Fenland CAMBRIDGESHIRE Fenland District Council

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AGENDA

CORPORATE GOVERNANCE COMMITTEE

TUESDAY, 5 FEBRUARY 2019

2.30 PM

COUNCIL CHAMBER, FENLAND HALL, MARCH

Committee Officer: Linda Albon
Tel: 01354 622229
e-mail: memberservices@fenland.gov.uk

1 To receive apologies for absence

2 Previous Minutes (Pages 3 - 12)

To confirm and sign the minutes of 20 November 2018

3 To report additional items for consideration which the Chairman deems urgent by virtue of special circumstances to be now specified.

4 Members to declare any interests under the Local Code of Conduct in respect of any item to be discussed at the meeting.

5 Appointed Auditor - Annual Certification Report 2017-18 (Pages 13 - 26)

This report introduces the Annual Certification Report for 2017-18. This report is produced by the Council's external auditors Ernst and Young (referred to as "EY" in this report) annually. The report looks at how the Council completes grant returns each year and looks into their accuracy, standards and any issues arising from them. It now only examines Housing Benefit subsidy.

6 Appointed Auditor - External Audit Plan 2018-19 (Pages 27 - 64)

7 Corporate Risk Register Quarterly Review (Pages 65 - 92)

To provide a quarterly update to the Corporate Governance Committee on the Council's Corporate Risk Register.

8 Internal Audit Progress Report Q3 (Pages 93 - 100)

To report progress against the Internal Audit Plan 2018-19 for the period 01 April 2018 including planned work until 31 December 2018 and the resulting level of assurance.

9 Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2019/20 (Pages 101 - 128)

The purpose of this report is to provide Members with information on the proposed Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement and Annual Investment Strategy for 2019/20.

10 Items of Topical Interest

11 Items which the Chairman has under item 3 deemed urgent.

Friday, 25 January 2019

Members: Councillor J Clark (Chairman), Councillor Mrs F Newell (Vice-Chairman), Councillor G Booth, Councillor R Butcher, Councillor D Hodgson, Councillor P Murphy, Councillor W Sutton and Councillor M Tanfield

CORPORATE GOVERNANCE COMMITTEE

Fenland CAMBRIDGESHIRE

Fenland District Council

TUESDAY, 20 NOVEMBER 2018 - 2.30 PM

PRESENT: Councillor J Clark (Chairman), Councillor Mrs F Newell (Vice-Chairman), Councillor G Booth, Councillor R Butcher, Councillor D Hodgson, Councillor P Murphy and Councillor W Sutton

APOLOGIES: Councillor M Tanfield

OFFICERS IN ATTENDANCE: Anna Goodall (Head of Governance and Customer Services), Izzi Hurst (Member Services & Governance Officer), Neil Krajewski (Deputy Chief Accountant), Kamal Mehta (Corporate Director), Mark Saunders (Chief Accountant) and Kathy Woodward (Internal Audit Manager)

OBSERVING: Councillor Mrs A Hay

CGC17/18 PREVIOUS MINUTES.

The minutes of the meeting 27 July 2018 were confirmed and signed subject to the following comments;

1. Councillor Booth said in relation to minute CGC13/18, the intention was that officers would report their findings on FACT back to the Corporate Governance Committee and not just the Chairman. Councillor Clark confirmed that there was an update for members that would be provided under ‘Agenda Item 8 – Items of Topical Interest’.

CGC18/18 ANNUAL AUDIT LETTER 2017/18

Members considered the Annual Audit Letter 2017/18 report, presented by Kamal Mehta.

Councillor Clark introduced Mark Hodgson from Ernst & Young (EY) to members. Mark Hodgson confirmed that Neil Harris had moved to another area within the company and explained that he would now be the Council’s External Auditor and will be attending future meetings. He said he was looking forward to working with members over the coming years.

Members asked questions, made comments and received responses as follows;

1. Councillor Clark asked if Flo Barrett and Amalia Valdez Herrera from EY would still be assisting with the Council’s audit. Mark Hodgson explained that Flo Barrett is relocating due to a career opportunity however Amalia Valdez Herrera would continue working on the Council’s audit.
2. Councillor Hodgson asked if information should be included in the report in relation to the new Leisure Centre contract with Freedom Leisure. Mark Hodgson confirmed that the current audit reports a valuation of the Leisure Centres as of 31 March 2018 and as the transfer to Freedom Leisure will not take place until December 2018, this will form part of the audit plan for 2018/19.
3. Councillor Booth highlighted that the valuation of the Leisure Centres should remain fairly static as the Council are still retaining ownership of them. He added that Freedom Leisure

are intending to improve and invest in the Leisure Centres which may make a nominal difference to the valuation. Mark Hodgson agreed that this is EY's working assumption and the effect of this will depend on Freedom Leisure's capital input into the centres as to whether this will affect the value of the physical assets.

4. Councillor Clark asked if the Council's asset could increase in value if Freedom Leisure decides to improve the Leisure Centres. Mark Saunders said this would be dependent on the type of improvements they choose to undertake. Councillor Booth highlighted that this will depend on the agreement the Council have with Freedom Leisure in relation to the ownership of any new assets.
5. Kamal Mehta confirmed that any improvement on the physical structure of the Leisure Centres would be reported on the Council's balance sheets, as the Council have retained ownership.
6. Councillor Sutton asked for further information on the presentational and disclosure issues referenced on page 25 of the Agenda Pack. Mark Saunders highlighted that members were provided with an explanation regarding these at the Corporate Governance meeting on 27 July 2018. Councillor Booth added that as they were under the threshold for reporting it was not necessary to include them in the report.
7. Mark Hodgson confirmed that the reference in the Annual Audit Letter to presentational and disclosure issues which have been adjusted by management, not being detailed in EY's report related to non-monetary disclosures.
8. Councillor Booth asked if the audit fees charged by EY will change in light of the recent staffing changes. Mark Hodgson confirmed that the fees are set by the regulator and any staffing changes within EY will not affect the fee to the Council. Councillor Clark highlighted that the fees charged by EY have reduced.
9. Kamal Mehta clarified that if there is any additional work required by EY as a result of the Council not reporting something correctly, then discussions would take place in relation to the charges associated with the additional work they have undertaken. Kamal Mehta said that he was confident that this will not happen.
10. Councillor Clark thanked Kamal Mehta for the clarification and said he had complete confidence in Mark Saunders and his team.

Councillor Clark thanked Mark Hodgson for his attendance at today's meeting.

The Corporate Governance Committee considered and noted the Annual Audit Letter 2017/18.

CGC19/18 TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW 2018/19

Members considered the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2018/19 report, presented by Kamal Mehta.

In relation to the Council not meeting the Debt/Operational Boundary indicator as highlighted in the report, Kamal Mehta explained that this is because the Council would incur a significant cost if they were to redeem the debt which would not be advantageous. He confirmed that EY are aware of this and the Treasury Management Consultants keep this under-review at all times. If the opportunity arises to repay this at a competitive cost and the Council have the resources to do this however looking at the market rates currently, this is unlikely in the near future.

Kamal Mehta confirmed that overall the Council is performing well and is working hard to achieve as high an interest rate as possible on deposits. He confirmed that the Council is on target to achieve the Budget in relation to this.

Members asked questions, made comments and received responses as follows;

1. Councillor Clark asked for further information in relation to 6.2 on page 48 of the Agenda Pack. Kamal Mehta explained that as part of the capital programme requirements, the Council was required to fund a certain level of the capital programme from borrowing, as the Council's own resources could not be used. This amounted to £1.003m of borrowing and the use of lease facilities totalling £0.336m to support capital investment in 2018/19. These decisions are made during the assessment of the Council's funding arrangements at the end of the financial year when all capital expenditure is considered. He explained that this is the responsibility of the Council's Section 151 officer and they consider the best optimal mix of funding and financing of the Capital Programme to ensure the optimisation of the Council's resources is correct.
2. Councillor Clark asked for further information on the lease facilities discussed in 6.2 of the report. Kamal Mehta explained that this is when the Council purchase a piece of equipment and decide to fund it through a lease arrangement with an external funder as oppose to purchasing the equipment outright. Mark Saunders confirmed that when this situation arises, a full assessment is carried out to ensure that leasing the equipment is the best option for the Council.
3. Councillor Murphy agreed and said consideration is given to each case as to whether it is best for the Council to purchase a piece of equipment or lease it.

The Corporate Governance Committee noted the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2018/19 report.

(Councillor Booth declared an interest as the Council hold investments with building societies and he is an employee of the Yorkshire Building Society. Councillor Booth left the room for the duration of this Item)

CGC20/18 INTERNAL AUDIT PLAN 2018-19 PROGRESS REPORT Q2

Members considered the Internal Audit Plan 2018-19 Progress Report Q2 presented by Kathy Woodward.

Kathy Woodward explained that the overdue recommendations shown in Appendix B on page 58 of the Agenda Pack may look high however the figures include audits carried out on behalf of Anglia Revenues Partnership (ARP) as a collective audit of seven local authorities. One of the high outstanding recommendations relate to the ARP audits and fifteen of the medium recommendations too. In relation to Fenland District Council, there was one high recommendation and nine medium recommendations outstanding however as of today, there are now only two overdue medium recommendations. She confirmed that these would be reflected in the next progress report.

Members asked questions, made comments and received responses as follows;

1. Councillor Booth asked for further information on the 'Street Scene – Enforcement' audit and the 'Corporate Assurance – Transparency' audit referenced in Appendix A on page 55 of the Agenda Pack. Kathy Woodward confirmed that the medium enforcement recommendation relates to the monitoring and flow of information the Council has with their Contractor. Work is ongoing in ensuring procedures are in place for this. In regards to the recommendation on transparency, this relates to responsibility and ownership of keeping information on the website up to date.
2. Councillor Booth asked if the outdated information found on the website was information that the Council has a statutory duty to publish. Kathy Woodward confirmed that it related to statistics the Council must publish and these have now been reviewed and updated.
3. Councillor Booth asked if Kathy Woodward was confident that a governance process was in place to ensure the website is updated regularly and to avoid this issue happening again. Kathy Woodward said that one of the recommendations made was to ensure ownership is

taken of this task and confirmed that this is now in place.

4. In relation to the Conduct Hearing on 31 October 2018, Councillor Booth asked for confirmation that the internal audit team had no concerns or recommendations in relation to Members Expenses and asked how members can be assured that this issue will not happen again. Kathy Woodward said that in light of the Conduct Hearing and the press surrounding this, she had extended the sampling size when she audited this area and confirmed that sufficient processes are in place to prevent this issue reoccurring in the future. She added that the test samples had satisfied her criteria and is confident that the procedures in place are being strictly adhered to by officers processing claims.
5. Councillor Booth asked if Kathy Woodward believed that the complaint dealt with at the Conduct Hearing on 31 October 2018 was an isolated incident. Kathy Woodward confirmed that she did.
6. Anna Goodall explained that it is each member's responsibility to ensure the accuracy of the claims submitted to Member Services for processing however, in light of recent events the process has had to change and a more proactive stance has been taken in challenging and advising members upfront with any questions officers may have about their claims. In addition, she explained that the Council is exploring software systems that would allow members to submit their expenses electronically with mileage pre-set for certain journeys to avoid discrepancies in the future.
7. Councillor Clark said it was important to show the public that the process has been improved since the Conduct Hearing complaint and asked members to consider how this could be done.
8. Councillor Butcher highlighted that other local authorities have introduced systems to submit electronic mileage claims and have experienced issues. He said care must be taken to ensure this will not happen, if the Council do decide to consider this.
9. Councillor Butcher asked if officers had taken a less proactive approach to processing member's claims over recent years. Anna Goodall said the current member's claim form contains very clear wording that states that members are responsible for ensuring the accuracy of their claims. As a result of recent events, a more proactive stance has been taken by officers with additional procedures and checks being implemented and a more robust approach being taken. She added that the procedure of claiming would form part of the future induction programme for newly elected members next year.
10. Councillor Booth asked if historical members' claims had been audited. Councillor Clark highlighted past expenses and claims are irrelevant as members must demonstrate how the Council will deal with this in the future and prevent it from happening again.
11. Councillor Booth suggested a press release assuring the public that additional procedures have been implemented since the recent Conduct Hearing. Kathy Woodward said that the report being considered today highlights that there have been changes in procedures and states that there are no further concerns from an internal audit perspective. She added that this discussion will be documented in the minutes of the meeting too.
12. Councillor Clark said the Council must highlight to the public that they have learnt from this complaint and improvements have been made to prevent it happening again. Councillor Mrs Newell reiterated that the minutes will reflect the discussion members have had today which will provide assurance to the public.
13. Councillor Clark asked if this can be reflected in Council policy in any other way and asked whether the Corporate Governance Committee could recommend an action to another Committee. Councillor Booth reminded members that the Member Allowances Review takes place periodically and could not see the benefit in reviewing this before the one scheduled to take place next year.
14. Anna Goodall explained that the terms of reference for the Member Allowances Review will be bought to Annual Council and officers can capture the Corporate Governance's Committee recommendation that any lessons learnt from the recent Conduct Hearing is addressed proactively through the review process.
15. Councillor Booth agreed with this and said as the review will take place next year; it should be included in next year's Internal Audit Plan too.

16. Kamal Mehta asked Anna Goodall if she could circulate instructions to members clarifying the claims process. Izzi Hurst confirmed that the Conduct Hearing Panel had recommended that this would form part of the member's induction process and guidance documents will accompany this.
17. Councillor Booth said there appeared to be ambiguity surrounding allowable claims.
18. Councillor Clark confirmed that he was happy for officers to include the Corporate Governance Committee's comments in the terms of reference that will inform the scope of the Member Allowances review at Annual Council in May 2019.
19. Councillor Booth asked for a timescale on the potential electronic claims submission system. Anna Goodall confirmed that officers were researching this currently.
20. Councillor Sutton agreed and said he had wanted an electronic system for a number of years as there will be no discrepancies in the pre-set miles for particular journeys and will be easier for both members and officers to confirm members' attendance at meetings. He said that consideration will need to be given to recording member's attendance to outside body meetings.
21. Councillor Clark asked which officer was responsible for deciding whether a new claims system would be introduced. Anna Goodall explained that previously, the internal audit team had raised concerns about electronic mileage claims as they remove the need for a 'wet signature' on a member's claim form which is currently used to link a member to a particular claim. However, the Council now has a new Committee Management software system that has the ability to process claims electronically and many other local authorities are successfully processing their member's claims this way.
22. Councillor Clark asked who the Committee can make a recommendation to in order to ensure that the option of electronic claims is pursued further. Anna Goodall confirmed it would be herself and assured members that research was already taking place. She added that Councillor Buckton was the Portfolio Holder for ICT too.
23. Councillor Sutton agreed and said he believes that the removal of 'wet signatures' on claims forms would make the process smoother for members. Councillor Clark said officers should consider other local authorities approach to electronic claims systems in order to ensure the process is as successful as possible.
24. Councillor Butcher said members must consider the cost implications of a new system. He explained that other local authorities had experienced issues when members had attempted to claim for journeys between Council meetings, as this appeared outside of the set system parameters. He asked that officers consider this during their investigations.
25. Councillor Booth said he was surprised to see such a high amount of outstanding recommendations on page 58 of the Agenda Pack. He said the figure is much higher than previous progress reports and asked if a note could be sent from the Corporate Governance Committee to the Chief Executive raising their concerns about this. Councillor Clark said that Kathy Woodward had provided members with a suitable explanation for the outstanding recommendations.
26. Kathy Woodward explained that a number of the recommendations outstanding were under the service area responsible for the new leisure contract. Due to the vast amount of time and work spent on the leisure contract, this was a justifiable reason as to why some of the audit work was overdue in this service area. She confirmed that as soon as the work had been completed on the leisure contract, the officer had completed the work required by the internal audit team.
27. Kamal Mehta reassured members that as Corporate Director, he is closely monitoring the outstanding recommendations and is having regular meetings with Kathy Woodward to ensure these are being dealt with as a priority. He confirmed that the issue has been discussed at Management Team meetings and the Corporate Management Team has arranged 1-1's with Service Managers to discuss this work.
28. Councillor Clark said the Committee have noted the number of outstanding recommendations and accepted the reasons provided for these, however would be disappointed to see as many outstanding recommendations in future reports. He asked Kamal Mehta to ensure that the new Section 151 officer is made aware of this when he

begins his role next year. Kamal Mehta confirmed this.

29. Councillor Booth said annual objectives need to be given to officers to ensure ownership is taken of audit work in the future.
30. Councillor Booth highlighted that there could potentially be issues on the quality of work submitted after the deadline as officers may have rushed to complete these tasks. He asked for confirmation that the internal audit team monitor this. Kathy Woodward confirmed that the team check any overdue work submitted to ensure it is completed to a satisfactory standard.

The Corporate Governance Committee considered and noted the Internal Audit Plan 2018-19 Progress Report Q2.

The Corporate Governance agreed that a letter would be sent to Councillor Buckton (Portfolio Holder for ICT), Councillor Mrs Hay (Portfolio Holder for Finance) and Anna Goodall (Head of Governance and Customer Services) recommending that the Council pursue the options available to them in relation to an electronic claims system for member's expenses.

CGC21/18 CORPORATE RISK REGISTER QUARTERLY REVIEW

Members considered the Corporate Risk Register quarterly review report, presented by Anna Goodall.

Anna Goodall highlighted to members that there are no new risks to report however provided information on a number of comments and progress actions that have changed within the report.

Anna Goodall explained that in relation to Risk 2 – Brexit (page 65 of the Agenda Pack); there is still a large amount of uncertainty surrounding the risk Brexit may bring to the Council. She confirmed that the Council are working as part of a Cambridgeshire-wide group assessing the impact of a 'no deal' Brexit on the district. She explained that the group's lead authority is the Fire Service and members would be provided with updates on their findings accordingly. She informed members that the Council's Interim Monitoring Officer is currently working on a document that will explain the key issues Brexit may affect within the Fenland area.

Members asked questions, made comments and received responses as follows;

1. Councillor Booth said whilst he was pleased with the format of the report, there still appears to be confusion surrounding the difference between actions and mitigation. Anna Goodall noted this.
2. Councillor Booth asked what the abbreviation MTSP meant as shown on page 81 of the Agenda Pack. Anna Goodall explained that this referred to Management, Trade Union & Staff Partnership which has replaced Staff Side within the Council.
3. Councillor Sutton asked if the list provided (page 65 of the Agenda Pack) is a full list of the risks within the Council. Anna Goodall confirmed that this was a complete list of the risks at a corporate level. Councillor Booth confirmed that the lower risks within the Council, do not feed in to this report.
4. Councillor Sutton asked for further information on how risks are assessed within individual service areas. For example, within the Planning service there is a financial risk to the Council in relation to decisions made by the Planning Inspectorate and asked how this would this be assessed and monitored. Anna Goodall confirmed that all service areas have their own service plan and associated Risk Register therefore, in this instance; this risk would be captured in these documents.
5. Kamal Mehta explained that in reference to Councillor Sutton's point, fines issued by the Planning Inspectorate can sometimes be a result of members of the Planning Committee going against officer's recommendation. To prevent this, the Council provides planning

training to members to give clear guidance and advice in relation to this and the financial implications to the Council.

6. Councillor Booth asked why the Fire Service was the lead authority for the area's Brexit focus group. Kamal Mehta confirmed that this had been initiated by Central Government to ensure that suitable arrangements are in place within the Emergency Services if a 'no deal' Brexit causes civil unrest within the UK.
7. Councillor Booth asked if there have been any changes in Local Government Legislation or advice released on the impact of Brexit. Kamal Mehta confirmed that the Council are monitoring the Local Government Association and any information released. He reiterated that the Council's Interim Monitoring Officer is the lead officer for this work.

The Corporate Governance Committee agreed the Corporate Risk Register attached as Appendix A to the report.

CGC22/18 ITEMS OF TOPICAL INTEREST

At the 27 July 2018 Corporate Governance meeting, members had asked questions surrounding assurances that needed to be provided in relation to the payments the Council make to FACT, following on from the Cambridgeshire County Council review.

The meeting was adjourned at 3:47 PM to allow members to read the report.

The meeting reconvened at 3.59 PM.

Kathy Woodward presented members with a report updating them on work undertaken by the Council in relation to their concerns. She explained that the report released by Cambridgeshire County Council(CCC) had been reviewed by the Chief Executive, Corporate Director, Section 151 officer, Internal Audit Manager, Head of Legal Services and Transport Manager. The group focused on the outcome of the PKF investigation commissioned by CCC and the implications to Fenland District Council and as a result, conducted a review of certain elements as documented in the report. She confirmed that the Council's Management Team had agreed with the recommendations made in the report.

Councillor Clark thanked Kathy Woodward and officers for their work on this.

Members asked questions, made comments and received responses as follows;

1. Councillor Booth stated that there are other car-share schemes and providers available locally. Kathy Woodward clarified that car-share schemes are classed as social travel which is different to the Dial-A-Ride scheme therefore FACT are the only provider of this in the district.
2. Councillor Booth asked if the Council are paying for legal advice in relation to this matter. Kathy Woodward confirmed that they are not.
3. Councillor Booth stated that a review of this should not take place as part of the next Comprehensive Spending Review (CSR) as this may not take place soon enough. He asked if the review could take place after the Service Level Agreement (SLA) review next year. Councillor Clark agreed with Councillor Booth.
4. Councillor Sutton agreed and highlighted that there may not be a CSR next year and requested that a standalone review is carried out on this item. Kathy Woodward confirmed that the SLA review is due to take place after 31 March 2019.
5. Councillor Murphy agreed, as waiting for the next CSR may take too long.
6. Councillor Booth asked if the Council's Internal Audit team could verify the accuracy of the journeys FACT claim for, with the individual users of the service. Kathy Woodward explained that contacting the individual users would be outside of the Internal Audit Team's normal remit.

7. Councillor Butcher said the Dial-A-Ride journeys are not recorded in the same way as journeys requiring bus passes. Councillor Booth said the journeys must be recorded as users are required to call and book them with FACT and FACT claim the money back via the Council.
8. Councillor Booth said members require an added level of assurance that the journeys being claimed for by FACT are genuine. Kathy Woodward explained that she had considered attempting to validate these figures by observing actual journeys taking place on buses however this would take up the Council's internal audit time.
9. Councillor Murphy said in order to investigate every single claim, the Council would be required to monitor FACT at all times which would not be the correct use of the internal audit team's time. Councillor Booth said a sample could be checked to verify these journeys.
10. Kamal Mehta said approaching the users of the service would not be appropriate as members of the public may feel like they are being investigated and deter them away from using the service. He reiterated that the subsidy paid is not a grant paid to FACT; it is reimbursing FACT for half of the fare foregone for these users. Effectively the Council are supporting the individual in being able to undertake these journeys.
11. Councillor Booth agreed but as FACT submits the invoices on behalf of the individuals, the Council must ensure that this is being done correctly.
12. Councillor Clark said members must remember that the management structure of FACT has changed dramatically since the investigation and Kathy Woodward has demonstrated that a robust process is in place to assure members.
13. Councillor Clark asked members to agree the report and suggested that this approval is sent on to the Corporate Management Team, the Leader and Cabinet.
14. Councillor Booth agreed with Councillor Clark however asked that officers liaise closely with CCC in relation to their own investigation into FACT. Councillor Clark agreed that a recommendation is added to the report that states any action taken by CCC should trigger a review of Fenland District Council's own position.
15. Kathy Woodward confirmed that the Council are working alongside CCC in relation to this already. Councillor Booth asked that this work is included in the SLA.
16. Kamal Mehta stated that CCC is willing to work with Fenland District Council to ensure a common approach is taken to the monitoring of FACT. He reminded members that CCC do however have a larger number of contracts with FACT and therefore their SLA may be different to Fenland District Councils.
17. Councillor Butcher agreed that we must work alongside CCC and added that a lot of changes and improvements are taking place within FACT.

Councillor Clark thanked Kathy Woodward for her work on this report.

The Corporate Governance Committee agreed to the recommendations noted in the report and agreed to circulate their approval to the Corporate Management Team, the Leader and Cabinet. Members asked that Fenland District Council work closely with Cambridgeshire County Council to ensure each Council's findings are aligned with one another.

(Councillor Butcher declared an interest by virtue of the fact that he is a board member of FACT.)

Councillor Sutton stated that at the Corporate Governance Committee meeting on 27 July 2018, members had raised concerns in relation to the figures provided under the Statement of Accounts relating to Markets, Ports, Office Units & Factories and Estates. Councillor Sutton proposed that the Corporate Governance Committee write a letter to the Chairman of the Overview and Scrutiny Panel asking them to review these areas.

Councillor Booth agreed with Councillor Sutton.

Kamal Mehta explained that the matter had been raised with the Corporate Management Team by

Carol Pilson (Monitoring Officer) and the relevant Corporate Director's findings will be reported back to the Corporate Governance Committee in due course.

Councillor Booth thanked Kamal Mehta but said he believed the matter should be referred to the Overview & Scrutiny Panel instead, as they consider the Council's Fees and Charges as part of their work programme.

The Corporate Governance Committee agreed that the Chairman of the Corporate Governance Committee write a letter to the Chairman of the Overview & Scrutiny Panel raising his concerns in relation to the performance of Markets, Ports, Office Units & Factories and Estates, as per the Statement of Accounts.

4.36 pm Chairman

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Agenda Item No:	**5**	
Committee:	**Corporate Governance**	
Date:	**5 February 2019**	
Report Title:	**Appointed Auditor – Annual Certification Report 2017-18**	

Cover sheet:

1 Purpose / Summary

- This report introduces the Annual Certification Report for 2017-18. This report is produced by the Council's external auditors Ernst and Young (referred to as "EY" in this report) annually. This is attached as **Appendix A** to this report.
- The report looks at how the Council completes grant returns each year and looks into their accuracy, standards and any issues arising from them. It now only examines Housing Benefit subsidy.

2 Key issues

- This is an annual audit of Council grant claims, see EY's report attached.
- EY identified no major issues with the grant claim during their audit.
- We are awaiting confirmation from The Department for Work and Pensions (DWP) as to whether or not they require any further work to be undertaken as a result of the auditor's qualification letter.

3 Recommendations

- That Committee notes the attached report.

Wards Affected	All
Portfolio Holder(s)	Cllr Anne Hay, Portfolio Holder, Finance
Report Originator(s)	Sam Anthony – Head of HR&OD
Contact Officer(s)	Kamal Mehta, Interim Corporate Director and Chief Finance Officer Sam Anthony – Head of HR&OD

Report:

1 Background

1.1 The Council claimed Housing Benefit subsidy of £28 million for 2017-18 in respect of this review. EY have made a minor amendment to the claim presented to them for certification (reduction in subsidy of £75) which the Council has corrected. They made some further observations as set out in their report which may affect the total subsidy claimed by the Council.

1.2 The Department of Work and Pensions (DWP) will decide whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. We are still awaiting the decision from DWP.

1.3 It should be noted that the majority of council’s receive a qualification letter as any monetary error identified from as low as 1p would result in qualification of the claim.

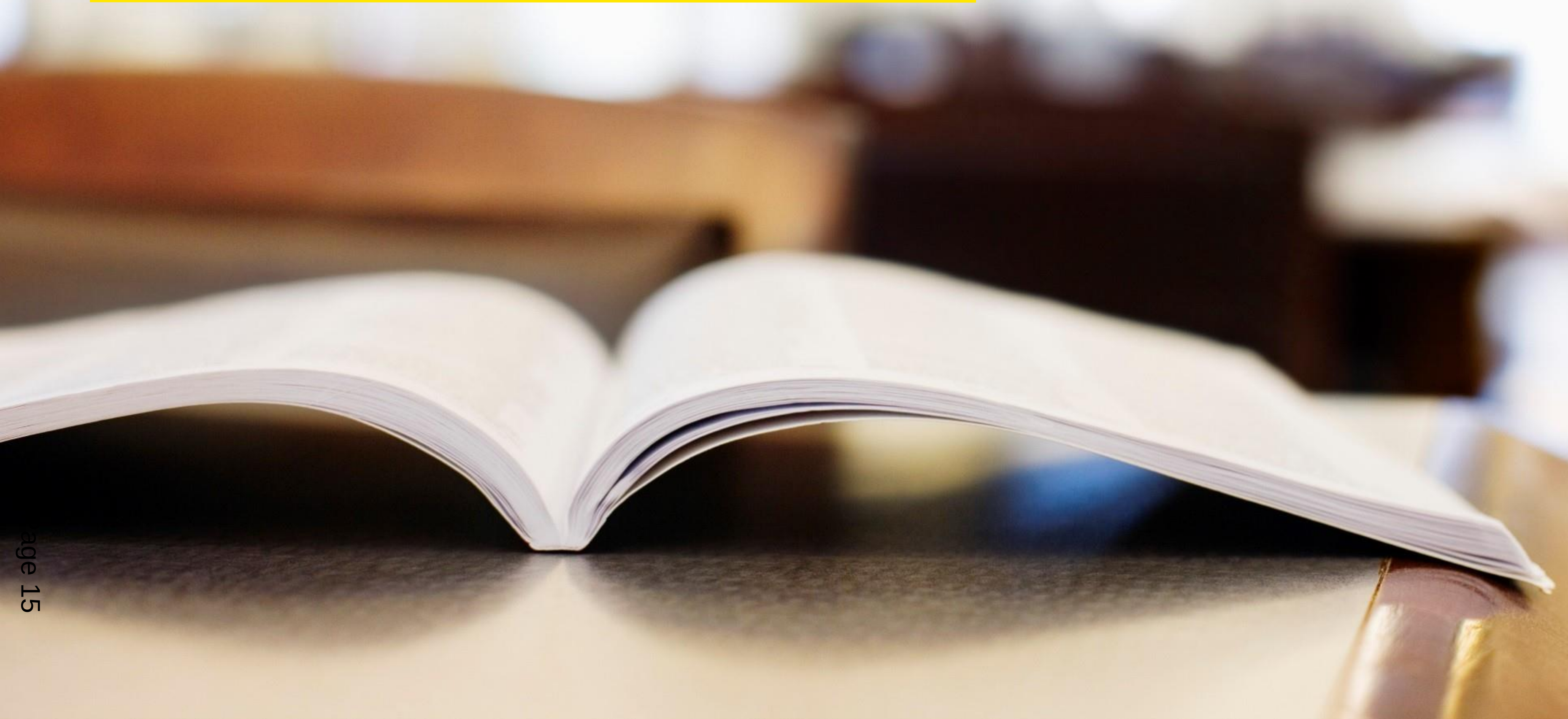
1.4 The attached EY report details the issues mentioned above.

APPENDIX A

Fenland District Council

Certification of claims and returns annual report 2017/18

January 2019



Building a better working world

Corporate Governance Committee
Fenland District Council
Fenland Hall
County Road
March
Cambridgeshire
PE15 8NQ

17 January 2019

Dear Committee Members

We are pleased to report on our certification work. This report summarises the results of our work on Fenland District Council's 2017/18 claims and returns.

Scope of work

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

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. For 2017/18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions.

Summary

Section 1 of this report outlines the results of our 2017/18 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £28,338,769. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2017/18 were published by the Public Sector Audit Appointments Ltd (PSAA) and are available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the February Corporate Governance Committee.

Yours faithfully

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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This report is made solely to the Corporate Governance Committee and management of Fenland District Council. Our work has been undertaken so that we might state to the Corporate Governance Committee and management of Fenland District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Governance Committee and management of Fenland District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Housing benefits subsidy claim

Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£28,338,769
Amended/Not amended	Amended - decreased subsidy by £75
Qualification letter	Yes
Fee – 2017/18	£14,262
Fee – 2016/17	£16,388

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires reporting accountants to follow a programme of work specified by DWP. Detailed case testing is carried out on an initial sample of 20 cases per benefit type. More extensive '40+' or extended testing is undertaken if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims.

We found errors and carried out extended testing in five areas, which represents a small increase in the level of error from the previous year.

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid.

The main issues we identified are summarised in the table on the following page.

Errors have been identified in the calculation of earnings across all seven authorities within Anglia Revenues Partnership (ARP) in 2017/18 and also in previous years. Therefore ARP have implemented additional quality control procedures for all claims with earnings since 1 April 2018 to reduce the overall level of error in this area.

Housing benefits subsidy claim

Benefit type	Nature of error identified
Rent allowance	Testing of the initial sample identified one case with an error in the calculation of earnings resulting in an overpayment of benefit. Additional testing identified twelve input errors on earned income. This resulted in four overpayments, five underpayments and 3 cases with no impact on benefit. This issue was therefore included in our Qualification Letter, with an extrapolated impact of £21,277, following DWP's extrapolation methodology.
Rent allowance	Testing of the initial sample did not identify any errors in the application of non-dependent deductions, however additional testing was undertaken in this area due to errors identified in previous years. This additional testing identified two errors where non-dependent deductions had been applied incorrectly resulting in one overpayment and one underpayment of benefit. This issue was therefore included in our Qualification Letter, with an extrapolated impact of £7,996, following DWP's extrapolation methodology.
Rent allowance	Testing of the initial sample did not identify any errors in the application of child tax credit, however additional testing was undertaken in this area due to errors identified in previous years. This additional testing identified five further errors resulting in one overpayment, three underpayments and one case with no impact on benefit. This issue was therefore included in our Qualification Letter, with an extrapolated impact of £2,084, following DWP's extrapolation methodology.
Rent allowance	Testing of the initial sample identified one case which was incorrectly cancelled resulting in an overpayment of benefit. Additional testing was undertaken on the whole sub-population of cancelled claims and did not identify any further errors. The subsidy claim form was therefore amended in respect of this overpayment.
Rent allowance	Testing of the initial sample did not identify any errors in relation to rent cases in cell 102, however additional testing was undertaken in this area due to errors identified in previous years. This additional testing did not identify any further errors. Therefore, no further action was required.

02 2017/18 certification fees

2017/18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017/18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website (www.psaa.co.uk).

Claim or return	2017/18	2017/18	2016/17
	Actual fee £	**Indicative fee £**	**Actual fee £**
Housing benefits subsidy claim	14,262	14,262	16,388

The indicative fee for 2017/18 is based on the actual fee for 2015/16, when the level of error identified was similar to that identified in 2017/18. Although the amount of extended testing undertaken in 2017/18 has increased from 2016/17 the level of error identified is lower.

03 Looking forward

Looking forward

2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim.

We welcome the opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

EY | Assurance | Tax | Transactions | Advisory

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Fenland District Council

Audit Plan

Year ended 31 March 2019

24 January 2019

EY
Building a better working world

Corporate Governance Committee Members
Fenland District Council
Fenland Hall, County Road,
March, Cambs,
PE15 8NQ

24 January 2019

Dear Corporate Governance Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Corporate Governance Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

This report is intended solely for the information and use of the Corporate Governance Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on the 5th of February 2019, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP

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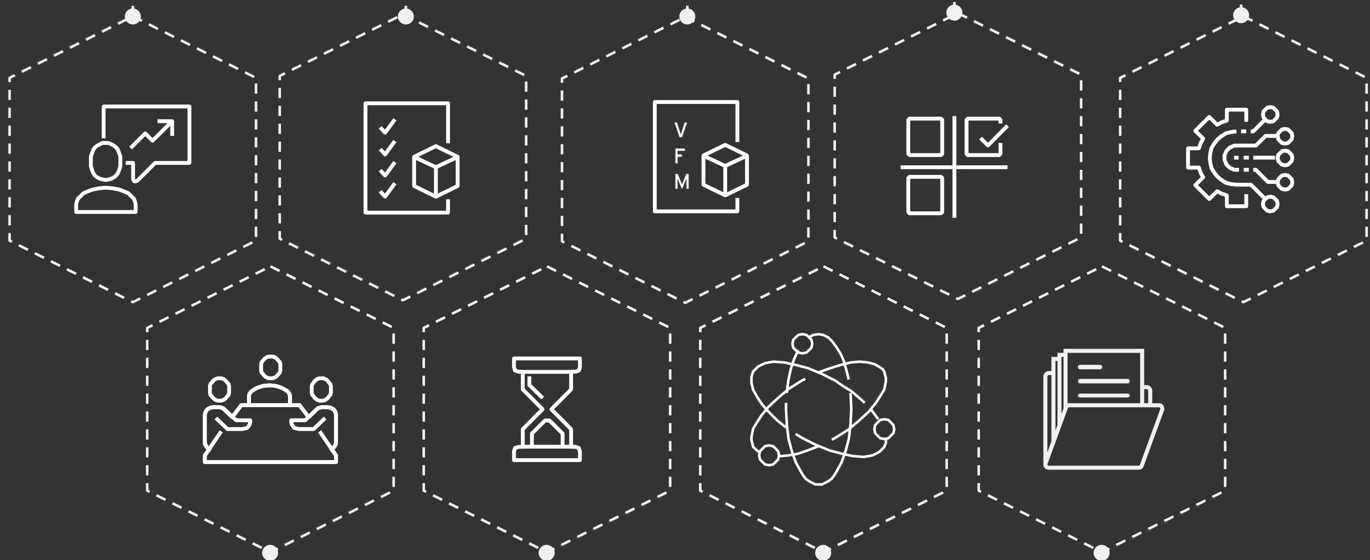


Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Corporate Governance Committee and management of Fenland District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Corporate Governance Committee and management of Fenland District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Corporate Governance Committee and management of Fenland District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Corporate Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Incorrect capitalisation of revenue expenditure	Fraud risk	**No change** in risk or focus, but shown separately for clarity	Linking to the risk above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) as a specific fraud risk, given the extent of the Council's capital programme.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are estimates which are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund liability (£55.198 million as at 31 March 2018) is a material estimated balance and the Code requires that the liability be disclosed on the Council's balance sheet.

In addition to the risks outlined above we have identified an area of audit focus.

Area of focus	Change from PY	Details
Implementation of new accounting standards	New area of focus	The 2018/19 CIPFA Code of practice on local authority accounting confirms that the Local Government will implement International Financial Reporting Standard ("IFRS") 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.

Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£1.135m

Materiality has been set at £1.135 million, which represents 2% of the prior years gross expenditure on provision of services plus financing and investment expenditure

Performance materiality
£0.851m

Performance materiality has been set at £0.851 million, which represents 75% of materiality.

Audit differences
£56,000

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund) greater than £56,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Corporate Governance Committee.

Audit scope

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

- Our audit opinion on whether the financial statements of Fenland District Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

02 Audit risks

Audit risks

Our response to significant risks

Misstatements due to fraud or error *	What is the risk?	What will we do?
	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. We identify and respond to this fraud risk on every audit engagement. Linking to our risk of fraud we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment (see below).	In order to address this risk we will carry out a range of procedures including: ▸ Identifying fraud risks during the planning stages. ▸ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▸ Understanding the oversight given by those charged with governance of management's processes over fraud. ▸ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▸ Determining an appropriate strategy to address those identified risks of fraud. ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the Comprehensive Income and Expenditure statement.

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively (see above).

As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in the inappropriate capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they have been applied correctly during our detailed testing;
- Performing sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Council will engage an external expert valuer who will apply a number of complex assumptions to these assets. Annually assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	We will: ▸ Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▸ Sample testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▸ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▸ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; ▸ Consider circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; ▸ Consider changes to useful economic lives as a result of the most recent valuation; and ▸ Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>Pension Liability Valuation</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £55.198 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Fenland District Council; ▸ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<u>New accounting standards</u> The Code requires the Council to comply with the requirements of two new accounting standards for 2018/19. These standards are: • **IFRS 9 – Financial Instruments** This new accounting standard will change: ‣ How financial assets are classified and measured; ‣ How the impairment of financial assets are calculated; and ‣ The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment. • **IFRS 15 – Revenue from contracts** The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We will: ‣ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19; ‣ Consider the classification and valuation of financial instrument assets; ‣ Review new expected credit loss model impairment calculations for assets; ‣ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ‣ Check additional disclosure requirements.

03 Value for Money Risks

VFM

Value for Money

Background

We are required to consider whether Fenland District Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

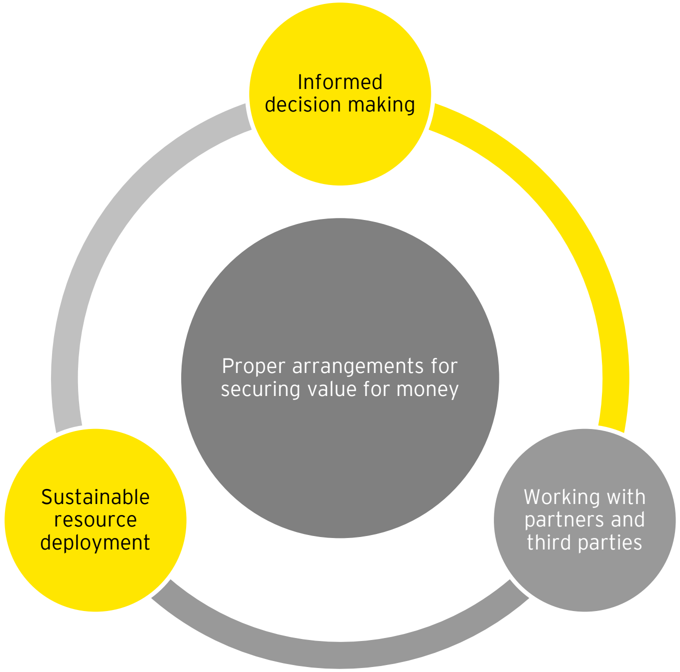
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level. In 2018/19 this has included consideration of the steps taken by Fenland District Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we anticipate that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of the significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Sustainable resource deployment: Achievement of savings needed over the medium term	To date the Council has responded well to the financial pressure resulting from the continuing economic downturn. However, as of December 2018, the Medium Term Financial Strategy 2019 to 2024 has identified a total budget shortfall of £2.729 million over the period, as set out below: ▸ 2019/20 = £0.0 million ▸ 2020/21 = £0.632 million ▸ 2021/22 = £0.605 million ▸ 2022/23 = £0.777 million ▸ 2023/24 = £0.715 million The shortfalls above, are after factoring in the Council's own internal Comprehensive Spending Review (CSR) savings, which have identified £1.8 million of savings over the corresponding period. The most recent financial forecast for the year ended 31 March 2019 projects an underspend of £0.139 million. The Council is currently making progress to deliver the identified savings will have to identify further savings and/or additional income against the budget gaps. It is clear that the Council is facing a number of financial pressures which may impact on its ability to develop and deliver sustainable financial and service plans for current and future years. Therefore a risk remains that savings or increased income will not be identified to close the funding gaps.	We will: ▸ Assess the adequacy of the Council's budget monitoring process, comparing budget to outturn; ▸ Challenge the robustness of key assumptions used in medium term planning; ▸ Review the Council's approach to prioritising resources whilst maintaining services; and ▸ For a sample of initiatives test the adequacy of the Council's arrangements for delivering savings/ efficiencies.

04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £1.135 million. This represents 2% of the Council's prior year gross expenditure on net cost of services plus financing and investment expenditure. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

Expenditure for Materiality purpose
£56.788 m

Planning materiality
£1.135m

Performance materiality
£0.851m

Audit differences
£56,000

We request that the Corporate Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.851 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in the prior year and any significant changes when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Corporate Governance Committee, or are important from a qualitative perspective.

Specific materiality – We have set a lower materiality for Senior Officer's Remuneration, Members' Allowances and Exit Packages disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

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

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

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

Procedures required by the Code

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

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

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

Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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

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

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

Internal audit:
We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

06 Audit team

Overview of our 2018/19 audit strategy

Audit team changes

Key changes to our team.

Mark Hodgson
Lead Audit Partner

Vicky Chong
Audit Manager

Amalia Valdez Herrera
Lead Senior

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Audit team

The engagement team is led by Mark Hodgson, who has replaced Neil Harris to be the Lead Audit Partner. Mark has significant experience on local government audits and leads our Government & Public Sector practice across East Anglia. Mark is supported by Vicky Chong who took over the role of Audit Manager from Florentyne Barrett. She is responsible for the day-to-day direction of audit work and is the key point of contact for the Chief Accountant. The day-to-day audit team will be led by Amalia Valdez Herrera who remains as the Lead Senior of the audit.

Audit team

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

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

Area	Specialists
Valuation of Land and Buildings	Wilks Head and Eve (the Council's property valuer)
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to PSAA) and Hymans Robertson (the Council's actuary)
Fair Value Investment Measurement	Link Asset Services (the Council's Treasury Advisor)

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

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

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

07 Audit timeline

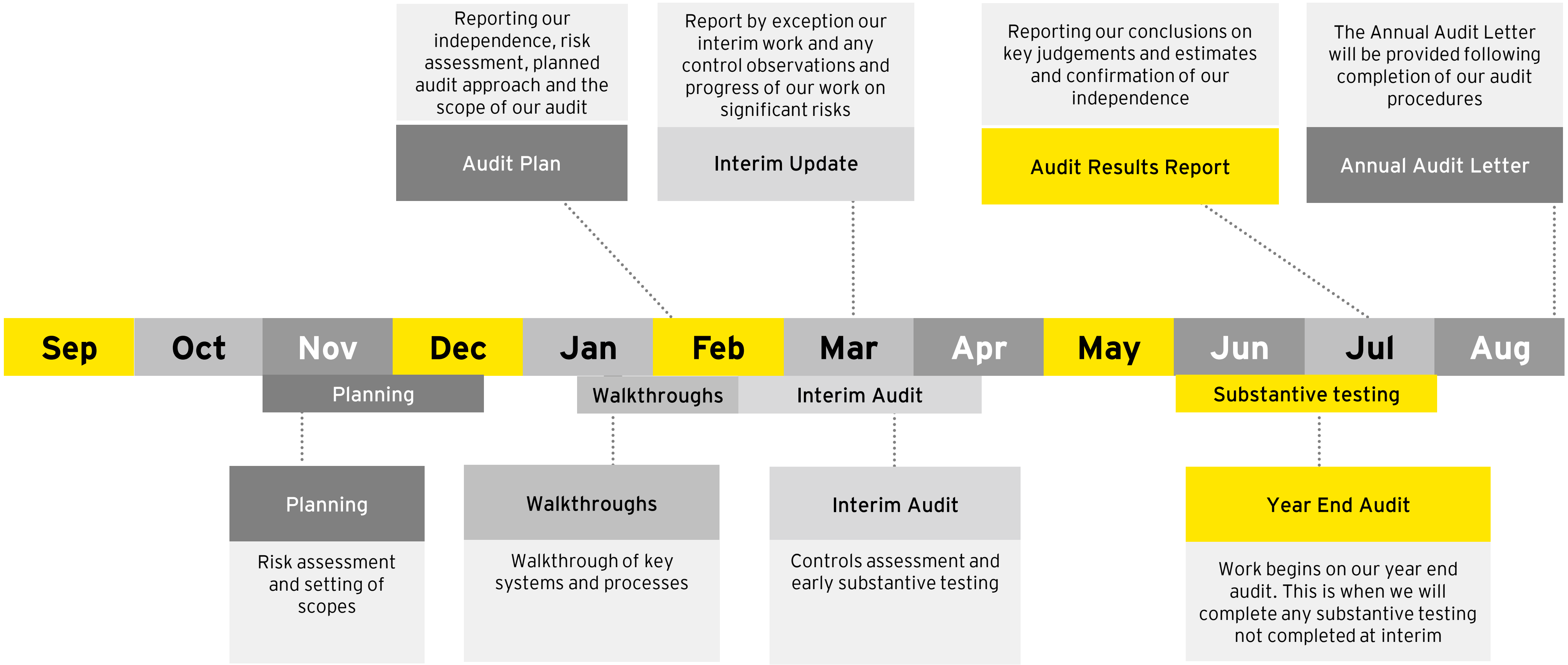
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Corporate Governance Committee and we will discuss them with the Corporate Governance Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 39.5%. This is based on the planned fee for the agreed upon procedures work for the Housing Benefits certification work. No additional safeguards are required.

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

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Independence

Relationships, services and related threats and safeguards

Other threats

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

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

Description of service	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2018/19. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £14,960 however we will update you should this amount change.	Self review threat – figures included in the return are also included in the 2018/19 financial statements.	Relates to 2018/19 return for the period to 31 March 2019.	We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2018/19. The agreed upon procedures focus on the specific requirements of the certification arrangements and we place limited reliance on this work for the purposes of the financial statements audit. No other threats to independence have been identified.

Other communications

EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

AGENDA ITEM 6

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Total Fee – Code work	37,873	37,873	49,186
Other - Port Authority Work	2,600 – Note 2	2,600	2,600
Total audit	40,473	40,473	51,786
Other non-audit services not covered above (Housing Benefits)	14,960 – Note 1	N/A	14,262
Total other non-audit services	14,960	N/A	14,262
Total fees	55,433	40,473	66,048

All fees exclude VAT

Note 1 – From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit.

The planned fee shown, is based on the level of error within the current claim and the work required to certify that. This may change dependent on the level of error within the claim under review.

Note 2 – The fee is for additional work on the harbour accounts prepared annually by the Council. This has been agreed with the Council and it is consistent with the fee for same work in 2017/18 and 2016/17.

The agreed fee presented is based on the following assumptions:

- ► The level of risk in relation to the financial statements and VFM arrangements remains the same;
- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

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

Appendix B

Required communications with the Corporate Governance Committee

We have detailed the communications that we must provide to the Corporate Governance Committee.

Required communications	What is reported?	Our Reporting to you When and where
Terms of engagement	Confirmation by the Corporate Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan - February 2019
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – July 2019
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit Results Report – July 2019

Appendix B

Required communications with the Corporate Governance Committee

Required communications	What is reported?	Our Reporting to you When and where
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management	Audit Results Report – July 2019
Fraud	▶ Enquiries of the Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud	Audit Results Report – July 2019
Related parties	▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – July 2019
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence.	Audit Plan – February 2019; and Audit Results Report – July 2019

Appendix B

Required communications with the Corporate Governance Committee

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – July 2019
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Governance Committee may be aware of	Audit Results Report – July 2019
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – July 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – July 2019
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – July 2019
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit plan – February 2019 Audit Results Report – July 2019
Certification work	Summary of certification work undertaken	Annual Certification report – January 2020

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Corporate Governance Committee reporting appropriately addresses matters communicated by us to the Corporate Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▶ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

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

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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Agenda Item No:	**7**	
Committee:	**Corporate Governance**	
Date:	**5 February 2019**	
Report Title:	**Corporate Risk Register quarterly review**	

1 Purpose / Summary

- To provide a quarterly update to the Corporate Governance Committee on the Council's Corporate Risk Register.

2 Key issues

- The Council's Risk Management Strategy ensures the effective maintenance of a risk management framework by:-
  - embedding risk management across core management functions;
  - providing tools to identify and respond to internal and external risk;
  - linking risks to objectives within services and regularly reviewing these.
- Corporate Governance Committee has asked that the Council's Corporate Risk Register is reviewed and presented to it quarterly.
- The latest Corporate Risk Register (**Appendix A**) is attached to this report.

3 Recommendations

- The latest Corporate Risk Register is agreed as attached at Appendix A to this report.

Wards Affected	All
Forward Plan Reference	N/A
Portfolio Holder(s)	Cllr John Clark - Chairman of Corporate Governance Committee
Report Originator(s)	Sam Anthony – Head of HR&OD
Contact Officer(s)	Paul Medd – Chief Executive Kamal Mehta – (Interim) Corporate Director & Chief Finance Officer Amy Brown – (Interim) Corporate Director Gary Garford – Corporate Director Richard Cassidy – Corporate Director Sam Anthony – Head of HR&OD
Background Paper(s)	Previous review of the Corporate Risk Register: minutes of Corporate Governance Committee for 20/11/18 meeting refer

4 Background / introduction

4.1 This is the latest quarterly update in respect of the Corporate Risk register.

5 Considerations

5.1 The Council has seven considerations when considering risk:-

- Performance – can we still achieve our objectives?
- Service delivery – will this be disrupted and how do we ensure it continues?
- Injury – how do we avoid injuries and harm?
- Reputation - how is the Council's reputation protected?
- Environment – how do we avoid and minimise damage to it?
- Financial – how do we avoid losing money?
- Legal – how do we reduce the risk of litigation?

5.2 Members and Officers share responsibility for managing risk:-

- Members - have regard for risk in making decisions
- Corporate Governance Committee – oversee management of risk
- Corporate Management Team – maintain strategic risk management framework
- Risk Management Group – Lead Officers across the Council promote risk management and a consistent approach to it
- Managers – identify and mitigate new risks, ensure teams manage risk
- All staff – manage risk in their jobs and work safely.

5.3 Risk is scored by impact and likelihood. Each have a score of 1-5 reflecting severity. The overall score then generates a risk score if no action is taken, together with a residual risk score after mitigating action is taken to reduce risk to an acceptable level.

5.4 The level of risk the Council deems acceptable is the "risk appetite". The Council accepts a "medium risk appetite" in that it accepts some risks are inevitable and acceptable whereas others may not be acceptable.

5.5 Managers consider risks as part of the annual service planning process. Each service has a risk register with the highest risks being reported at a strategic level, forming the Corporate Risk Register. The Corporate Management Team, supported by the Risk Management Group ensures that the highest risks are regularly reviewed and mitigating action undertaken.

5.6 Each year the Risk Management Strategy is reviewed and agreed by Corporate Governance Committee.

5.7 The Corporate Risk Register is very much a "living document"; the Corporate Governance Committee reviews it quarterly.

5.8 Where exceptional new risks present themselves, they can be referred to Corporate Governance Committee urgently as appropriate.

5.9 Risk appetite has been considered. The Council takes a medium risk appetite, accepting that the current climate in Local Government is subject to great change and that some risks are necessary in order for the Council to move forward and continue to deliver high quality, cost-effective services. As a result of this; in some instances it is not possible to significantly reduce residual risk. Having said this, some decisions may need to be made in a timely manner and this could increase risk appetite accordingly. The Council's overall risk appetite should be reviewed regularly.

5.10 Risk awareness is embedded across the Council. Whilst the Risk Management Strategy sets out how all levels of Officers should understand and take risk into account, it is important that risk awareness and management is integral to the Council's culture. To achieve this, risk awareness and training are important.

5.11 It is important that Members have regard for risk when considering matters and making decisions at Council, Cabinet and Committees. In addition, Corporate Governance Committee must take a strategic overview of risk and consider the highest risks to the Council as set out in the Corporate Risk Register.

6 Changes to the Corporate Risk Register

6.1 The Risk Register has been reviewed by the Corporate Risk Management Group and Corporate Management Team, with no changes made to the identified risks.

6.2 Mitigating actions and progress have been updated.

6.3 Commentary regarding all risks and action being taken to ensure current risks are minimised has been updated in the Risk Register.

6.4 All updates are highlighted in green.

7 Next steps

7.1 Officers will continue to bring a reviewed and updated Corporate Risk Register to Corporate Governance Committee on a quarterly basis.

8 Conclusions

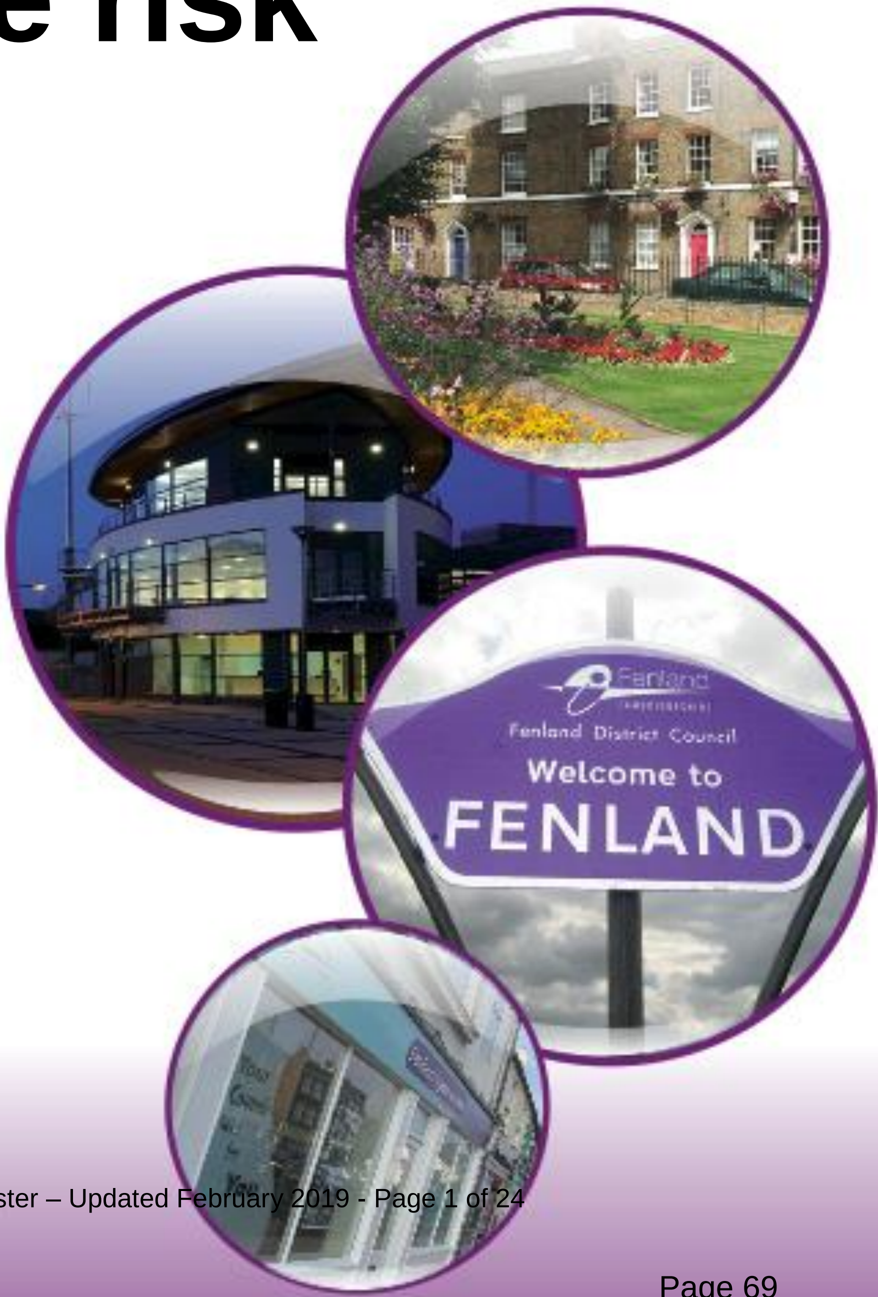
8.1 The risk management process provides assurance for the Annual Governance Statement, which is substantiated by reports from the Council's External Auditors in their issuance of an unqualified audit opinion.

8.2 Regular review (and updating as appropriate) of the Risk Management Strategy and Corporate Risk Register will further build the assurance required above.

APPENDIX A

Corporate risk register

Reviewed and updated February 2019



1 Introduction

1.1 This is the latest Corporate Risk Register. Please refer to the Council's Corporate Risk Strategy for further information about how the Council approaches risk management. Actions and comments for each risk have been revised and other changes are highlighted in green.

2 How risks are scored

2.1 The Council has adopted a consistent scoring mechanism for all risk identification, as it enables risks identified from other system to be escalated to the Corporate Risk Register.

2.2 The, probability, "likelihood", and effect, "impact", of each risk must be identified in order to help assess the significance of the risk and the subsequent effort put into managing it.

2.3 The risk score is calculated by multiplying the impact score by the probability score:

IMPACT	
Score	Classification
1	Insignificant
2	Minor
3	Moderate
4	Major
5	Catastrophic

PROBABILITY	
Score	Classification
1	Highly unlikely
2	Unlikely
3	Possible
4	Probable
5	Very likely

IMPACT x PROBABILITY = RISK SCORE

2.4 The impact and likelihood of risks is scored with regards the below levels:-

Score	1	2	3	4	5
Criteria	Insignificant impact	Minor impact	Moderate Impact	Major Impact	Catastrophic Impact
Performance	Objectives still achieved with minimum extra cost or inconvenience	Partial achievement of objectives with compensating action taken or reallocation of resources.	Additional costs required and or time delays to achieve objectives – adverse impact on PIs and targets.	Unable to achieve corporate objectives or statutory obligations resulting in significant visible impact on service provision such as closure of facilities.	Unable to achieve corporate objectives and/or corporate obligations.
Service Delivery	Insignificant disruption on internal business – no loss of customer service.	Some disruption on internal business only – no loss of customer service.	Noticeable disruption affecting customers. Loss of service up to 48 hours.	Major disruption affecting customers. Loss of service for more than 48 hours.	Loss of service delivery for more than seven days.
Physical	No injury/claims.	Minor injury/claims (first aid treatment).	Violence or threat or serious injury/claims (medical treatment required).	Extensive multiple injuries/claims.	Loss of life.
Reputation	No reputational damage.	Minimal coverage in local media.	Sustained coverage in local media.	Coverage in national media.	Extensive coverage in National Media.
Environmental	Insignificant environmental damage.	Minor damage to local environmental.	Moderate local environmental damage.	Major damage to local environment.	Significant environmental damage attracting national and or international concern.
Financial	Financial loss < £200,000	Financial loss >£200,000 <£600,000	Financial loss >£600,000 <£1,000,000	Financial loss >£1,000,000 <£4,000,000	Financial loss >£4,000,000
Legal	Minor civil litigation or regulatory criticism	Minor regulatory enforcement	Major civil litigation and/or local public enquiry	Major civil litigation setting precedent and/or national public enquiry	Section 151 or government intervention or criminal charges

3 The corporate risk register at a glance

3.1 Please see below for a summary of current risks and their scores. More detail follows in section 3 of this document, in which the individual risks are ordered by severity of current risk, in descending order.

Ref	Risk	Risk if no action			Current risk			Page in this register
		Impact	Likelihood	Score	Impact	Likelihood	Score	
1	Legislative changes	5	5	25	5	2	10	10
2	Brexit	5	5	25	3	3	9	11
3	Failure of contractors and suppliers working on the Council's behalf	4	5	20	3	4	12	7
4	Failure of IT systems	5	4	20	4	2	8	19
5	Insufficient staff to provide Council services	4	5	20	2	3	6	20
6	Breach of ICT security causes loss of service	5	5	25	2	3	6	21
7	Lack of access to Council premises prevents services being delivered	5	5	25	2	3	6	22
8	Funding changes make Council unsustainable	5	5	25	3	3	9	12
9	The Council's ability to cope with a natural disaster	5	5	25	4	4	16	5
10	Major health and safety incident	4	4	16	4	3	12	8
11	Fraud and error committed against the Council	5	4	20	3	3	9	13
12	Failure of external investment institutions	5	4	20	3	3	9	14
13	Failure of Governance in major partners or in the Council as a result of partnership working	4	5	20	3	3	9	15
14	Failure to achieve savings set out in Council's CSR project and Efficiency Plan	4	5	20	3	3	9	16
15	Over-run of major Council projects in time or cost	4	5	20	3	2	6	23
16	Service provision affected by organisational change	4	2	20	3	4	12	9
17	Political changes in national priorities	5	4	20	5	3	15	6
18	Capital funding strategy failure	5	4	20	3	3	9	17
19	Poor communications with stakeholders	4	5	20	3	3	9	18

4 Corporate risk register

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
9	Risk:- The Council's ability to cope with a natural disaster. Effects:- Natural disaster; malicious or accidental incident affects support required by civilians or disrupts existing Council services.	5	5	25	• Emergency plan • Emergency planning exercises beyond the district • Business continuity plans • Regular exercise and joint public sector workshops for Emergency Planning • Emergency Planning Communications Strategy • Review of approach with partner organisations as a result of lessons learned from 'near miss' flood events. • Local Resilience Forum	4	4	16	CMT	• Regularly test Emergency Plan • Test Service Business Continuity Plans • Ensure key emergency planning staff attend regular liaison meetings and training	Key staff such as Paul Medd attend regular multi-agency briefing and planning meetings. Management Team conducted an exercise in May and September 2018 to test our readiness for an emergency. Recovery Training has been delivered to all senior managers by the Cambridge and Peterborough Local Resilience Forum (CPLRF), additional training is in progress (Loggist, Recovery and Tactical Management). The Council's Emergency Management and Rest Plan have been updated. We have increased and trained the number of volunteer rest centre staff available. The Council will retain the use of each of the four Leisure Centres for rest centre sites.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
17	Risk:- Political changes in national priorities Effects:- Changes in national political priorities may result in immediate changes that require additional resource to achieve and fail to reflect priorities determined by consultation.	5	4	20	• Financial & workforce planning • Monitoring by CMT and resultant Cabinet reports • Clear corporate planning and regular performance monitoring • Effective service & financial planning • Respond to national consultation on key policy changes • Membership of LGA as a Council Outside Body	5	3	15	Paul Medd	• Understanding and acting on intelligence from LGA, CIPFA and other local government sources. • Resources identified, approved and implemented without delay.	The risks of legislative change remain high as a result of the effects if the Brexit negotiation process, albeit that Brexit itself has been identified as a risk to the Council. (see reference number 2)

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
3	Risk:- Failure of contractors and suppliers working on the Council's behalf Effects:- Failure of contractor or partners to deliver services or meet agreed performance objectives leads to additional costs or failed objectives.	4	5	20	• Procurement processes – including financial aspects/ contract standing orders/ equality standards • Contract process – creation of robust contracts • Accountability and risk ownership documented • Service Level Agreements • Contract monitoring • Trained/skilled staff • Project management • Relationship Management • Business Continuity Plans	3	4	12	CMT	• Regular monitoring of contracts and performance by Managers. • Ensure that contracts have risk registers and mitigation in event of contract failure.	The Leisure service was outsourced in December 2018 Included within the contact is the requirement for contingency in case of service failure. Potential contractors are always checked for financial stability by the Accountancy team before contracts are let. Individual Council services share their own contingency to cover for contractor failure, and this is part of the Business Continuity Plan for each Service Area. We are carefully monitoring risks of supplier failure such as Capita issuing a profits warning over recent months. We have now appointed a Contract Manager post who's role is to manage/monitor the performance of the Grounds Maintenance contract and the Leisure Service contract.

APPENDIX A

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
10	Risk:- Major health and safety incident Effects:- Major Health & Safety incident at Council leads to costs for inquiry, disruption to service and possible prosecution	4	4	16	• Health & Safety (H&S) Panel • H&S procedures – addressed at every service area • H&S audits in all services • Specialist H&S advisor • Corporate wide H&S training • Insurance • Aligned Port Health and Safety arrangements • Port Management Group and annual independent audit	4	3	12	Kamal Mehta /Gary Garford	• Ensure health and safety is standard agenda on all team meetings. • Ensure equipment inventory and inspections are up to date. • Review Risk Assessments and Action Plans. • Capture Port near misses and asses learning points	A thorough Health and Safety regime at the Council ensures that the residual risk remains carefully managed Programme of ongoing refresher training is ongoing

APPENDIX A

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
16	Risk:- Service provision affected by organisational change Effects:- Service provision and performance affected by organisational change, industrial action and/or staff sickness resulting in complaints, poor performance and possible further costs.	4	5	20	• Working environment / org culture • Staff Committee • Consultation with Staff Side • Flexible working • Established suite of people policies & procedures • Business continuity plans • Management training • "Springboard" appraisal for all staff support and development • CMT monitor and lead on human resource management. • Regular performance monitoring and management • IIP • Access to interim arrangements	3	4	12	Kamal Mehta	• Business continuity plans for each service. • Culture of Council remains effective.	Plans regularly checked and tested. Services have reviewed their Business Continuity Plans in the light of wider local government lessons learnt from the Grenfell Tower fire. All services have up to date Business Continuity Plans in place.

APPENDIX A

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
1	Risk:- Legislative changes Effects:- Changes arising from Central Government or EU legislation requiring significant alteration to organisational capacity, such as impact of welfare reform and universal credit, effects of devolution, introduction of new burdens.	5	5	25	• Monitoring Officer • Horizon scanning by Legal/CMT/Mgt Team • Service Manager responsibilities • Financial & workforce planning • Membership of professional/ Local Gov bodies aids horizon scanning • Mgt of change approach to mitigate significant impact to the organisation and its staff • Detailed project plans to change implementation • Respond to consultations on new legislation	5	2	10	Carol Pilson/ Amy Brown	• Use intelligence to identify impending changes and their effects. • Ensure staff trained and procedures changed. • Use professional networking to identify best practice for responding to change. • We respond to government consultations on changes to legislation or policy to influence its development.	Officers continue to horizon-scan for legislative changes and their effects. Further news on the longer term future of Local Government funding are still awaited. The most recent change has been that the General Data Protection Regulation which came into force on 25^{th} May 2018. The Council has compiled an Information Asset Register of all records it hold in both paper and electronic form, worked with IT system suppliers and conducted a staff awareness campaign to ensure that staff understand and are compliant with GDPR. The majority of information held by the Council is held with a legal basis for holding such as election and Council Tax records.

APPENDIX A

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
2	Risk:- Brexit Effects:- Uncertainty during transition period, followed by potential legislative, funding and policy changes after UK leaves EU may adversely affect the Council and its ability to provide services.	5	5	25	• Horizon scanning by Legal Services / CMT / Heads of Service • Financial & workforce planning • Membership of professional and Local Govt bodies aids horizon scanning • Management of change approach to mitigate against significant impact to the organisation and its staff • Detailed project plans to manage implementation of changes	3	3	9	Kamal Mehta/ Amy Brown	• Understanding and acting on intelligence from LGA, CIPFA and other local government sources. • Identifying policies that require changing, their effects and governance as Brexit effects start.	We continue to monitor progress and take account of any effects on local government as they emerge. The Council is actively preparing for the likely outcomes of ongoing Government Brexit negotiations: • The Council has a Corporate Brexit Project group; • The Council is an active partner of the Cambridge and Peterborough Local Resilience Forum (CPLRF), who have been tasked with looking at the potential impacts of a "No Deal" Brexit, and the associated local Impact. This is being led by the Cambridgeshire Fire and Rescue Service • The Council is a member of the Cambridgeshire Public Service Board, (This is the Executives of the partner organisations within the county, and Brexit is a standing item on their current agenda). The Council is reviewing information on its workforce and the requirements for any EU workers; we are also liaising with all partners to ensure their preparedness in this area. The Council is also preparing for the possibility of resourcing a second election in May (European) if Article 50 is extended beyond March.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
8	Risk:- Funding changes make Council unsustainable Effects:- Economic changes, imposed savings requirements, changes to local government funding systems, uncertainties of pilot pension fund. Financial Mgt of NNDR, CTS leads to change in income /spending making Council unsustainable.	5	5	25	• S151/ Chief Finance Officer • Financial Regulations & Standing Orders • Appropriately trained staff • MTFS • Professional economic forecasts • Community consultation on service priorities • Our CSR programme • Political decisions linked to budget strategies • CMT efficiency planning • Efficiency Plan and CSR plan. • Executive steer of service /capital priorities. • Review fees /changes. • Reserves • Financial Mgt System • Budget monitoring.	3	3	9	Kamal Mehta	• Using intelligence to model and plan for future changes and risks and move away from reliance on Govt funding to balance our budget. • Regular monitoring of current position and reporting to Members. • Workforce planning covers all scenarios. • Inclusion in national working groups, modelling and lobbying for funding system after RSG ceases. • Sharing Council's Efficiency Plan with the Government allows guaranteed multi-year grant settlement raising funding certainty.	We are closely watching local government finance and the 2018-19 Council budget and Medium Term Financial Plan reflects how the Council will balance its budget and maintain appropriate reserves. Cabinet considered the Council's projected positive financial outturn position in December 2018. The Fair Funding Review and Business rate Retention Scheme is being reviewed nationally, and there is some potential for this to impact on the Council's long-term financial position. Until this review is complete, the impact will be unknown, but the Council will continue to monitor the risk rating.

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		Risk if no action				Current risk					
Reference	Risk and effects	Impact	Likelihood	Score	Mitigation	Impact	Likelihood	Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
11	Risk:- Fraud and error committed against the Council Effects:- Potential for fraud, corruption, malpractice or error, by internal or external threats. In additional to immediate financial loss, this could harm reputation and lead to additional inquiry costs and penalties.	5	4	20	• Anti-fraud & corruption policy/ strategy • Financial Regulations / Standing Ord • Codes of conduct • Appropriately trained staff • Appropriate culture and risk awareness • Segregation of duties • Supported financial mgt system • Budget monitoring regime • Internal Audit review of sys /and controls • Bribery & corruption / fraud risk assessments • Indemnity insurance • Whistle-blowing procedure • Annual Governance Statement • ARP fraud resource • National Fraud Initiative	3	3	9	Kamal Mehta and Carol Pilson/ Amy Brown	• Increase staff vigilance • Fraud awareness training for Managers • Raise profile internally and externally for successful prosecutions	The Council has assisted with each annual National Fraud Initiative, cross-matching information with records held nationally.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
12	Risk:- Failure of external investment institutions Effects:- Failure of external investment institutions affecting availability of funds or return on investment reducing cash flow and resource availability	5	4	20	• Policy for maximum investment/ borrowing levels limits liability • Credit ratings • Financial management • Reserves • Insurance • Medium Term Financial Strategy • Treasury Management Strategy	3	3	9	Kamal Mehta	• Effective Treasury Management strategy. • Robust auditing of processes and policies.	The Council's treasury management position is regularly reviewed and is currently showing a good position. The Mid Year Treasury Management Report was considered by Cabinet and Council in November 2018. The proposed Treasury Management Strategy is to be considered in February 2019.

Reference	Risk and effects	Risk if no action: Impact	Likelihood	Score	Mitigation	Current risk: Impact	Likelihood	Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
13	Risk:- Failure of Governance in major partners or in the Council as a result of partnership working Effects:- Partnership governance not adopted or followed, leading to unachieved priorities and poor performance by major partner agencies:- Cambs and Peterborough Combined Authority, Anglia Revenues Partnership, CNC Building Control, Shared Planning, Payroll delivered by Bedford BC.	4	5	20	• FSP, Fenland Public Service Board, Cabinet and O&S, bi-annual stakeholder events ensure accountability • ARP Joint Committee and Operational Improvement Board, Cabinet, O&S, joint risk registers • CNC Joint Members Board, Cabinet plus O&S • Shared Planning Board, Cabinet plus Overview and Scrutiny, joint performance indicators • Project plans / perf' monitoring shared risk registers • PCCA Membership.	3	3	9	Carol Pilson / Amy Brown/ Kamal Mehta	• Assurance that governance models correctly followed and in the Council's interests. • Support Members in governance of partnership bodies. • Internal Audit partnership arrangements. • Ensure that the Council's interests are protected as Members of the Combined Authority and as Officers working on joint projects.	The Annual Governance Statement being reported to Corporate Governance Committee in June 2018 shows the Council is in a strong governance position. Scrutiny of ARP and Planning takes place on an annual basis and Cabinet members sit on Boards to ensure the effective delivery of partnership arrangements such as CNC Board for building control. The Council is currently undertaking developmental work in relation to the proposed partnership agreement with Peterborough City Council regarding the joint CCTV service for implementation in November 2019.

Reference	Risk and effects	Risk if no action: Impact	Likelihood	Score	Mitigation	Current risk: Impact	Likelihood	Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
14	Risk:- Failure to achieve savings set out in Council's CSR project and Efficiency Plan Effects:- Failure to achieve efficiency saving, maximise income, or performance targets, results in greater than budgeted costs and potential risk of Council not being able to set a balanced budget.	4	5	20	• Heightened analysis of budgets and services by CMT • Implement Service Transformation • Implement Procurement Strategy • Corporate plan • Pursue action to increase income streams • Performance Management Framework • Budget and performance monitoring	3	3	9	CMT	• Robust control of corporate Transformation Plan. • Regular progress reports and assurance to Members.	Delivery of CSR continues including delivering savings planned for in the Council's annual budget and medium term financial strategy. Cabinet considered the Council's projected positive financial outturn position in November 2018. Further 'Pipeline'/'CSR2' savings to be identified post May 2019.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
18	Risk:- Capital funding strategy failure Effects:- Financial risks of capital funding shortfalls leading to increased burden to the Council. Potential for marginal deficit in capital program if future funding is not realised	5	4	20	• Asset mgt plan • Asset disposal linked to capital programme • Corporate Asset Team • CMT monitoring of capital receipts/effect on capital prog' • Regular Cabinet review of the capital prog' , member with responsibility for assets • Additional funding opp's identified and pursued where possible • Project lead monitors site valuations linked to econ' dev' proposals. • Marketing and identification of potential land purchasers, flexibility of planning guidance aligned to market needs • Continued consultation with econ ptners	3	3	9	Gary Garford / Kamal Mehta	• Forward planning and horizon scanning. • Regular high level monitoring of direction of travel and mitigation required. • Asset Management Plan. • Asset disposal strategy	The Council's capital funding programme is regularly reviewed by Officers and by Cabinet. The current projected funding deficit will be met by borrowing and the relevant annual financing cost has been included in the Council's Medium Term Financial Plan. Should resources from external funding and/or capital receipts not generate the level of receipts forecast, or there is a delay in disposal of assets, then the capital programme will need re-visiting to ensure funding is sufficient to meet proposed expenditure. Reviews of the programme and resources available are carried out regularly during the year.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
19	Risk:- Poor communications with stakeholders Effects:- Poor communication with stakeholders and staff leads to poorly informed direction of resources and lack of support for change	4	5	20	• Internal and external regular publications • Staff and management meetings • Regular staff communication from the Chief Executive • Key stakeholder networks for consultation • Forums for perceived hard to reach groups • Co-ordinated press releases • Comments, Compliments and Complaints monitoring and reporting procedure • Customer Service Excellence accreditation • Investors in People accreditation • New consultation strategy now live	3	3	9	Carol Pilson/ Amy Brown	• CSE Action Plan. • Staff survey. • Public consultations on key issues. • 3cs refresher training	The Council's CSE performance is assessed each year by an external expert. The Council has a dedicated project team to ensure ongoing progress against CSE requirements/actions. Cabinet considered the Council's Communication Strategy in Sept 2017.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
4	Risk:- Failure of IT systems Effects:- Failure to secure and manage data leads to loss of/ corruption of / inaccuracy of data, results in disruption to services and breaches of security. A further consequence could be financial penalties and reputational risk.	5	4	20	• Data protection policy and procedure • Freedom of Information publication scheme • Data retention policy and procedure for archive and disposal • Information breach response plan • Monitoring Officer role comprises Senior Information Risk Officer function • Business continuity plans • ICT system security • Public Services Network compliance • Paperless office project • Countywide information sharing framework	4	2	8	Carol Pilson / Amy Brown/ Kamal Mehta	• Effective auditing of systems and data held. • Data backed-up securely off-site. • Regular penetration testing. • Regular review of business continuity plans	GDPR is now live, see risk 1. An additional internet feed to Fenland Hall has been installed to improve resilience.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
5	Risk:- Insufficient staff to provide Council services Effects:- Constraints to effective workforce planning lead to poor standards of service or disruption to service. Service transformation and commissioning can help build resilience, but could also lead to a loss of qualified and knowledgeable staff, which exposes the council to risk of service failure and legal challenge.	4	5	20	• Learning & Development framework / Training • Working environment /culture • Staff Committee • MTSP • Flexible working • Established suite of people policies & Procedures • Business continuity plans • Management training • 121s /Springboard staff development and appraisals • Service planning process • Access to interim staff via frameworks • Effective sickness management	2	3	6	CMT	• Ensure all services have effective Workforce plans incorporated into Service Plans. • Effective succession planning.	Services have published workforce plans for 2018-19 to ensure teams are staffed according to current establishment and to take account of longer-term trends. A recruitment process for additional rest centre volunteers has been completed.

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
6	Risk:- Breach of ICT security causes loss of service Effects:- Major IT physical hardware failure or electronic attack, such as viruses, hacking or spyware, causes disruption to services and breaches of security. A further consequence could be financial penalties and reputational risk.	5	5	25	• Anti-virus software • Geographically distributed servers • Tested disaster recovery plan • Back-ups stored off site • Secondary power supply • Revised security policies • Critical services' business continuity plans include manual operation	2	3	6	Kamal Mehta	• Effective auditing of systems and data held. • Data backed-up securely off-site. • Regular penetration testing.	The Council has subscribed to the National Cyber Security Centre's (NCSC) Web Check service that helps public sector organisations fix website threats. This service regularly scans public sector websites to check if they are secure. NCSC have advised that the Fenland Council site is secure. Council IT systems and website are as secure as possible with current anti-attack software and processes up to date. When vulnerabilities are made known by software vendors, software is updated to reduce the risk of malicious attack.

APPENDIX A

Reference	Risk and effects	Risk if no action: Impact	Risk if no action: Likelihood	Risk if no action: Score	Mitigation	Current risk: Impact	Current risk: Likelihood	Current risk: Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
7	Risk:- Lack of access to Council premises prevents services being delivered Effects:- Disruption of service provision.	5	5	25	• Alarm and security systems • Fire drills • Business continuity plans • Emergency planning network • ICT disaster recovery and offsite testing • Relocation procedures - critical and support services • Geographically distributed sites • Remote working • Statutory building inspection and checks	2	3	6	Gary Garford	• Regularly test Emergency Plan • Test service Business Continuity Plans • Ensure key emergency planning staff attend regular liaison meetings and training	Plans regularly checked and tested and emergency planning exercise was conducted last month.

		Risk if no action				Current risk					
Reference	Risk and effects	Impact	Likelihood	Score	Mitigation	Impact	Likelihood	Score	Risk Owner	Actions being taken to managing risk	Comments and progress of actions
15	Risk:- Over-run of major Council projects in time or cost Effects:- Failure to manage projects effectively leads to overruns on time or cost and failure to achieve project aims.	4	5	20	• Project Management methodology • Contract Standing Orders & Financial Regulations • Service plans • Budgetary control • Management and Portfolio Holder oversight	3	2	6	CMT	• Robust project management. • Effective risk registers for projects.	Effective project management remains a Council priority. Major projects are closely monitored by CMT and Cabinet members and progress is reported to Council via Portfolio Holder briefings.

APPENDIX A

5 Heat map – residual risk

Agenda Item No:	8	
Committee:	**Corporate Governance**	
Date:	**5 February 2019**	
Report Title:	**Internal Audit Plan 2018-19 Progress Report Q3**	

1 Purpose / Summary

To report progress against the Internal Audit Plan 2018-19 for the period 01 April 2018 including planned work until 31 December 2018 and the resulting level of assurance.

2 Key issues

- The Council's Internal Audit plan is produced on an annual basis. It is an estimate of the work that can be performed over the financial year. Potential areas of the Council for audit are prioritised based on a risk assessment, enabling the use of Internal Audit resources to be targeted at areas of emerging corporate importance and risk.

- The format of the plan reflects the Public Sector Internal Audit Standards (PSIAS) which were introduced in April 2016 and applicable from April 2017. It also incorporates the governance and strategic management arrangements of Internal Audit resources.

- Performance Standard 2060 of the PSIAS requires the Audit Manager to report to the Committee on the internal audit activity and performance relative to this plan.

- Corporate Governance Committee approved the Internal Audit Plan 2018-19 on 19th March 2018. Members of the Corporate Governance Committee are keen to receive proactive performance reporting in relation to progress against the Internal Audit plan on a quarterly basis.

- Proactive quarterly monitoring of the Internal Audit plan will enable the Committee to understand the audit activity which has successfully taken place and the associated assurance level.

- The plan is risk based and covers the organisation's existing operations, while adding value by responding to emerging risks and promoting good governance. Proactive monitoring of the Internal Audit plan will therefore enable the Corporate Governance Committee to understand any in year changes to the plan and the associated risk based rationale for any proposed changes.

3 Recommendations

- For Members of Corporate Governance Committee to consider and note the activity and performance of the internal audit function.

Wards Affected	All
Forward Plan Reference	N/A
Portfolio Holder(s)	Councillor John Clark - Corporate Governance Committee Chairman
Report Originator(s)	Kathy Woodward – Shared Internal Audit Manager
Contact Officer(s)	Kathy Woodward - Shared Internal Audit Manager kwoodward@fenland.gov.uk 01354 622230 Kamal Mehta – Interim Corporate Director kamalmehta@fenland.gov.uk 01354 622201
Background Paper(s)	Annual Risk Based Internal Audit Plan 2018-19 Internal Audit Outturn and Quality Assurance Review 2017-18

1 Background / introduction

1.1 This report includes details of the audit activity undertaken for the period 01 April 2018 to 31 December 2018, as well as the resulting opinion regarding the associated levels of assurance.

1.2 The annual internal audit plan is formulated in advance, following an assessment of risks inherent to services and systems of the Council based on internal audit and management knowledge at that time. During the period that follows, changes in the control environment may occur due to, for example: -

- introduction of new legislation/regulations,
- changes of staff,
- changes in software,
- changes in procedures and processes,
- changes in service demand,

1.3 To date the Internal Audit team have achieved a satisfactory level of planned audits and remain on course to successfully deliver the audit plan for 2018-19.

1.4 The team have also been providing advice to ongoing council projects, particularly Data Protection legislation and the new GDPR guidelines that came into effect in May 2018.

1.5 Audit work includes testing of system controls and management action plans have been agreed with the system owners including timescales for improvement appropriate to the level of risk. These action plans will be followed up by Internal Audit with the appropriate service manager. The table outlined in **Appendix A** provides a generalised indication of the corporate themes identified as a result of the internal audit projects.

1.6 A key performance objective of the team is to complete 'fundamental' audits, which are considered key financial systems. For 2018-19 there were 7 fundamental audits included in the plan. The internal audit team at Fenland has 4 'fundamental' audits to be reviewed as part of this year's cycle. Following the introduction of the new auditing arrangements with ARP we will also receive completed audit reviews on Housing Benefits, Council Tax, Business rates and Overpayments that have been completed by other partners in the ARP group. Housing Benefits, Council Tax and Business rates are 'fundamental' audits.

2 Monitoring

2.1 On completion of each audit a formal report is issued to the relevant Service manager and Corporate Director. A copy is also sent to the Corporate Director – Finance (S151 Officer). Each report contains a management action plan, with target dates, that have been agreed with managers to address any observations and recommendations raised by the Internal Auditor. This forms the basis of the follow-up audit, which is reviewed at 6 monthly intervals to assess progress in implementing the agreed actions.

2.2 The following audits have been completed during Q3 of 2018-19.

- Trading Operations – Yacht Harbour
- 3C's – Customer Care
- Corporate Assurance – Performance Management
- Refuse – Waste Strategy and Recycling Credits
- Creditors
- ICT – Administrations and Management

2.3 The following audits are currently ongoing and will be reported to the committee in the next progress report:

- Contract Monitoring – Grounds Maintenance
- Corporate Finance - Procurement
- Licences – Animal Welfare
- ARP Enforcement
- Corporate Assurance – Information and Data Management
- Payroll
- Combined Authority – Commissioned Works Projects
- Contract Monitoring – Stray Dogs
- Trading Operations – Community Events
- Customer Services – Contact Centre
- Human Resources – Workforce Planning
- VAT
- *Housing Benefits / Housing Benefits Overpayments / Council Tax / Business Rates*

The audits shown in italics are conducted by our ARP Audit Partners. The results will be presented to this committee.

2.4 In addition to the standard audits, Internal Audit also undertook other work during Q3 of 2018/19, including;

- Review of FACT as requested by the Chairman of CGC.
- Providing advice and guidance in relation to the National Fraud Initiative data upload.
- Providing advice and guidance to departments in relation to GDPR
- Providing advice and guidance for the upgrade of the Council's Finance system.
- Providing support and advice to Service Managers as requested.

2.5 Follow up work has also been completed in relation to recommendations made from the 2017-18 internal audit plan. Progress on these recommendations can be seen at **Appendix B.**

APPENDIX A - Audit Activity Successfully Completed between 01 April 2018 - to 31 December 2018

Audit	Overall opinion	Recommendation	Recommendation category	Recommendation theme	Fundamental
Health – Food & Safety	Substantial	0	N/A		
Contract Monitoring - Highways	Substantial	0	N/A		
Conservations & Regeneration Grants	Substantial	1	Low	Public Information	
Street Scene - Enforcement	Adequate	2	1 Medium, 1 Low	Financial Monitoring and Procedural review	
Corporate Assurance - Transparency	Adequate	5	5 Medium	Guidance / Timeliness / Responsibility	
Development – Fee Income	Substantial	1	1 Low	Financial	
Members & Committee Expenditure	Substantial	0			
Payroll – Employee Benefits and Deductions	Substantial	0			
Payroll – Expenses and Allowances	Substantial	4	3 Medium, 1 Low	Policy and System efficiencies	
ICT Assets and Disposals	Substantial	0			

Audit	Overall opinion	Recommendation	Recommendation category	Recommendation theme	Fundamental
Debtors and Collection Agency	Substantial	1	Medium	Procedural	
Communications	Substantial	0			
Trading Operations – Yacht Harbour	**Adequate**	**4**	**1 High, 3 Medium**	**Procedural**	
3C's – Customer Care	**Substantial**	**1**	**Medium**	**Training**	
Corporate Assurance – Performance Management	**Substantial**	**3**	**Medium**	**Policy and Guidance**	
Refuse – Waste Strategy and Recycling Credits	**Substantial**	**2**	**1 Medium, 1 Low**	**Guidance and Procedural**	
Creditors	**Substantial**	**2**	**Medium**	**Procedural**	
ICT – Administrations and Management	**Substantial**	**0**			

Audits completed during quarter 3 are shown in bold.

An assurance rating is applied, when a system or process is reviewed, which reflects the effectiveness of the control environment. The text below is an indication of the different assurance ratings used:

Assurance	Description
Full	There is a sound system of control designed to proactively manage risks to objectives.
Substantial	There is a sound system of control, with further opportunity to improve controls which mitigate minor risks.
Adequate	There is a sound system of control, with further opportunity to improve controls which mitigate moderate risks.
Limited	There are risks without effective controls, which put the objectives at risk.
None	There are significant risks without effective controls, which put the objectives at risk. Fraud and/or error are likely to exist.

Recommendations

- The report is completed with the action plan agreed with management. The observations and recommendations are allocated a grading of High, Medium or Low as defined below:

High	A fundamental control process, or statutory obligation, creating the risk that significant fraud, error or malpractice could go undetected. It is expected that correction action to resolve these will be commenced immediately.
Medium	A control process that contributes towards providing an adequate system of internal control. It is expected that correct action to resolve these will be implemented within three to six months.
Low	These issues would contribute towards improving the system under review. Action should be taken as resources permit.

Appendix B – Recommendation Progress

2017-18 Recommendations	HIGH	MEDIUM	LOW
Total number of recommendations made	**5**	**35**	**12**
Number of recommendations completed	5	22	7
Number of recommendations outstanding (not due)	0	12	4
Number of recommendations overdue	0	1	1

2018-19 Recommendations	HIGH	MEDIUM	LOW
Total number of recommendations made	**1**	**20**	**5**
Number of recommendations completed	0	1	1
Number of recommendations outstanding (not due)	1	19	4
Number of recommendations overdue	0	0	0

Agenda Item No:	**9**	Fenland CAMBRIDGESHIRE
Committee:	Corporate Governance Committee	
Date:	5 February 2019	
Report Title:	Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2019/20	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to provide Members with information on the proposed Treasury Management Strategy Statement, Capital Strategy, Minimum Revenue Provision (MRP) Policy Statement and Annual Investment Strategy for 2019/20.

2 Key issues

- The prudential and treasury indicators detailed in paragraphs 2-11, show that the Council's capital investment plans are affordable, prudent and sustainable.
- The Capital Strategy sets out the context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium term forecast.
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows.
- Due to the Council's long term PWLB debt portfolio (£4.5m at 31/03/18) currently attracting excessive premiums; it is not financially advantageous for the Council to comply with the gross borrowing and capital financing prudential indicator.
- Total external interest which includes finance lease interest payments; revised estimate for 2018/19 is £507,940 and the estimate for 2019/20 is £574,000.
- Bank rate is forecast to increase steadily but slowly over the next few years to reach 2% by quarter 1 2022.
- The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2022.
- The aim of the Council's annual investment strategy is to provide security of investments whilst minimising risk; investment returns are commensurate with the Council's low risk appetite. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- Total investment income is an estimated £170,000 for 2018/19 and £180,000 for 2019/20.

3 Recommendations

It is recommended that:-

- Corporate Governance Committee endorses the strategy detailed in this report to be included in the final budget report for 2019/20.

Wards Affected	All
Portfolio Holder(s)	Cllr Anne Hay, Portfolio Holder, Finance
Report Originator(s)	Kamal Mehta, Interim Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Contact Officer(s)	Kamal Mehta, Interim Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Background Paper (s)	Link Asset Services template Budget working papers

Report:

1 Introduction

1.1 The Council is required to operate a balance 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.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure 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.

1.3 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.

1.4 The Chartered Institute of Public Finance and Accountancy (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 pursuit of optimum performance consistent with those risks."

1.5 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital 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 strategy is being reported separately.

1.6 The Council has not engaged in any commercial investments and has no non-treasury investments.

2 Reporting Requirements

2.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional document, a Capital Strategy (see Appendix A attached), 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; and
- the implications for future financial sustainability.

2.2 The aim of the Capital Strategy is to ensure that all elected members on full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The Council is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Corporate Governance Committee and Cabinet before being recommended to the Council.

2.4 **Prudential and Treasury Indicators and Treasury Strategy** (this report), the first and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

An Annual Treasury Report - This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.5 The Strategy covers two main areas:

Capital issues;

- the capital expenditure plans and associated prudential indicators;
- the MRP policy.

Treasury management issues;

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

3 Capital Prudential Indicators 2019/20 to 2021/22

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

3.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. The table below summarises the capital expenditure plans and how these are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Programme	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Forecast Capital Expenditure	**3,690**	**5,811**	**1,750**	**1,415**
Financed by:				
Capital Receipts	144	467	225	0
Capital Grants	1,222	1,018	950	950
Capital Reserves	1,069	429	69	0
Section 106 Contributions	313	0	0	0
Total Financing	**2,748**	**1,914**	**1,244**	**950**
Net Financing Need For The Year (Borrowing)	**942**	**3,897**	**506**	**465**

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

3.4 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). This has the effect of reducing the Council's (CFR) broadly over the assets life.

3.5 The CFR includes any other long term liabilities (finance leases). A finance lease is a commercial arrangement between the Council and a lessor (finance company), where in consideration for a series of payments the Council has the right to use an asset (e.g. refuse vehicle, leisure equipment) for the lease duration (typically 5 to 7 years). The annual lease payment is made up of a capital and interest repayment.

3.6 Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

Capital Financing Requirement	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
CFR at 1 April	**765**	**1,556**	**5,201**	**5,052**
Movement in CFR	**791**	**3,645**	**(149)**	**(210)**
Net financing need for the year	942	3,897	506	465
Less MRP	(151)	(252)	(655)	(675)
Movement in CFR				

4 Minimum Revenue Provision (MRP) Policy Statement

4.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).

4.2 MHCLG regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils, so long as there is a prudent provision. For all new unsupported borrowing (including finance leases) the MRP policy will be the asset life method - MRP will be based on the estimated useful life of the assets, in accordance with regulations. This option provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in finance leases are applied as MRP.

5 The Use of Council's Resources and the Investment Position

5.1 The application of resources (capital receipts, reserves etc) and temporary use of ‘surplus cash balances’ to both finance capital expenditure and other budget decisions to support the revenue budget will have an ongoing impact on reducing cash investment balances held (see below). Unless resources are supplemented each year from new sources (asset sales, capital grants etc), then new borrowing will be required to fulfil the objectives as set in the Council’s Business Plan. Detailed below are estimates of the year end balances for each resource.

Year End Resources	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund balances / reserves	9,069	8,040	7,920	7,870
Capital Grants Unapplied	(44)	(44)	(44)	(44)
Total core funds	9,025	7,996	7,876	7,826
Expected Cash investments	17,500	16,000	15,500	15,000

6 Affordability Prudential Indicators

6.1 The previous sections cover the overall capital and control of borrowing prudential indicators; also within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator.

6.2 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Financing Costs to Net Revenue Stream	2018/19 Revised Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
General Fund	3.71	5.23	7.85	7.58

7 Treasury Management Strategy

7.1 The capital expenditure plans set out in section 3 provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy. This will involve both the organisation of cash flow and where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

7.2 The Council's treasury portfolio as at 31 March 2018 for borrowing and investments was £8.514m and £19.5m respectively. As of 31 December 2018, investments are £23.75m (see Appendix B attached) and borrowing remains unchanged at £8.514m.

7.3 The Councils forward projections for borrowings are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Debt at 1 April	**7,800**	**7,800**	**10,536**	**10,128**
Expected change in debt	**0**	**2,736**	**(408)**	**(408)**
Other long term liabilities (OLTL)	**715**	**563**	**406**	**243**
Expected change in OLTL	**(152)**	**(157)**	**(163)**	**(137)**
Actual gross debt at 31 March	**8,363**	**10,942**	**10,371**	**9,826**
Capital financing requirement (CFR) at 31 March	**1,556**	**5,201**	**5,052**	**4,842**
Borrowing less CFR – 31 March	**6,807**	**5,741**	**5,319**	**4,984**

7.4 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years and ensures that long term borrowing is not undertaken for revenue or speculative purposes, other than where the borrowing fits in with the Council's approved Investment Strategy (Appendix A refers).

7.5 As a result of the Council's long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/19) currently attracting excessive premiums (£2.885m at the time of writing this report), if it were prematurely repaid and the fixed rate market loan of £3.3m (31/03/2019), attracting a premium charge on application to prematurely repay, it is not financially advantageous for the Council to fully comply with this prudential indicator. This has been the case since the housing stock transfer in 2007 and has been acknowledged and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

7.6 Interest repayments associated with the external debt (including finance leases) above are shown below.

YEARS	INTEREST DUE £
2018/19	507,940
2019/20	574,000
2020/21	565,000
2021/22	556,000

7.7 The operational boundary 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.

Operational Boundary	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**12,000**	**12,000**	**12,000**	**12,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**13,000**	**13,000**	**13,000**	**13,000**

7.8 The authorised limit is a key prudential indicator, which 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 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.

7.9 This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

Authorised limit	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**17,000**	**17,000**	**17,000**	**17,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**18,000**	**18,000**	**18,000**	**18,000**

8 Prospects for Interest Rates

8.1 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Link Assets Service's central view.

Link Asset Services Interest Rate View													
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

8.2 The flow of generally positive economic statistics after the quarter ended 30 June 2018 meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Growth became increasingly strong during 2018 until slowing significantly during the last quarter. At their November quarterly Inflation Report meeting, the MPC left Bank Rate unchanged, but expressed some concern at the Chancellor's fiscal stimulus in his Budget, which could increase inflationary pressures. However, it is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. On a major assumption that Parliament and the EU agree a Brexit deal in the first quarter of 2019, then the next increase in Bank Rate is forecast to be in May 2019, followed by increases in February and November 2020, before ending up at 2.0% in February 2022.

8.3 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. However, over about the last 25 years, we have been through a period of falling bond yields as inflation subsided to, and then stabilised at, much lower levels than before, and supported by central banks implementing substantial quantitative easing purchases of government and other debt after the financial crash of 2008. Quantitative easing, conversely, also caused a rise in equity values as investors searched for higher returns and purchased riskier assets.

8.4 In 2016, we saw the start of a reversal of this trend with a sharp rise in bond yields after the US Presidential election in November 2016, with yields then rising further as a result of the big increase in the US government deficit aimed at stimulating even stronger economic growth.

8.5 That policy change also created concerns around a significant rise in inflationary pressures in an economy which was already running at remarkably low levels of unemployment. Unsurprisingly, the Fed has continued on its series of robust responses to combat its perception of rising inflationary pressures by repeatedly increasing the Fed rate to reach 2.25 – 2.50% in December 2018. It has also continued its policy of not fully reinvesting proceeds from bonds that it holds as a result of quantitative easing, when they mature. We therefore saw US 10 year bond Treasury yields rise above 3.2% during October 2018 and also investors causing a sharp fall in equity prices as they sold out of holding riskier assets. However, by early January 2019, US 10 year bond yields had fallen back considerably on fears that the Fed was being too aggressive in raising interest rates and was going to cause a recession. Equity prices have been very volatile on alternating good and bad news during this period.

8.6 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. Such volatility could occur at any time during the forecast period.

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

9 Borrowing Strategy

9.1 The Council will not borrow more than or in advance of its needs purely in order to profit from investment of the extra sums borrowed, other than where the borrowing fits in with the Council's approved Investment Strategy. 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.

9.2 Risks associated with borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

9.3 As a result of the Council's decision not to repay debt of £7.8m at the time of the housing stock transfer in 2007, the Council is currently over borrowed (see paragraph 7.5 above); the Council's gross debt exceeds its CFR over the term of the treasury strategy.

9.4 Where the Council has insufficient internal resources to funds its capital programme the difference between available resources and funds required is met through borrowing. The Council is able to borrow internally if it identifies that it has surplus funds currently held in investments which could be used to finance its capital programme. However, any decision to borrow internally has to consider when any funds borrowed might be required to support the day-to-day cash needs of the Council. Unless the Council is able to increase the surplus funds it has available, i.e. through generating surpluses on the revenue account, internal borrowing will only provide a temporary solution to funding the capital programme.

9.5 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board. The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2022. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.

9.6 The Chief Finance Officer will monitor capital plans and interest rates in financial markets and adopt a pragmatic approach to funding the capital programme. Any borrowing decisions and budget consequences will be reported to Cabinet through either the mid-year or annual treasury management reports.

9.7 Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2019/20	Lower %	Upper %
Under 12 months	0	20
12 months to 2 years	0	50
2 years to 5 years	0	75
5 years to 10 years	0	75
10 years and above	0	100

Maturity structure of variable interest rate borrowing 2019/20	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

10 Debt Rescheduling / Repayment

10.1 The Council has sufficient cash balances set aside to pay off its external debt.

10.2 The reasons for any rescheduling to take place will include:

- the generation of cash savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio by flattening the maturity profile.

10.3 The Council's debt rescheduling position will be monitored throughout 2019/20.

11 Annual Investment Strategy

11.1 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"); and
- CIPFA Treasury Management Guidance Notes 2018.

11.2 The intention of the strategy is to provide security and minimise risk. The Council's investment priorities are:

- the security of capital;
- the liquidity of its investments;
- return on its investments.

11.3 The above guidance from the MHCLG and CIPFA, place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means.

11.4 Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings

11.5 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.

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

11.7 **Specified Investments –** These investments are sterling investments (meeting the minimum ‘high’ quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:

- term deposits with part nationalised banks and local authorities;
- term deposits with high credit criteria deposit takers (banks and building societies);
- callable deposits with part nationalised banks and local authorities
- callable deposits with high credit criteria deposit takers (banks and building societies);
- money market funds (CNAV) / (LVNAV) / (VNAV)
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase.

11.8 **Non-Specified Investments –** These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both “specified” and “non-specified” categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:

- term deposits with high credit criteria deposit takers (banks and building societies);
- term deposits with part nationalised banks and local authorities;
- callable deposits with part nationalised banks and local authorities
- callable deposits with high credit criteria deposit takers (banks and building societies);
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase.
- Property funds.

11.9 As a result of the change in accounting standards for 2018/19 under **IFRS 9,** the Council 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. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.).

11.10 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.

11.11 Bank rate is forecast to increase steadily but slowly over the next few years to reach 2% by quarter 1 2022. Bank rate forecasts for financial year ends (March) are:

- 2018/19 - 0.75%
- 2019/20 - 1.25%
- 2020/21 - 1.50%
- 2021/22 – 2.00%

11.12 The overall balance of risks to economic growth, increases in Bank Rate and shorter term PWLB rates, are probably neutral, dependant on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively . Forecast average investment interest rates for returns on investments placed for periods up to about three months during each financial year are as follows:

- 2019/20 - 1.00%
- 2020/21 - 1.50%
- 2021/22 - 1.75%

11.13 Estimated investment income is shown below.

YEARS	**INTEREST RECEIVED £**
2018/19	170,000
2019/20	180,000
2020/21	200,000
2021/22	210,000

11.14 **Investment treasury indicator and limit –** total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

	2019/20 £000	**2020/21 £000**	**2021/22 £000**
Maximum principal sums invested > 365 days	**8,000**	**8,000**	**8,000**

11.15 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 100 days) in order to benefit from the compounding interest.

11.16 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

12 Creditworthiness Policy

12.1 The 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;
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

12.2 The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds 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.

12.3 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system does not give undue preponderance to just one agency's ratings.

12.4 Typically the minimum credit ratings criteria the Council will use will be short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use

12.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Asset Services creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

12.6 All credit ratings are monitored weekly and prior to any new investment decision. 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 swaps against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

12.7 Sole reliance will not be placed on the use of Link Asset Services Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.

12.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.

12.9 The Council currently only invests in UK banks, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks but these are of the highest credit quality.

13 External Service Providers

13.1 The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to available information, including, but not solely, our treasury advisors.

13.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

APPENDIX A

FENLAND DISTRICT COUNCIL

CAPITAL STRATEGY 2019/20-2021/22

1. OVERVIEW AND CONTEXT

1.1 The Council has established statutory and regulatory responsibilities for the management of its financial affairs. These responsibilities encompass revenue and capital expenditure. The specific responsibilities of full Council, the Cabinet, Corporate Management Team (CMT) and the Council's appointed Section 151 Officer are defined within the Council's constitution.

1.2 The Council regularly updates its Medium Term Financial Strategy (MTFS). The MTFS provides a framework for setting the Council's annual revenue budget and updating the Council's three-year capital programme. The MTFS sets outs the primary assumptions underpinning the assessment of the resources available to the Council and anticipated service budgets over the coming five financial years.

1.3 Whilst local authorities are required to set a balanced revenue budget, legislation permits local authorities to obtain credit and therefore fund their capital programmes from borrowing. Individual authorities are required to have regard for the Prudential Code published by the Chartered Institute of Public Finance and Accountancy. The Prudential Code requires authorities to ensure:

- all capital expenditure and investment plans are affordable;
- all external borrowing and long-term liabilities are within prudent and sustainable levels;
- treasury management and other investment decisions are taken in accordance with professional good practice; and
- authorities can demonstrate themselves to be accountable by providing a clear and transparent framework.

1.4 Historically, this Council has discharged its responsibilities under the Prudential Code by ensuring that the Treasury Management Strategy, which is approved annually by full Council, is prepared with reference to the latest capital programme. The Capital Programme is itself developed with explicit consideration of the extent to which proposed capital investment is affordable, prudent and sustainable given the resources available to the Council as set out in the MTFS.

1.5 Following an update to the Prudential Code in December 2017, local authorities are now required to have a Capital Strategy. The introduction of this requirement acknowledges that individual authorities will each have their own approach to assessing priorities for capital investment, the amount the Authority can afford to borrow and the Authority's appetite to risk.

1.6 This strategy sets out in a single document the long term context in which capital expenditure and investment decisions are made and establishes that the Council has arrangements in place to ensure it gives due consideration to risk, reward, and impact on the achievement of priority outcomes.

2. CAPITAL EXPENDITURE

2.1 Capital expenditure incorporates a range of different types of financial transaction which the Council might enter into. What these transactions have in common is that they relate to investments decisions which impact on the Council and its stakeholders over a period which extends beyond the financial year in which the transaction is entered into. The Council's appointed S151 Officer ultimately has responsibility for determining whether expenditure is capital in nature in accordance with relevant regulation and statute.

Role and Purpose of the Asset Management Plan

2.2 The Council has developed an Asset Management Plan in accordance with acknowledged best practice. This document provides a strategic framework for managing the Council's current portfolio of land and buildings ensuring that officers and elected members can have confidence, in the long-term, that the Council has the land and property needed to fulfil the pledges set out in the Council's Business Plan.

2.3 The Asset Management Plan incorporates oversight of operational and non-operational property owned by the Council. Operational assets are those assets held by the Council to enable the Council, or its partners, to deliver those services which are either statutory in nature or provided on a discretionary basis to the extent that providing those services is consistent with the strategic objectives of the Council. Non-operational assets are those assets which are not directly used for the purposes of service delivery but are held to either provide the Council with a return on investment, either through rental income, appreciation in the value of the asset or the potential contribution that holding the asset makes to the Council's wider corporate objectives, e.g. taking forward opportunities to regenerate and develop the local economy.

2.4 Responsibility for the Asset Management Plan rests with the Council's Assets and Projects team which reports to the Council's Corporate Director (Growth and Infrastructure). The Assets and Projects team regularly appraise the condition of the Council's property portfolio to determine the revenue and capital resources required to ensure the portfolio continues to meet the needs of Service Managers. When the needs of services managers change, the Assets and Project team will assist in determining the impact on the property portfolio, including the resources required to meet those needs. The Assets and Projects team recognise that the Council's property needs are unlikely to remain static and the past cost of maintaining a Council asset is not necessarily a reliable indicator of future costs. Forward projections regarding the resources to be allocated to asset management recognise the interaction between revenue and capital expenditure in determining the Council's cost base.

2.5 The capital resources required to meet investment needs identified as part of the Asset Management Plan are routinely assessed and anticipated capital expenditure is profiled over the financial years when it is expected to be incurred. On at least an annual basis capital schemes identified as part of the Asset Management Plan are presented to a meeting of the Council's Corporate Asset Team to determine when and if they should be incorporated into the Council's Capital Programme.

Investment in New Land and Buildings

2.6 The Council recognises that circumstances might arise where the Council could benefit from an investment which expands its existing asset base. Such investments might relate to operational or non-operational assets. As with an investment in existing assets, all proposals for investment in new land or buildings will initially be considered at a meeting of the Corporate Asset Team

2.7 The Council is currently developing an Investment Strategy. The purpose of the Strategy is to ensure the Council has a robust and transparent framework in place to support decision-makers to make decisions where the rationale supporting proposed investment is not exclusively or principally concerned with the delivery of Council services.

Investment in Vehicles, Plant, Equipment and IT

2.8 The Council has nominated service managers who are responsible for the vehicles, plant and information technology assets in use within the Council. These assets all have an expected useful economic life informed by an assessment by the nominated manager. The need to allocate capital resources to fund the replacement of these assets at the end of their useful life is assessed annually by the Council's Corporate Asset Team. There is also an annual appraisal of business cases relating to proposals to invest in additional equipment not reflected in the programme of rolling replacements.

Role and Function of the Corporate Asset Team

2.9 The Corporate Asset Team is an officer-led group which meets bi-monthly under the Chairmanship of the Corporate Director (Growth and Infrastructure). On behalf of the Council's Corporate Management Team, the Corporate Asset Team assumes responsibility for providing a strategic oversight in respect of all matters pertaining to asset management.

2.10 All proposed changes to the Council's three-year capital programme are subject to review by the Corporate Asset Team prior to being considered by Corporate Management Team, the Cabinet and Full Council. Any scheme which is not already incorporated into the Council's Asset Management Plan will only be considered for inclusion in the Capital Programme if the Officer proposing the scheme can demonstrate, with appropriate evidence, one or more of the following:

- there is a statutory obligation for the Council to incur the capital expenditure proposed;
- the proposed capital expenditure relates to works deemed necessary on the grounds of health and safety;
- capital expenditure is proposed to protect a Council asset and reduce the risk of excessive revenue expenditure being incurred in upcoming financial years;
- the proposed capital expenditure will generate income, either of a revenue or capital nature, in excess of the capital expenditure which is expected to be incurred including any financing costs; and/or
- the proposed capital expenditure will (after including financing costs) reduce revenue expenditure incurred by one or more of services in future financial years.

2.11 The capital financing regulations permit the Council to treat as capital expenditure certain types of transaction which do not result in the acquisition of a physical asset by the Council. These transactions can be high-volume, small value transactions such as the awarding of Disabled Facilities Grants which are currently funded from monies received as part of Cambridgeshire County Council's Better Care Fund allocation. Such transactions do not require specific approval providing the nature and purpose of the expenditure has been approved as part of the Capital Programme.

2.12 Any proposals to incur capital expenditure which does not lead to the recognition of a physical asset where the expenditure proposed exceeds £10,000 will be considered at a meeting of CMT prior to being forward to the Cabinet and, where appropriate, full Council for consideration and approval. Possible examples include, but are not restricted to:

- granting loans to third parties;
- acquiring share capital in a third party;
- establishing a joint venture or subsidiary company; or

- providing grant-funding to a third party which enables that third party to undertake expenditure which would have been capital in nature had it been undertaken by the Council.

3. DEBT AND BORROWING AND TREASURY MANAGEMENT

3.1 Day-to-day responsibility for the Treasury Management function rests with the Chief Finance Officer.

Key Considerations relating to Treasury Management

3.2 The tables below set out the Council's Investment and Debt positions with forward projections.

Year End Investments	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund balances / reserves	9,069	8,040	7,920	7,870
Capital Grants Unapplied	(44)	(44)	(44)	(44)
Total core funds	9,025	7,996	7,876	7,826
Expected investments	17,500	16,000	15,500	15,000

Table 1: Year End Investment Balances projected over the period 1 April 2018 – 31 March 2022

Year-End Debt	2018/19 Revised Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Debt at 1 April	7,800	7,800	10,536	10,128
Expected change in debt	0	2,736	(408)	(408)
Other long term liabilities (OLTL)	715	563	406	243
Expected change in OLTL	(152)	(157)	(163)	(137)
Actual debt at 31 March	8,363	10,942	10,371	9,826
Net Investment/(Debt) as at 31 March	9,137	5,058	5,129	5,174

Table 2: Year End Debt and Net Investment projected over the period 1 April 2018 – 31 March 2022

3.3 At 1 April 2018 the Council's Debt position comprised other long-term liabilities relating to finance leases of £715k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay any of the loans early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2018, will continue to be carried forward due to the current historically low interest rates.

3.4 Regulation requires the Council to determine, as part of the Treasury Management Strategy, the maximum external debt position for the upcoming three financial years. This is known as the Council's authorised limit. Additionally, the Council is required to set an operational boundary. The purpose of the operational boundary is to set a threshold for external borrowing which the Council would not expect to exceed in the ordinary management of its affairs. Sustained breaches of the operational boundary would be indicative that the Council could be at risk of exceeding its authorised limit.

3.5 The current authorised limits and operational boundaries for the period covered by this strategy are set out in the table below

Operational Boundary	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**12,000**	**12,000**	**12,000**	**12,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**13,000**	**13,000**	**13,000**	**13,000**

Table 3: Operational Boundary over the period 1 April 2018 – 31 March 2022

Authorised Limit	**2018/19 Revised Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Debt	**17,000**	**17,000**	**17,000**	**17,000**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Total	**18,000**	**18,000**	**18,000**	**18,000**

Table 4: Authorised Limit over the period 1 April 2018 – 31 March 2022

3.6 Table 2 above indicates that the Council's Actual Debt position is expected to increase over the period covered by this strategy. This reflects an anticipated decision to undertake external borrowing to fund the expenditure commitment set out in the capital programme. In accordance with the Council's constitution, any decision about when, how much and from where to borrow will be made by the appointed S151 Officer.

3.7 Regulations prevent the Council from borrowing in advance of need. However, there is no requirement for the Council to draw on investment balances to fund its capital commitments prior to undertaking external borrowing. To manage interest rate effectively, the Council will continue to consider medium and long-term forecasts of interest rates provided by its Treasury Management advisors to project likely returns from the investment of surplus funds and the financing costs associated with external borrowing. This approach recognises that postponing long-term borrowing to future years could be more expensive over the life of the loan if interest rates were to increase.

3.8 The Council is required by statute to make arrangements to ensure that there is provision to repay as part of the Council's revenue budget any borrowing undertaken to finance the capital programme. This is known as the Minimum Revenue Provision (MRP) and the Council is required to approve its MRP policy on an annual basis. Based on Table 2 above MRP expected to be charged to revenue over the life of this strategy is as follows:

	Projected Minimum Revenue Provision £000
2018/19	151
2019/20	252
2020/21	655
2021/22	675

Table 5: Projected Minimum Revenue Provision over the period 1 April 2018 – 31 March 2022

3.9 Regulation requires the Council to ensure that its MRP policy results in prudent levels of MRP. The Council's current MRP policy allocates MRP in equal instalments over a period reflecting the anticipated life of the asset purchased from borrowing undertaken by the Council. This is one of the methods suggested in guidance published by central government.

4. COMMERCIAL ACTIVITY

4.1 The Council has a portfolio of non-operational assets which it manages to secure a rental income and income from fees and charges earned from providing facilities for conferences and meetings. The main non-operational assets held by the Council are:

- Boathouse Business Centre, Wisbech – Office Units, Conference and Meeting Space

- South Fens Business Centre, Chatteris - Office Units, Conference and Meeting Space

- South Fens Enterprise Park, Chatteris – Light Industrial Units for Small Business Use

4.2 The Council recognises that investing in other non-operational assets has the potential to generate new sources of revenue as well as supporting the achievement of the priorities set out in the Council Business Plan. There are no significant current projects in the Capital Programme to increase the portfolio of non-operational assets. However, should an opportunity arise to make an investment of this nature, the decision will be taken with reference to the Council's Investment Strategy which is currently being developed.

4.3 The Council recognises that there are other types of investment opportunity available to local authorities which do not result in the acquisition of a physical asset. Examples include the types of capital expenditure set out in paragraph 2.12 above and also investments in instruments such as unit trusts and pooled investments funds. Any investments of this nature will be appraised in accordance with the Council's Investment Strategy once this has been finalised or the Treasury Management Strategy. Future updates to this Capital Strategy will summarise the key elements of the Investment Strategy.

5. KNOWLEDGE AND SKILLS

5.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

5.2 Appropriate external advice will be engaged from suitably qualified professionals as and when required. This will apply particularly in those circumstances when the Council needs to undertake independent due diligence prior to making a decision regarding a proposed investment. Additionally, the Council will continue to enlist the year-round support of external Treasury Management advisors. This support is currently provided by Link Asset Services.

5.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital proposals brought forward for approval and interpret the treasury management policies developed by officers in conjunction with relevant professional advisors.

APPENDIX B

TEMPORARY INVESTMENTS AS AT 31/12/2018

BORROWER	AMOUNT £000	START DATE	MATURITY DATE	PERIOD IN DAYS	CURRENT INTEREST RATE %
Barclays Bank*	4,250	16/06/14		Flexible Interest	0.60
Santander UK	5,000	15/12/15		180 Day Notice A/C	1.00
Bank of Scotland	1,000	13/06/18	12/06/19	364	1.00
Lloyds Bank	1,500	21/08/18	19/03/19	210	0.88
Eastleigh Borough Council	2,000	03/09/18	28/02/19	178	0.75
Bank of Scotland	1,000	11/10/18	24/01/19	105	0.91
Lloyds Bank	3,500	15/10/18	24/01/19	101	0.91
Yorkshire BS	1,000	15/10/18	21/01/19	98	0.76
Yorkshire BS	1,500	03/12/18	21/01/19	49	0.71
Bank of Scotland	3,000	20/12/18	28/02/19	70	0.76
Total Investments at 31/12/2018	23,750				

* Barclays Bank Call Account is operated on the basis of meeting more immediate/very short term needs of the Council eg. payment of salaries, suppliers, benefits etc. Therefore a level of balance is maintained dependent on the immediate and very short-term requirements of the Council.

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