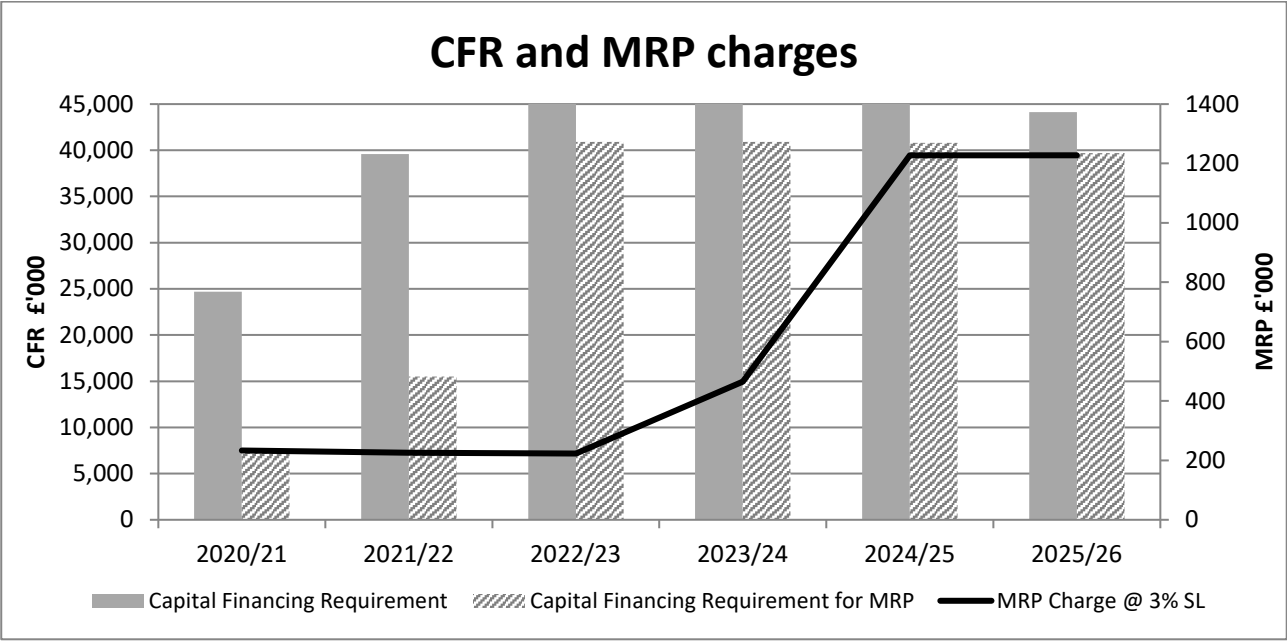
11.4 The only statutory duty that a local authority has under the new MRP regime is '*to determine for the current financial year an amount of minimum revenue provision that it considers to be prudent*'. The Guidance, which authorities must 'have regard

to' provides four options for calculating the MRP. 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.

- 11.5 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.
- 11.6 In 2020/21, the opening CFR was £16.113million.
- 11.7 In 2018/19 the Council implemented a recommendation from Link Asset Services to review its CFR for MRP purposes in relation to what is known as 'Adjustment A'. The purpose of Adjustment A was to ensure that the starting point for calculating MRP under the new system in 2004 did not significantly vary the level of liability that would have arisen had the previous system of capital controls remained unchanged.
- 11.8 The MRP review undertaken by (then) Capita Asset Services identified a misstatement in the basis of calculation of Adjustment A which indicated that the value originally assessed in 2004/05 to be understated. The Council's reassessed Adjustment A figure is £4.426 million. This misstatement related to the inclusion of revenue expenditure (premiums on the early repayment of debt) being included in the original Adjustment A calculation which the Code states should be excluded from the calculation.
- 11.9 Therefore when calculating MRP for future years, the actual Capital Financing requirement should be reduced by this Adjustment A figure and then MRP charged at 3% of the reduced figure.
- 11.10 The CFR and MRP charges currently included in the MTFP and budget projections are as follows (The MRP charge calculated for 2021/22 is chargeable in 2022/23 and so on):

	2021/22 £000	2022/23 £000	2023/24 £000
Opening CFR	24,678	39,601	45,332
Closing CFR	39,601	45,332	45,344
Adjustment A	4,426	4,426	4,426
Adjustment Assets Under Construction	19,655	0	0
CFR for MRP Purposes	15,520	40,906	40,918
MRP Charge @ 3%	466	1,227	1,228
Adjustments to MRP for historical Overpayments	(241)	(241)	(241)
Actual MRP charge	225	986	987
Voluntary MRP	0	0	0
Actual MRP charge	225	986	987

- 11.11 MRP is a statutory requirement for local authorities to charge to their revenue account for each financial year a prudent amount for the principal cost of their debt in that financial year. It impacts upon the CFR, one of the Council's prudential indicators.
- 11.12 The CFR is a measure of the Council's underlying debt liability, resulting from historic capital expenditure which has been financed from borrowing. Amending the MRP as proposed will lead to an increase in the short to medium term CFR compared to current projections. This is because the MRP reduces the CFR each year, so a decrease in the amount of reduction causes an increase in the current projected CFR.
- 11.13 When an amount previously set aside for debt liability in the budget is released and then used for another revenue purpose the Authority will have less cash. This is likely to lead to a reduction in external investments and with thus lead to a reduction in interest income.
- 11.14 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.
- 11.15 As the MRP policy has to be considered by the Executive and approved by Council each year there will be an opportunity to revisit any decision at least annually or make additional voluntary payments.
- 11.16 The chart below shows the anticipated CFR in future years as well as the CFR for MRP Calculation purposes.



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 (**individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £6m**).
- Investments with Lloyds Group banks, HSBC, Santander and Goldman Sachs shall have a maximum of **£10m** 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 (**individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £4m**).
- 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. (**individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £2m**).
- UK building societies that are not credit rated shall have a maximum of **£2m** as the counterparty limit. (**individual Transaction Limit for fixed term investments £2m, for instant access and call accounts £2m**).
- MMFs shall have a maximum counterparty limit of **£4m** (**Individual Transaction 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 P1 (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 S151 Officer. Minimum asset base of £1bn	In-house	50	364 days
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	In-house	50	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	In-house	50	Liquid

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 (Moody's)	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 (Moody's)	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 S151 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 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.

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. The rates shown below for PWLB borrowing include the 20bps reduction for the Certainty Rate.

1. INDIVIDUAL FORECASTS

Link Group Interest Rate View		9.11.20													
(The Capital Economics forecasts were done 11.11.20)															
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20															
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00	
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30	
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Bank Rate															
Link	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	
Capital Economics	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-	
5yr PWLB Rate															
Link	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	
Capital Economics	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	-	-	-	-	-	
10yr PWLB Rate															
Link	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	
Capital Economics	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	-	-	-	-	-	
25yr PWLB Rate															
Link	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80	
Capital Economics	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80	-	-	-	-	-	
50yr PWLB Rate															
Link	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60	
Capital Economics	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	-	-	-	-	-	

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, and any financial instruments entered into to manage these risks.

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 value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Investment Policy

The Council will manage its investments in line with the criteria set out in section 9 of the TMSS with the security of investment being paramount. The Council’s investments will be placed in line with those outlined in Appendix B of the TMSS.

Borrowing Strategy

The Council will manage its borrowings in line with the criteria set out in section 8 of the TMSS with the emphasis being on external borrowing only being taken when absolutely necessary and ensuring it offers the best value for money.

Report to Audit Committee

Agenda
Item:

A.9

Meeting Date:	18 December 2020
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD 25/20
Within Policy and Budget Framework	Yes
Public / Private	Public
 Title:	 TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS FOR 2021/22 TO 2025/26
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD34/20 (amended)

Purpose / Summary:

This report, which provides the regular quarterly summary of Treasury Management transactions for the second quarter of 2020/21 and budgetary projections for 2021/22 to 2025/26, was received by the Executive on 9 November 2020. The Audit Committee is invited to make any observations on treasury matters which took place during this quarter. The Committee is otherwise asked to note the report.

Since this report was considered by the Executive the government have announced the outcome of a consultation into use of the PWLB borrowing facility. As part of the Spending Review announcement on 25 November, the government outlined the new guidelines under which borrowing from the PWLB can be undertaken by local authorities.

As expected, these new guidelines restrict the use of borrowing for commercial investment property ventures where yield is the primary reason for purchase.

The outcome of this new approach is that the additional 100bps that was added to rates 12-months ago has now been rescinded and borrowing rates have immediately fallen back to now be at levels similar to when the Council undertook some borrowing in September 2019 when it borrowed (£9m at 1.8% for 40 years, and £5m at 1.33% for 20 years).

The impact of the reduction in rates will be factored into the draft budget proposals and provides a significant saving in the cost of the borrowing that is still included in the Medium-Term Financial Plan. (Appendix C shows the original MTFP projection as

considered by Executive in November). A revised projection is now shown at Appendix D that shows the impact of the new rates.

The borrowing rates shown at Para 1.4.2 have been updated to the following:

	Amount (£000)	Original Rate	Updated Rate	Term
2020/21	5,500	2.41%	1.50%	25 years
2020/21	1,500	2.20%	1.40%	15 years
2020/21	15,000	2.41%	1.50%	25 years
2021/22	6,000	2.60%	1.55%	25 years
2022/23	5,000	2.80%	1.65%	25 years
2022/23	1,507	2.80%	1.65%	25 years
Total	34,007			

Recommendations:

That the report be noted including the update to borrowing rates as outlined above.

Tracking

Executive:	9 November 2020
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Report to Executive

Agenda
Item:

Meeting Date: 09 November 2020
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD25/20
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS FOR 2021/22 TO 2025/26
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD34/20

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 2021/22 with projections to 2025/26. 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 2021/22 to 2025/26 be incorporated into the budget reports considered elsewhere on the agenda.

Tracking

Executive:	09 November 2020
Scrutiny BTSP:	01 December 2020
Audit Committee:	18 December 2020

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:

1.2 **Appendix A** sets out the schedule of Treasury Transactions for the period to September 2020 as follows:

- **Appendix A1** – Treasury Transactions July to September 2020
- **Appendix A2** – Investment Transactions July to September 2020
- **Appendix A3** – Outstanding Investments at September 2020

1.3 The Prudential Code and Prudential Indicators for 2020/21 are discussed at **Appendix B** as follows:

- **Appendix B1** – Prudential Code background
- **Appendix B2** – Prudential Indicators

1.4 TREASURY MANAGEMENT ESTIMATES 2021/22 TO 2025/26

1.4.1 The draft base Treasury Management estimates for 2021/22 with projections to 2025/26 are set out at **Appendix C**. 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.

1.4.2 The assumptions included in the Treasury estimates for 2021/22 are as follows:

- Assumed use of revenue reserves for all budget pressure commitments outlined in RD32/20 are included;
- The capital programme and capital resources estimate as outlined in RD33/20 are included;
- External borrowing assumed as follows:

	Amount (£000)	Rate	Term
2020/21	5,500	2.41%	25 years
2020/21	1,500	2.20%	15 years
2020/21	15,000	2.41%	25 years
2021/22	6,000	2.60%	25 years
2022/23	5,000	2.80%	25 years
2022/23	1,507	2.80%	25 years
Total	34,007		

- Investment returns are assumed to be as follows:

Year	Rate
2020/21	0.30%
2021/22	0.30%
2022/23	0.70%
2023/24	0.83%
2024/25	1.08%

- Investment return from CCLA property fund is assumed at 4% p.a.

2. RISKS

- 2.1 Treasury Management considers risks associated with investments with counterparties; however, the Treasury Management strategy statement outlines the risk management approach to minimise this.

3. CONSULTATION

- 3.1 Consultation to Date.
None.

- 3.2 Consultation proposed.
The Business & Transformation Scrutiny Panel and the Audit Committee will consider this report as part of the budget process.

4. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 4.1 That this report be received and that the projections for 2021/22 to 2025/26 be incorporated into the budget reports elsewhere on the agenda.

5. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

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

Contact Officer: Emma Gillespie

Ext: 7289

**Appendices
attached to report:**

Appendix A1 – Treasury Transactions July to September 2020
Appendix A2 – Investment Transactions July to September 2020
Appendix A3 – Outstanding Investments at 30 September 2020
Appendix B1 – Prudential Code background
Appendix B2 – Prudential Indicators

Appendix C – Treasury Projections 2021/22 – 2025/26

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS:

Legal– The Council has a fiduciary duty to manage its finances properly and the proper reporting of budget monitoring is part of this process.

Property Services – Not applicable

Finance – Included in the report

Equality - This report raises no explicit issues relating to the public sector Equality Duty

Information Governance – No implications

TREASURY TRANSACTIONS
JULY 2020 to SEPTEMBER 2020

1. LOANS (DEBT)1.1 Transactions July to September 2020

	Raised		Repaid	
	£	%	£	%
P.W.L.B	0	0	112,500	1.80
P.W.L.B	0	0	125,000	1.33
Local Bonds	0	0	0	0
Short Term Loans	0	0	0	0
Overnight Borrowing	0	0	0	0
	0		237,500	

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.

1.5 Loans (Debt) Outstanding at September 2020

	£
P.W.L.B.	8,775,000
P.W.L.B.	4,750,000
Short Term Loans	12,800
	13,537,800

1.6 Loans Due for Repayment (Short Term)

	PWLB £	Overnight £	Other £	Total £
Short Term Debt at 30 September 2020 (These are the balances held on behalf of Carlisle Educational Charity and Mary Hannah Almshouses)	0	0	12,800	12,800

1.7 Interest Rates

Both Link Group and Capital Economics have maintained their interest rate forecasts amid the coronavirus outbreak. Bank Rate is currently forecast to remain unchanged at 0.1% throughout 2020 and 2021.

2 INVESTMENTS

	Made		Repaid	
	£	%	£	%
Short Term Investments	20,940,000	0.01 - 0.10	21,730,000	1.10 - 0.01
	20,940,000		21,730,000	

A full schedule of short-term investment transactions is set out in Appendix A2. Appendix A3 shows outstanding short-term investments at 30 September 2020.

3 REVENUES COLLECTED

To: 30 September 2020		Collected £	% of Amount Collectable %
2020/21	Council Tax NNDR	36,788,494 11,184,691	55.04 49.97
Total		47,973,185	53.77
2019/20	Council Tax NNDR	36,403,520 25,102,107	56.80 57.01
Total		61,505,627	56.88
2018/19	Council Tax NNDR	34,146,022 26,058,251	56.55 58.15
Total		60,204,273	57.23

Collection levels have been fairly stable in each of the past three years; however, the impact of COVID-19 has had an impact on the revenues received in 2020/21 especially in relation to NNDR. Revised debt recovery procedures have been put in place in order to provide support to rate payers whilst, at the same time, safeguarding the Council's cash position.

4 BANK BALANCE

At 30 September 2020 £1,759,713.93 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 2020

April –September 2020

	Profiled Budget £000	Actual £000	Variance £000
Interest Receivable	(133)	(186)	(53)
Interest Payable	1,064	281	(783)
Less Rechargeable	0	0	0
	1,064	281	(783)
Principal Repaid (MRP)	0	0	0
Debt Management	12	13	1
NET BALANCE	943	108	(835)

The profiled budget is to 30 September 2020

Interest receivable is ahead of expectations due to higher than forecast average cash balances even though interest rates have fallen to 0.1%. However, it is expected this position will worsen during the remainder of the financial year as cash balances reduce and investments with a higher return begin to mature and are reinvested at an expected lower return.

Interest payable is lower than expected as no new borrowing has been undertaken in this financial year.

The CCLA property investment saw a slight decrease in the capital value to the end of September. Dividends and yield levels are currently 4.26%.

SHORT TERM INVESTMENT TRANSACTIONS JULY TO SEPTEMBER 2020

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Outstanding Investments as at 30 September 2020

Category	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Current Days to Maturity	Days to maturity at execution	Total Interest Expected (£)
Y	MMF Federated Investors (UK)	4,000,000	0.06%		MMF			
O	Handelsbanken	4,000,000	0.10%		Call1			
O	Bank of Scotland	2,000,000	1.10%	05/11/2019	05/11/2020	36	366	22,060
O	Bank of Scotland	1,000,000	1.10%	07/01/2020	18/12/2020	79	346	10,427
O	Bank of Scotland	1,000,000	1.10%	20/01/2020	18/12/2020	79	333	10,036
R	Santander UK	2,000,000	1.00%		Call180			
R	Santander UK	3,000,000	1.00%		Call180			
Total Investments		£17,000,000	0.59%			65	348	£42,523

Borrower	Current Market Value (£)	Current Yield	Start Date	Initial Investment (£)	Entry Cost (£) ¹	Initial Market Value (£)	Unrealised Growth (£)
CCLA Property Fund	3,175,093	4.26%	31/07/2014	3,000,000	(163,104)	2,836,896	175,093

1. Entry Costs were charged against Treasury Management Budget in 2014/15

N.B Interest is recognised in the appropriate financial year in which it is due.

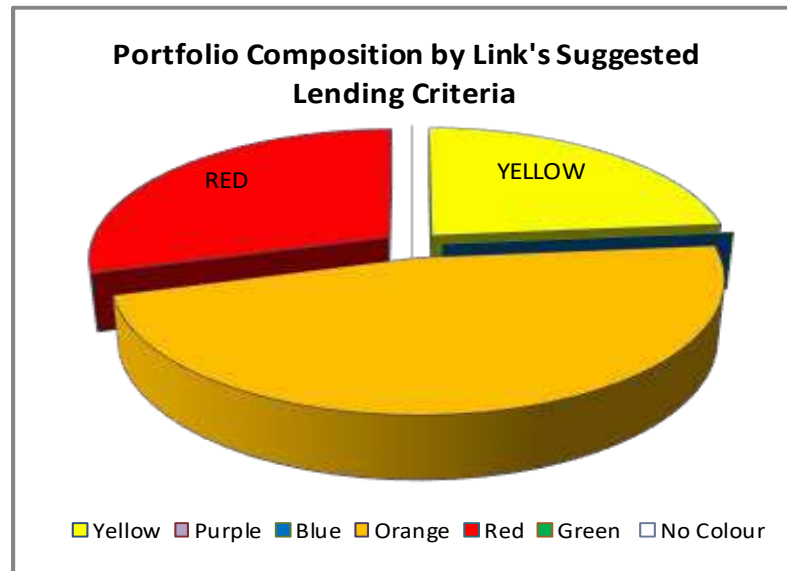
The category colour represents the duration of investment recommended by Link, the Council's Treasury Advisors. Those investments with no colour, are still within the Council's investment Strategy and are therefore deemed suitable for investing.

Investment Summary Sheet

						Weighted Average Rate of Return	Weighted Average Days to Maturity	Weighted Average Dats to Maturity from Execution
	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution
Yellow	23.53%	4,000,000	100.00%	4,000,000	23.53%	0.06%	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	47.06%	8,000,000	50.00%	4,000,000	23.53%	0.60%	29	58
Red	29.41%	5,000,000	100.00%	5,000,000	29.41%	1.00%	180	0
Green	0.00%	-	0.00%	-	0.00%	0.00%	0	0
No Colour	0.00%	-	0.00%	-	0.00%	0.00%	0	0
	100.0%	17,000,000	76.47%	13,000,000	76.47%	0.59%	67	136

Risk Score for Colour (1 = Low, 7 = High)	Sep 2020	Jun 2020	Mar 2020	Dec 2020
1	0.2	0.04	0.0	0.1
2	0.0	0.0	0.0	0.0
3	0.0	0.0	0.0	0.0
4	1.9	2.7	2.8	1.9
5	1.5	1.4	1.1	2.3
6	0.0	0.0	0.0	0.0
7	0.0	0.0	0.0	0.0
	3.6	4.1	3.9	4.3

	Link'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



Normal' Risk Score	3.5	3.5	3.5	3.5
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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. 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 Prudential Code any local authority borrowing was essentially based upon a government 'permission to borrow'. Following the introduction of the Prudential Code, the permission to borrow was essentially withdrawn and Councils were given greater freedom to borrow so long as they 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.

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 2020/21 to date as detailed in the Treasury Management Strategy Statement for 2020/21.

(a) Affordability

	2020/21 Original Estimate £	2020/21 Revised Estimate £
(i) Capital Expenditure	29,915,800	19,390,400
(ii) Financing Costs Total Financing Costs	1,241,500	628,500
(iii) Net Revenue Stream Funding from Govt Grants/Local Taxpayers	13,386,000	13,386,000
(iv) Ratio of Financing Costs to Net Revenue Stream 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.	9.27%	4.70%
(v) Incremental Impact on Council Tax This indicator allows the effect of the totality of the Council's capital investment decisions to be considered at budget setting time.	8.39	8.87
(vi) Authorised Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities	44,100,000	44,100,000
	34,081,000	34,381,000
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.		

	2020/21 Original Estimate £	2020/21 Revised Estimate £
(vii) Operational Borrowing Limit Maximum Level of Borrowing and Other Long term Liabilities 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.	39,100,000 34,081,000	39,100,000 34,381,000
(viii) Capital Financing Requirement (CFR) As at 31 March The CFR is a measure of the underlying borrowing requirement of the authority for capital purposes.	38,793,000	24,676,000

(b) Prudence and Sustainability

	2020/21 Original £
(i) New Borrowing to Date Long Term Borrowing has been taken in 2020/21 to date	0 0
(ii) Percentage of Fixed Rate Long Term Borrowing at September 2020	100%
(iii) Percentage of Variable Rate Long Term Borrowing at September 2020 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.	0%
(iv) Minimum Level of Investments Classified as Specified Level of Specified Investments as at September 2020 As part of the Capital Investment Strategy for 2020/21, 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.	50.00% 100.00%

TREASURY AND DEBT MANAGEMENT BASE ESTIMATES

APPENDIX C

Set out below are the base treasury management estimates for 2021/22 with projections to 2025/26

Carlisle City Council	2021/22	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Interest Payable	877	1,025	982	938	896
Core MRP	223	466	1,227	1,228	1,224
MRP Adjustments - Voluntary and Assets Under Construction	(226)	0	0	0	0
MRP Adjustments - Adjustment A	(241)	(241)	(241)	(241)	0
Voluntary MRP (to match principal repayments)	244	0	0	0	0
Debt Management					
Link	12	12	12	12	12
Publications	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(18)	(18)	(18)	(18)	(18)
Total Expenditure	872	1,245	1,963	1,920	2,115
Interest Receivable	(160)	(176)	(162)	(146)	(134)
Total Income	(160)	(176)	(162)	(146)	(134)
Treasury Management Net Expenditure	712	1,069	1,801	1,774	1,981
Council Resolution Budget 20/21 (incl in year adjustments)	768	1,048	1,862	1,804	1,996
Difference to Council Resolution Position (budget pressure / (Saving))	(56)	21	(62)	(31)	(16)
Cumulative Difference to Council Resolution Position	(56)	(36)	(97)	(128)	(143)

REVISED TREASURY AND DEBT MANAGEMENT BASE ESTIMATES
AS A RESULT OF THE CHANGE IN PWLB BORROWING RATES (26 NOVEMBER 2020)

Carlisle City Council	2021/22	2022/23	2023/24	2024/25	2025/26
	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Interest Payable	625	708	679	649	621
Core MRP	223	466	1,227	1,228	1,224
MRP Adjustments - Voluntary and Assets Under Construction	(226)	0	0	0	0
MRP Adjustments - Adjustment A	(241)	(241)	(241)	(241)	0
Voluntary MRP (to match principal repayments)	244	0	0	0	0
Debt Management					
Link	12	12	12	12	12
Publications	1	1	1	1	1
Recharge - Transferred Debt/bequests etc	(18)	(18)	(18)	(18)	(18)
Total Expenditure	620	928	1,660	1,631	1,840
Interest Receivable	(167)	(159)	(153)	(153)	(160)
Total Income	(167)	(159)	(153)	(153)	(160)
Treasury Management Net Expenditure	453	769	1,507	1,478	1,680
Council Resolution Budget 20/21 (incl in year adjustments)	768	1,048	1,862	1,804	1,996
Difference to Council Resolution Position (budget pressure / (Saving))	(315)	(280)	(356)	(327)	(317)
Cumulative Difference to Council Resolution Position	(315)	(595)	(950)	(1,277)	(1,593)

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 9 NOVEMBER 2020

**EX.129/20 TREASURY MANAGEMENT QUARTER 2 2020/21 AND FORECASTS
FOR 2021/22 TO 2025/26**
(Key Decision – KD.25/20)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader submitted report RD.34/20 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 2021/22 with projections to 2025/26 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 2021/22 with projections for 2025/26 were set out at Appendix C.

The Deputy Leader moved the report, which was seconded by the Leader.

Summary of options rejected none

DECISION

That Report RD.34/20 be received and the projections for 2021/22 to 2025/26 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 1 DECEMBER 2020

BTSP.73/20 BUDGET 2021/22

(f) Treasury Management Quarter 2 2020/21 and Forecasts for 2021/22 to 2025/26

The Corporate Director of Finance and Resources submitted report RD.34/20 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 2021/22 with projections to 2025/26, and set out information regarding the requirements of the Prudential Code on local authority capital finance.

The Corporate Director of Finance and Resources reminded the Panel that the announcement by the PWLB regarding borrowing rates would significantly alter the figures in the report during the budget process. The base Treasury Management estimates for 2020/21 with projections for 2024/25 were set out at Appendix C.

The Executive had on 9 November 2020 (EX.129/20) considered the report and resolved that Report RD.34/20 be received and the projections for 2021/20 to 2025/26 be incorporated into the Budget reports considered elsewhere on the Agenda.

RESOLVED – That the Treasury Management Quarter 2 2021/22 and Forecasts for 2021/22 to 2025/26 (RD.34/20) be received.

