NEWARK & SHERWOOD
DISTRICT COUNCIL

Castle House
Great North Road
Newark
NG24 1BY

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Tuesday, 28 January 2020

Chairman: Councillor Mrs S Michael

Members of the Committee:

Councillor Mrs B Brooks
Councillor M Brown
Councillor R Crowe
Councillor D Cumberlidge
Councillor Mrs M Dobson

MEETING:	**Audit & Accounts Committee**
DATE:	**Wednesday, 5 February 2020 at 10.00 am**
VENUE:	**Civic Suite, Castle House, Great North Road, Newark, Notts, NG24 1BY**

You are hereby requested to attend the above Meeting to be held at the time/place and on the date mentioned above for the purpose of transacting the business on the Agenda as overleaf.

If you have any queries please contact Helen Bayne on Helen.Bayne@newark-sherwooddc.gov.uk. Any questions relating to the agenda items should be submitted to Nick Wilson- Business Manager - Financial Services, at least 24 hours prior to the meeting in order that a full response can be provided.

AGENDA

To consider resolving that, under section 100A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

16. Date of Next Meeting

Wednesday 22 April 2020

NEWARK AND SHERWOOD DISTRICT COUNCIL

Minutes of the Meeting of **Audit & Accounts Committee** held in the Civic Suite, Castle House, Great North Road, Newark, Notts, NG24 1BY on Wednesday, 27 November 2019 at 10.00 am.

PRESENT: Councillor Mrs S Michael (Chairman)

Councillor Mrs B Brooks, Councillor M Brown, Councillor R Crowe and Councillor D Cumberlidge

13 DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS AND AS TO THE PARTY WHIP

That no Member or Officer declared any interest pursuant to any statutory requirement in any matter discussed or voted upon at the meeting.

14 DECLARATION OF ANY INTENTIONS TO RECORD THE MEETING

Other than the usual practice of the Council to record the meeting, there were no declarations of intention to record the meeting.

15 MINUTES OF THE MEETING HELD ON 24 JULY 2019

Subject to an amendment to include Councillor M. Browns apologies, the Minutes of the meeting held on 24 July 2019 were approved as a correct record and signed by the Chairman.

16 INTERNAL AUDIT PROGRESS REPORT 2019/20

The Principal Auditor, Assurance Lincs, was in attendance to present the Internal Audit Progress report during the period April 2019 to 31 October 2019. Eight audits had been completed during the period, with the following assurance levels:

- Community Centres – Limited;
- Procurement Card – Limited;
- Strategic Asset Management – Substantial;
- ICT Governance – Substantial;
- Customer Comments – Substantial;
- NSDC Companies (Governance) – Substantial;
- Financial Strategy and Modelling – High; and
- Follow-up Work (implementation of actions – High.

Overall there were 47 agreed actions remaining to be implemented (16 ‘High’ rated and 31 ‘Medium’ rated recommendations). There were 25 actions that are overdue, 13 high and 12 Medium which were detailed in the report.

The Chairman explained that the Business Manager with responsibility for the Procurement card was in attendance with regard to the limited assurance audit issued. The Committee noted that the audit had been issues just after their previous meeting and therefore there had been time for recommended actions to be put in place and progress monitored. The Business Manager- Administrative Services explained that since the audit, 11 actions had been put in place to address the issue highlighted by the audit and progress against these would be monitored.

The Committee heard that there had not been action against two risks, which were contactless cards and checks around making card purchases within a business unit. The Business Manager- Administrative Services explained that Natwest were unable to issues non-contactless cards however, Members suggested investigating options around reducing the contactless limit to mitigate the risk of theft of the Pcards. Most Pcard purchases were made in the office for online only items and there were daily and monthly spend limits in place. Additional checks on purchases were now in place, undertaken by the Business Manager- Administrative Services.

The Committee considered the other audits issues during the period and agreed that the Business Managers for Leisure Centres, Strategic Asset Management and NSDC Companies Governance be invited to attend the next meeting of the Committee to address issues highlighted in the relevant audits.

AGREED The Committee noted the report.

17 HEALTH CHECK - VALUES AND CULTURE

The Director- Governance and Organisational Development was in attendance to present a report proposing work to be undertaken by the Council's Internal Auditors conducting a health check for the authority around its culture and values. The model, developed by Assurance Lincs was designed to examine the principles underpinning service delivery on a day to day basis. The Senior Leadership Team strongly supported the health check to test the extent to which the ethics and values of the Council were effective the organisation and operation. It was proposed to undertake the work in February 2020, and that the Chairman of the Committee be Member Champion to oversee the work.

The Committee considered the proposed work, and the presentation from Assurance Lincolnshire to the Senior Leadership Team in June regarding the proposed health check. All Members were in support of undertaking the health check, and received assurance that opinion from officers at all levels throughout the Council would be included.

AGREED that

a) the Committee support the commissioning of the health check – value and culture to be conducted by Assurance Lincolnshire; and

b) the Chairman of the Committee be selected to be the Member Champion to oversee and assist the smooth running of the review work.

18 TREASURY PERFORMANCE MID YEAR REPORT

The Assistant Business Manager- Financial Services presented the Treasury Management 2019/20 mid year report. The report included a summary of treasury balances, details of the capital expenditure and borrowing activity and investment activity.

The Committee heard that one prudential indicator had been breached during the period, when on 1 August 2019, the limit for holding monies overnight in the Councils bank account was breached. The Assistant Business Manager explained that this had been a deliberate decision taken due to the circumstances on the day. The Committee heard that due to staff leave and switching of staff roles, there had not been two staff signatories available on the day to move the funds out of the account. There was a large payment due out of the bank account on 2nd August which brought the total back under the limit. Officers had therefore left the funds overnight, rather than move them without appropriate authorisation and duly reported the breach to the Audit Committee. The Committee were satisfied that actions had subsequently taken place, including a signatories rota to ensure that there would always be the required number of authorised staff available to reduce the risk of any further breaches.

AGREED that

a) the treasury management activity be noted and recommend to Full Council on 17 December 2019; and

b) the Prudential Indicators detailed in Section 9 of the report be noted.

19 ANNUAL AUDIT LETTER 2018/19

The Business Manager- Financial Services presented the External Auditors Annual Audit Letter 2018/19. The Auditors had issued an unqualified opinion on the Council's accounts and there were no additional audit fees for the year.

AGREED that the Annual Audit letter be noted.

20 COUNTER FRAUD ACTIVITY REPORT

The Business Manager- Financial Services presented the report detailing the Counter Fraud Activity undertaken from 1 April 2019 to 31 October 2019. The Committee noted that 212 potentially fraudulent claims for housing benefit had been referred to the Fraud and Error service for investigation. The National Fraud investigation 2018/19 had generated 173 cases of suspected fraud under the Council tax single person benefit scheme.

The Committee noted that following the publication of the Counter Fraud Internal Audit Report, which had gained substantial assurance, both recommendations made had been implemented. These were to ensure that all documents reflect the actual handling processes of housing benefit fraud, and to update the telephone number on the internet and intranet for whistleblowing reports.

Contract procedure rules had been updated to reflect procurement undertaken by Welland Procurement, rather than an in-house function, and the Commercialisation Business Unit had begun to review a selection of key contracts to ensure that contracts were being enforced where applicable.

AGREED that the report be noted.

21 RESULTS OF THE REVIEW OF THE ASSESSMENT OF EFFECTIVENESS OF THE INTERNAL AUDIT FUNCTION

The Business Manager- Financial Assistant presented the results of the recent assessment of the effectiveness of the Internal Audit Function including the self-assessment of the Committee. A working group of the Committee had considered the self-assessment from Assurance Lincolnshire, which had resulted as conforming to the standards, with continuous improvement required and actions required had been identified in a Quality Assurance Improvement Plan.

The Committees self-assessment was made using the CIPFA guidance, and highlighted 8 areas where the group considered the Committee partly met best practice, and 4 where the Committee did not meet best practice. An action plan had been developed to address the areas which was included in the report to Members.

The Committee considered the action plans for both parts of the assessment.

AGREED that

(a) notes the results of the review of the effectiveness of the Internal Audit Function;

(b) notes the results of the Self-Assessment of the Effectiveness of the Audit & Accounts Committee;

(c) adopts the action plan;

(d) agrees that the next assessment should be undertaken in July 2020;

22 AUDIT COMMITTEE WORK PROGRAMME

The Committee noted the Work Programme, and the Business Manager- Financial Services outlined the items to be considered at their meeting in February. The Chairman enquired whether any Members felt any of the issues considered by the Committee at the meeting should be raised with the Chief Executive or Leader. The Committee agreed that there were no issues to raise, but wished to express their thanks to all staff involved in the work of the Audit and Accounts Committee.

23 DATE OF NEXT MEETING

The next meeting would be held on Wednesday 5 February 2019.

Meeting closed at 11.01 am.

Chairman

AUDIT AND ACCOUNTS COMMITTEE
5 FEBRUARY 2020

TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Purpose of Report

1.1 This report seeks approval for the Treasury Management Strategy, which incorporates the Borrowing Strategy, Investment Strategy, and Treasury Prudential Indicators, updated in accordance with latest guidance.

2.0 Background Information

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

2.2 Statutory Requirements:

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

    - Increases in interest payments caused by increased borrowing to finance additional capital expenditure.

    - Any increases in running costs from new capital projects.

- The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes to set Treasury Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

- The Act therefore requires the Council to set out its Treasury Strategy for Borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

2.3 CIPFA Requirements:

The primary requirements of the Code are as follows:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy, a Mid-year Review Report and an Annual Report covering activities during the previous year;

- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of treasury management decisions;

- Delegation by the Council of the role of scrutiny of Treasury Management Strategy and Policies to a specific named body. For this Council the delegated body is the Audit and Account Committee.

2.4 This report seeks approval for the updated Treasury Management Strategy 2020/21 (Appendix A), which encompasses the Treasury Prudential Indicators, the Borrowing Strategy, and the Annual Investment Strategy, in accordance with latest guidance as follows:

- The Treasury Management Strategy determines the manner in which the Council's treasury function is managed;

- The Treasury Prudential Indicators set out the expected capital activities during the financial year (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The key indicator is the Authorised Limit, i.e. the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is required by paragraph 3 of the Local Government Act 2003, and is calculated in accordance with the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and the CIPFA Prudential Code.

- The Borrowing Strategy sets out how the Council's treasury service will support the capital decisions taken; the day to day treasury management activity; and the limitations on activity through treasury prudential indicators;

- The Annual Investment Strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

3.0 Proposals

3.1 A copy of the Treasury Management Strategy 2020/21 is attached as an Appendix to this report.

4.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 9th March 2020 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

4.1 The Treasury Management Strategy 2020/21, incorporating the Borrowing Strategy and the Annual Investment Strategy (Appendix A).

4.2 The Treasury Prudential Indicators and Limits, contained within Appendix A.

4.3 The Authorised Limit Treasury Prudential Indicator contained within Appendix A.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2011 Edition and the 2017 revised Edition
CIPFA Prudential Code Local Government Act 2003
CIPFA Standard of Professional Practice on Treasury Management

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Director – Resources and S151 Officer

APPENDIX A

TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21

Introduction

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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.

The contribution the treasury management function makes to the Council 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.

CIPFA defines treasury management as:

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

This strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

Treasury Management Reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital forecast summary;

- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how treasury investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the treasury position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

The above reports and strategies are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. The following training has been undertaken by members on 13th November 2019 and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

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 organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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.

Capital Summary and Liability Benchmark

On 31st December 2019, the Council held £93m of borrowing and £58m of investments. Forecast changes in these sums are shown in the balance sheet analysis table below.

Capital summary and forecast

	31.3.19 Actual £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000	31.3.23 Forecast £'000
General Fund CFR	24,815	27,764	43,368	45,048	46,859
HRA CFR	105,006	105,809	108,322	111,774	112,218
Total CFR	**129,821**	**133,573**	**151,690**	**156,822**	**159,077**
Less: Other debt liabilities	-224	-224	-224	-224	-224
Loans CFR	**129,597**	**133,349**	**151,466**	**156,598**	**158,853**
Less: External borrowing	-90,080	-88,056	-84,030	-81,001	-74,469
Internal (over) borrowing	**39,517**	**45,293**	**67,436**	**75,597**	**84,384**
Less: Usable reserves	-53,461	-40,445	-21,983	-20,917	-18,972
Less: Working capital	-22,484	-14,500	-14,500	-14,500	-14,500
Investments (or New borrowing)	**36,428**	**9,652**	**-30,953**	**-40,180**	**-50,912**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council has an increasing CFR due to the capital programme, but minimal investments and will therefore be required to borrow up to a minimum of £50m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2020/21.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10m, as per MiFID II, at each year-end to maintain sufficient liquidity but minimise credit risk.

	31.3.19 Actual £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000	31.3.23 Forecast £'000
Loans CFR	129,597	133,349	151,466	156,598	158,853
Less: Usable reserves	-53,461	-40,445	-21,983	-20,917	-18,972
Less: Working capital	-22,484	-14,500	-14,500	-14,500	-14,500
Plus: Minimum investments	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	**63,652**	**88,404**	**124,983**	**131,181**	**135,381**

Borrowing Strategy

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 this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Current Borrowing portfolio position

The Council's treasury portfolio position at 31 March 2019, with forward projections are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	31.3.19 Actual £'000	31.3.20 Forecast £'000	31.3.21 Forecast £'000	31.3.22 Forecast £'000	31.3.23 Forecast £'000
External Debt					
Debt at 1 April	86,101	90,304	88,280	84,254	81,225
Expected change in Debt	3,979	-2,248	-4,250	-3,253	-6,756
Other long-term liabilities	224	224	224	224	224
Actual gross debt at 31 March	**90,304**	**88,280**	**84,254**	**81,225**	**74,693**
The Capital Financing Requirement	**129,821**	**133,573**	**151,690**	**156,822**	**159,077**

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 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Treasury Indicators: limits to borrowing activity

Operational Boundary for External Debt: The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2019/20 Revised £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	139,573	157,690	162,822	165,077
Other long-term liabilities	400	400	400	400
Total Debt	**139,973**	**158,090**	**163,222**	**165,477**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2019/20 Limit £'000	2020/21 Limit £'000	2021/22 Limit £'000	2022/23 Limit £'000
Borrowing	146,573	164,690	169,822	172,077
Other long-term liabilities	600	600	600	600
Total Debt	**147,173**	**165,290**	**170,422**	**172,677**

Separately, the Council has previously been limited to a maximum HRA CFR through the HRA self-financing regime and the Government set HRA Debt cap, however on 30 October 2018 the Government removed the HRA Debt cap. Therefore the limit below is just for guidance purposes:

HRA Debt Limit	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Previous HRA Debt Cap	112,475	112,475	112,475	112,475
HRA CFR	105,809	108,322	111,774	112,218
HRA Headroom	**6,666**	**4,153**	**701**	**257**

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed and variable rate borrowing will be:

	Upper	Lower
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Strategy: The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Director of Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

The benefits of internal or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Link will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Council may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow (normally for up to one month) short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The Council has previously raised the majority of its long-term borrowing from the PWLB but following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities, consideration will also need to be given to sourcing funding at cheaper rates. The degree which any of the following options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc (no issuance at present but there is potential)

LOBOs: The Council holds £3.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £3.5m of these LOBOs have options during 2020/21, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £0m.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates. If rescheduling was done, it will be reported to Council, at the earliest meeting following its action.

Policy on borrowing in advance of need: The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Policy on internal borrowing interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other.

Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (capital financing requirement) will result in an internal borrowing situation. The internal borrowing on the HRA will charged at the 25 year fixed maturity interest rate for PWLB for the 31st March for the relevant financial year with the credit going to the General Fund balance.

Investment Strategy

Management of Risk

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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.

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Council's investment balance has ranged between £37 and £59 million. Levels available for investment are affected by capital expenditure and use of reserves, both will continue to be monitored throughout the financial year.

Objectives: As the CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £15m that is potentially available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds.

Business models: As a result of the change in accounting standards for 2019/20 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.)

Creditworthiness Policy; The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Director of Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the below criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows:

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£8m 5 years	£10m 20 years	£20m 50 years	£5m 20 years	£5m 20 years
AA+	£6m 5 years	£10m 10 years	£10m 25 years	£5m 10 years	£5m 10 years
AA	£6m 4 years	£10m 5 years	£10m 15 years	£5m 5 years	£5m 10 years

AA-	£6m 3 years	£10m 4 years		£5m 4 years	£5m 10 years
A+	£6m 2 years	£10m 3 years		£5m 3 years	£5m 5 years
A	£6m 13 months	£10m 2 years		£5m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months		£5m 13 months	£5m 5 years
None		n/a			£5m 5 years
Pooled funds and real estate investment trusts		£15m per fund or trust			

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing

Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Council will incur operational exposures through their current accounts, with Lloyds Bank. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £750,000 net in the bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Country and sector limits: Due care will be taken to consider the country, group and sector exposure of the Council's investments.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA (excluding UK) from Fitch (or equivalent). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £17 million on 31st March 2021. In order to limit the amount of reserves will be potentially put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£15m in total
Local Authorities	£15m each
Money market funds	£12m each
Real estate investment trusts	£10m in total

Liquidity management: This diversification will represent a substantial change in strategy over the coming year, in line with the Council's approved Investment Plan and Commercialisation Strategy. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

Policy on internal investment interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Interest receivable for HRA balance sheet resources available for investment will result in a notional cash balance. This balance will be measured at the end of the financial year and interest transferred from the General Fund to the HRA at the average investment rate for a DMO investment for the financial year due to the General Fund carrying all the credit risk per investment.

Investment returns expectations: On the assumption that the UK and EU agree a Brexit deal including the terms of trade by the end of 2020 or soon after, then Bank Rate is forecast to increase only slowly over the next few years to reach 1.00% by quarter 1 2023. Bank Rate forecasts for financial year ends (March) are:

- Q1 2021 0.75%
- Q1 2022 1.00%
- Q1 2023 1.25%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

2020/21	0.75%
2021/22	1.00%
2022/23	1.25%
2023/24	1.50%

Treasury Indicators: limits to investing activity

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	A

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a banding period, without additional borrowing.

Liquidity risk indicator	**Target**	**Limit**
Total cash available within;		
3 months	30%	100%
3 – 12 months	50%	80%
Over 12 months	20%	40%

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£200,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£200,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Limit on principal invested beyond year end	£15m	£15m	£15m

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Director of Resources has produced its treasury management practices (TMPs). This part, TMP 1, covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments.
- The principles to be used to determine the maximum periods for which funds can be committed.

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in institutions.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Resources, and if required new counterparties which meet the criteria will be added to the list.

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;

(ii) Audit and Accounts Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- receiving and reviewing regular monitoring reports and acting on recommendations; and
- approving the selection of external service providers and agreeing terms of appointment.

<u>The Treasury Management Role of the Section 151 Officer</u>

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit; and
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury is in accordance with the risk appetite of the authority

Economic Background and Interest Rate Forecast

UK. Brexit. 2019 has been a year of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on 31 October 2019, with or without a deal. However, MPs blocked leaving on that date and the EU agreed an extension to 31 January 2020. In late October, MPs approved an outline of a Brexit deal to enable the UK to leave the EU on 31 January. Now that the Conservative Government has gained a large overall majority in the general election on 12 December, this outline deal will be passed by Parliament by that date. However, there will still be much uncertainty as the detail of a trade deal will need to be negotiated by the current end of the transition period in December 2020, which the Prime Minister has pledged he will not extend. This could prove to be an unrealistically short timetable for such major negotiations that leaves open two possibilities; one, the need for an extension of negotiations, probably two years, or, a no deal Brexit in December 2020.

GDP growth has taken a hit from Brexit uncertainty during 2019; quarter three 2019 surprised on the upside by coming in at +0.4% q/q, +1.1% y/y. However, the peak of Brexit uncertainty during the final quarter appears to have suppressed quarterly growth to probably around zero. The economy is likely to tread water in 2020, with tepid growth around about 1% until there is more certainty after the trade deal deadline is passed.

While the Bank of England went through the routine of producing another quarterly Inflation Report, (now renamed the Monetary Policy Report), on 7 November, it is very questionable how much all the writing and numbers were worth when faced with the uncertainties of where the UK will be after the general election. The Bank made a change in their Brexit assumptions to now include a deal being eventually passed. Possibly the biggest message that was worth taking note of from the Monetary Policy Report, was an increase in concerns among MPC members around weak global economic growth and the potential for Brexit uncertainties to become entrenched and so delay UK economic recovery. Consequently, the MPC voted 7-2 to maintain Bank Rate at 0.75% but two members were sufficiently concerned to vote for an immediate Bank Rate cut to 0.5%. The MPC warned that if global growth does not pick up or Brexit uncertainties intensify, then a rate cut was now more likely. Conversely, if risks do recede, then a more rapid recovery of growth will require gradual and limited rate rises. The speed of recovery will depend on the extent to which uncertainty dissipates over the final terms for trade between the UK and EU and by how much global growth rates pick up. The Bank revised its inflation forecasts down – to 1.25% in 2019, 1.5% in 2020, and 2.0% in 2021; hence, the MPC views inflation as causing little concern in the near future.

The MPC meeting of 19 December repeated the previous month's vote of 7-2 to keep Bank Rate on hold. Their key view was that there was currently 'no evidence about the extent to which policy uncertainties among companies and households had declined' i.e. they were going to sit on their hands and see how the economy goes in the next few months. The two members who voted for a cut were concerned that the labour market was faltering. On the other hand, there was a clear warning in the minutes that the MPC were concerned that "domestic unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term".

If economic growth were to weaken considerably, the MPC has relatively little room to make a big impact with Bank Rate still only at 0.75%. It would therefore, probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy. The Government has already made moves in this direction and it made significant promises in its election manifesto to increase government spending by up to £20bn p.a., (this would add about 1% to GDP growth rates), by investing primarily in infrastructure. This is likely to be announced in the next Budget, probably in February 2020. The Chancellor has also amended the fiscal rules in November to allow for an increase in government expenditure.

As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell again in both October and November to a three-year low of 1.5%. It is likely to remain close to or under 2% over the next two years and so, it does not pose any immediate concern to the MPC at the current time. However, if there was a hard or no deal Brexit, inflation could rise towards 4%, primarily because of imported inflation on the back of a weakening pound.

With regard to the labour market, growth in numbers employed has been quite resilient through 2019 until the three months to September where it fell by 58,000. However, there was an encouraging pick up again in the three months to October to growth of 24,000, which showed that the labour market was not about to head into a major downturn. The unemployment rate held steady at a 44-year low of 3.8% on the Independent Labour Organisation measure in October. Wage inflation has been steadily falling from a high point of 3.9% in July to 3.5% in October (3-month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.0%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The other message from the fall in wage growth is that employers are beginning to find it easier to hire suitable staff, indicating that supply pressure in the labour market is easing.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of growth to a robust 2.9% y/y. Growth in 2019 has been falling after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2 and then 2.1% in quarter 3. The economy looks likely to have maintained a growth rate similar to quarter 3 into quarter 4; fears of a recession have largely dissipated. The strong growth in employment numbers during 2018 has weakened during 2019, indicating that the economy had been cooling, while inflationary pressures were also weakening. However, CPI inflation rose from 1.8% to 2.1% in November, a one year high, but this was singularly caused by a rise in gasoline prices.

The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not intended to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc.). It then cut rates by 0.25% again in September and by another 0.25% in its October meeting to 1.50 – 1.75%.. At its September meeting it also said it was going to start buying Treasuries again, although this was not to be seen as a resumption of quantitative easing but rather an exercise to relieve liquidity pressures in the repo market. Despite those protestations, this still means that the Fed is again expanding its balance sheet holdings of government debt. In the first month, it will buy $60bn, whereas it had been reducing its balance sheet by $50bn per month during 2019. As it will be buying only short-term (under 12 months) Treasury bills, it is technically correct that this is not quantitative easing (which is purchase of long term debt). The Fed left rates unchanged in December. However, the accompanying statement was more optimistic about the future course of the economy so this would indicate that further cuts are unlikely.

Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

However, in November / December, progress has been made on agreeing a phase one deal between the US and China to roll back some of the tariffs; this gives some hope of resolving this dispute.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1, +0.2% q/q (+1.2% y/y) in quarter 2 and then +0.2% q/q, +1.1% in quarter 3; there appears to be little upside potential in the near future. German GDP growth has been struggling to stay in positive territory in 2019 and fell by -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which then meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by quantitative easing purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 that means that, although they will have only a two-year maturity, the Bank was making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum; at its meeting on 12 September it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt for an unlimited period. At its October meeting it said these purchases would start in November at €20bn per month - a relatively small amount compared to the previous buying programme. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and, unsurprisingly, the ECB stated that governments would need to help stimulate growth by 'growth friendly' fiscal policy.

There were no policy changes in the December meeting, which was chaired for the first time by the new President of the ECB, Christine Lagarde. However, the outlook continued to be down beat about the economy; this makes it likely there will be further monetary policy stimulus to come in 2020. She did also announce a thorough review of how the ECB conducts monetary policy, including the price stability target. This review is likely to take all of 2020.

On the political front, Austria, Spain and Italy have been in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The latest results of German state elections has put further pressure on the frail German CDU/SDP coalition government and on the current leadership of the CDU. The results of the Spanish general election in November have not helped the prospects of forming a stable coalition.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and shadow banking systems. In addition, there still needs to be a greater switch from investment in industrial capacity, property construction and infrastructure to consumer goods production.

JAPAN - has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation. Central banks are, therefore, likely to come under more pressure to support growth by looser monetary policy measures and this will militate against central banks increasing interest rates.

The trade war between the US and China is a major concern to financial markets due to the synchronised general weakening of growth in the major economies of the world, compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US). There are also concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks and the use of negative central bank rates in some countries. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been predicting a downturn in growth; this confirms investor sentiment that the outlook for growth during the year ahead is weak.

INTEREST RATE FORECASTS

The interest rate forecasts provided by Link Asset Services in paragraph 3.3 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. On this basis, while GDP growth is likely to be subdued in 2019 and 2020 due to all the uncertainties around Brexit depressing consumer and business confidence, an agreement on the detailed terms of a trade deal is likely to lead to a boost to the rate of growth in subsequent years. This could, in turn, increase inflationary pressures in the economy and so cause the Bank of England to resume a series of gentle increases in Bank Rate. Just how fast, and how far, those increases will occur and rise to, will be data dependent. The forecasts in this report assume a modest recovery in the rate and timing of stronger growth and in the corresponding response by the Bank in raising rates.

- In the event of an orderly non-agreement exit in December 2020, it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall.
- If there were a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. Quantitative easing could also be restarted by the Bank of England. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably even, but dependent on a successful outcome of negotiations on a trade deal.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- In the event that a Brexit deal was agreed with the EU and approved by Parliament, the balance of risks to economic growth and to increases in Bank Rate is likely to change to the upside.

One risk that is both an upside and downside risk, is that all central banks are now working in very different economic conditions than before the 2008 financial crash as there has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could therefore either over or under do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new coalition based on an unlikely alliance of two very different parties will endure.
- Weak capitalisation of some European banks, particularly Italian banks.
- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU

has done badly in recent state elections but the SPD has done particularly badly and this has raised a major question mark over continuing to support the CDU. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until 2021.

- Other minority EU governments. Austria, Finland, Sweden, Spain, Portugal, Netherlands and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.
- In October 2019, the IMF issued a report on the World Economic Outlook which flagged up a synchronised slowdown in world growth. However, it also flagged up that there was potential for a rerun of the 2008 financial crisis, but his time centred on the huge debt binge accumulated by corporations during the decade of low interest rates. This now means that there are corporates who would be unable to cover basic interest costs on some $19trn of corporate debt in major western economies, if world growth was to dip further than just a minor cooling. This debt is mainly held by the shadow banking sector i.e. pension funds, insurers, hedge funds, asset managers etc., who, when there is $15trn of corporate and government debt now yielding negative interest rates, have been searching for higher returns in riskier assets. Much of this debt is only marginally above investment grade so any rating downgrade could force some holders into a fire sale, which would then depress prices further and so set off a spiral down. The IMF's answer is to suggest imposing higher capital charges on lending to corporates and for central banks to regulate the investment operations of the shadow banking sector. In October 2019, the deputy Governor of the Bank of England also flagged up the dangers of banks and the shadow banking sector lending to corporates, especially highly leveraged corporates, which had risen back up to near pre-2008 levels.
- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

Interest Rate Forecasts 2020 – 2023

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

Link Asset Services Interest Rate View	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00
Bank Rate													
Link Asset Services	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	-	-	-	-	-
5yr PWLB Rate													
Link Asset Services	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	2.40%	2.50%	2.50%	2.60%	2.60%	2.80%	2.80%	2.90%	-	-	-	-	-
10yr PWLB Rate													
Link Asset Services	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	-	-	-	-	-
25yr PWLB Rate													
Link Asset Services	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.20%	3.30%	3.30%	3.40%	-	-	-	-	-
50yr PWLB Rate													
Link Asset Services	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	-	-	-	-	-

AUDIT AND ACCOUNTS COMMITTEE
5 FEBRUARY 2020

CAPITAL STRATEGY 2020/21

1.0 Purpose of Report

1.1 To seek Committee approval to the Capital Strategy 2020/21, this incorporates the Minimum Revenue Provision Policy and Capital Prudential Indicators, updated in accordance with latest guidance.

2.0 Background Information

2.1 The Capital Strategy outlines the principles and framework that shape the Council's capital decisions. The principal aim is to deliver a programme of capital investment that contributes to the achievement of the Council's priorities and objectives as set out in the Corporate Plan.

2.2 The Strategy defines at the highest level how the capital programme is to be formulated; it identifies the issues and options that influence capital spending, and sets out how the resources and capital programme will be managed.

2.3 Statutory Requirements:

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

    - Increases in interest payments caused by increased borrowing to finance additional capital expenditure.

    - Any increases in running costs from new capital projects.

- The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Capital Prudential Indicators each financial year to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 CIPFA Requirements:

- The Prudential Indicators set out the expected capital activities during the financial year (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).

- Delegation by the Council of the role of scrutiny of Capital Strategy and Policies to a specific named body. For this Council the delegated body is the Audit and Accounts Committee.

2.5 The report also seeks approval for the Council's Minimum Revenue Provision (MRP) Policy (Appendix C), which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).

3.0 Proposals

3.1 A copy of the Capital Strategy is attached as an Appendix to this report.

4.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 9th March 2020 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

4.1 The Capital Strategy 2020/21 Appendix A.

4.2 The Capital Prudential Indicators and Limits for 2020/21, contained within Appendix A.

4.3 The Minimum Revenue Provision (MRP) Policy Statement as contained within Appendix C, which sets out the Council's policy on MRP.

4.4 The Flexible Use of Capital Receipts Strategy, contained with Appendix D.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

CIPFA Prudential Code Local Government Act 2003
CIPFA Treasury Management Code of Practice

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer

Appendix A

Capital Strategy Report 2020/21

Introduction

This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance stakeholders' understanding of these sometimes technical areas.

As well as detailing the approved capital programme, the document also sets out the Councils ambitions over the medium to longer term.

The basic elements of the Strategy therefore include:

- A direct relationship to the Community Plan;
- An investment programme expressed over the medium to long term;
- A framework that prioritises the use of capital resources;
- A consideration of the need to pursue external financing (grants, contributions etc), which reconcile external funding opportunities with the Council's priorities and organisational objectives, so that it is the achievement of the latter that directs effort to secure the former; and
- A direct relationship with the Treasury Management Policy and Strategy, and the limitations on activity through the treasury management Prudential Indicators.

This document is intended for the use by all stakeholders to show how the Council makes decisions on capital investment:

- for the Policy and Finance Committee and Council – to decide on capital investment policy within the overall context of investment need/opportunity and affordability;
- for Councillors – to provide an understanding of the need for capital investment and help them scrutinise policy and management;
- for Officers – to provide an understanding of the Council's capital investment priorities, to assist them in bidding for capital resources, and to confirm their role in the capital project management and monitoring arrangements;
- for taxpayers – to demonstrate how the Council seeks to prudently manage capital resources and look after its assets; and
- for partners – to share with them our Vision and help to co-ordinate and seek further opportunities for joint ventures.

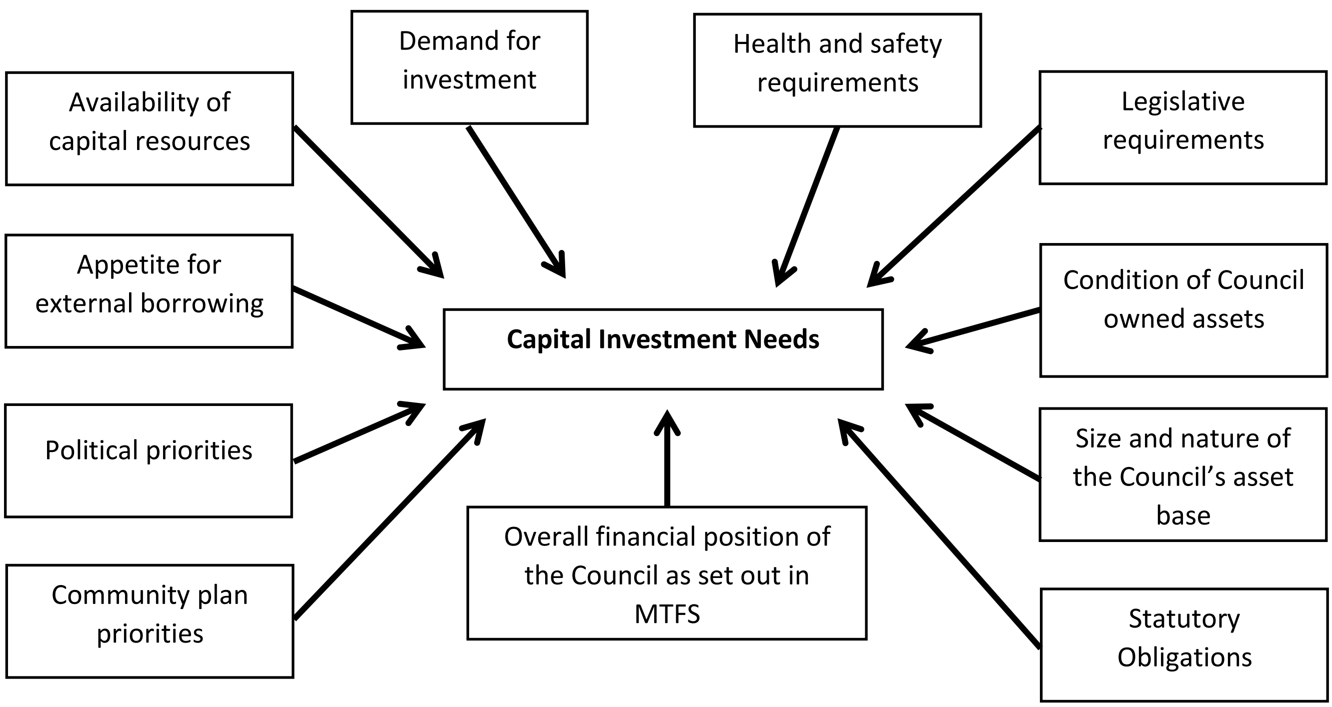
CAPITAL INVESTMENT PRIORITIES

The aim of the Council is to make a sustainable improvement to the long-term quality of life of our residents. The Community Plan 2019-2023 sets out the vision for Newark and Sherwood. This Vision is intended to be external facing and clearly indicates the Council's ambition for the district and the people within.

Underpinning the Council's contribution to the Community Plan vision are eleven Corporate Objectives. These are:

- *Improve the cleanliness and appearance of the local environment;*
- *Reduce crime and anti-social behaviour, and increase feelings of safety in our communities;*
- *Improve transport infrastructure to reduce congestion and facilitate growth;*
- *Accelerate the supply of new homes including associated facilities;*
- *Increase visits to the District and the use of visitor attractions by local residents;*
- *Protect, promote and enhance the district's natural environment;*
- *Enhance and sustain Town Centres;*
- *Reduce levels of deprivation in target areas and remove barriers to social mobility across the district;*
- *Improve the health and wellbeing of local residents, with a particular focus on narrowing the gap in healthy life expectancy and other health outcomes;*
- *Increase participation with the Council and within local communities; and*
- *Generate more income, improve value for money and increase residents' satisfaction with the Council.*

Where the objectives are updated the relevant approved objectives are relevant for that financial year. While the aim of the Council for its capital investment is in line with the Community Plan the capital need is influenced by a number of other factors both internal and external to the Council. The diagram below identifies a number of these:



Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £15,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: Accounting Policy 1.17 under note 1 of the Councils Statement of Accounts.

In 2020/21, the Council is planning capital expenditure of £51.4m as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £'000

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
General Fund services	9,774	9,342	16,135	5,803	3,666
Council housing (HRA)	15,247	17,659	22,224	15,314	12,166
Capital investments	0	5,650	13,060	0	0
TOTAL	**25,021**	**32,651**	**51,419**	**21,117**	**15,832**

The General Fund Capital Programme with a proposed budget for 2020/21 of £29.2m. Of this amount, expenditure on the Council's non-housing assets totals £15.4m, and £0.7m will provide Disabled Facilities Grants to a number of private dwellings during the year. Also during 2020/21 the Council also plans to incur £13.1m of capital expenditure on investments.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and has a proposed budget for 2020/21 of £22.2m, which supports the maintenance of the Councils circa 5,400 council houses.

Governance: During early September a 'Capital Bid Request Form' is sent to all business managers and directors. All bids are required to be authorised by the relevant director and then collated by the Capital Finance team, each bid is required to include all the financing costs (which can be nil if the project is fully externally financed) in order to assess the viability of each scheme against the available resources.

Senior Leadership Team appraises all the bids based on a comparison of service priorities against financing costs, criteria can be found at **Appendix E**. Based on this assessment a final Capital Programme report will be prepared for submission to Policy and Finance Committee in December before final approval by Council.

- Full details of the 'Capital Bid Request Form' and the prioritisation criteria can be found at **Appendix E**.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Capital financing in £'000

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
External sources					
Capital Grants	3,220	6,245	5,086	3,148	700
Other Contributions	5,210	619	3,906	0	0
Own resources					
Capital Receipts	2,000	5,115	4,766	2,726	1,422
Revenue/ Major Repairs Reserve	2,958	14,341	14,897	6,345	3,768
Debt					
Borrowing	11,633	6,331	22,764	8,898	9,942
Leasing	0	0	0	0	0
TOTAL	**25,021**	**32,651**	**51,419**	**21,117**	**15,832**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP) within the General Fund account and is mandated by an MRP Statement. As the HRA account is self-financing there is no concept of an MRP charge just actual debt loan repayments as they mature. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The forecast General Fund MRP charge and the HRA actual debt loan repayments are below:

Replacement of debt finance in £'000

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
General Fund - MRP	519	556	619	738	1,155
HRA - Debt Repayment	1,020	2,024	4,026	3,029	6,531

- The Council's full General Fund Minimum Revenue Provision statement is available here at **Appendix C**.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with

MRP and loan debt repayments and capital receipts used to replace debt. The CFR is expected to increase by £18.1m during 2020/21. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	31.3.2019 actual	**31.3.2020 forecast**	**31.3.2021 budget**	**31.3.2022 budget**	**31.3.2023 budget**
General Fund services	24,815	26,114	28,658	45,048	46,859
Council housing (HRA)	105,006	105,808	108,323	111,774	112,219
Capital investments	0	1,650	14,710	0	0
TOTAL CFR	**129,821**	**133,572**	**151,691**	**156,822**	**159,078**

Asset management: The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio consists of operational property and property held for specific community or regeneration purposes. The council has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. office buildings.
- Parks, playgrounds and open spaces.
- Regeneration, enabling strategic place shaping and economic growth.

Asset management is an important part of the council's business management arrangements and is crucial to the delivery of efficient and effective services, the ongoing management and maintenance of capital assets will be considered as part of the strategy. The asset management planning includes an objective to optimise the council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

Asset disposal: The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions in order to maximise the sale proceeds, known as capital receipts, which can then be spent on new assets or repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts.

- The Council's Flexible Use of Capital Receipts Policy is available here at **Appendix D**.

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council at 31st December had £90m borrowing at an average interest rate of 3.4% and £46m treasury investments at an average rate of 0.7%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement.

Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

Debt	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
External Debt					
Debt at 1 April	86,101	90,304	88,280	84,254	81,225
Expected change in Debt	3,979	-2,248	-4,250	-3,253	-6,756
Other long-term liabilities (OLTL)	224	224	224	224	224
Actual gross debt at 31 March	**90,304**	**88,280**	**84,254**	**81,225**	**74,693**
The Capital Financing Requirement	**129,821**	**133,573**	**151,690**	**156,822**	**159,077**
Under / (over) borrowing	**39,517**	**45,293**	**67,436**	**75,597**	**84,384**

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the table above, the Council expects to comply with this in the medium term.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end, in line with MiFid ii requirements. This benchmark is currently £64m and is forecast to rise to £135m over the next four years.

Borrowing and the Liability Benchmark in £'000

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Outstanding borrowing	129,821	133,573	151,690	156,822	159,077
Liability benchmark	63,652	88,404	124,983	131,181	135,381

The table shows that the Council expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – total external debt	147,173	165,290	170,422	172,677
Operational boundary – total external debt	139,973	158,090	163,222	165,477

- Further details on borrowing are in pages 4 to 7 of the treasury management strategy.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for purely financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Treasury management investments in £'000

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Near-term investments	39,046	36,135	21,366	20,513	18,957

Longer-term investments	0	9,034	5,341	5,128	4,739
TOTAL	**39,046**	**45,169**	**26,707**	**25,641**	**23,696**

- Further details on treasury investments are in pages 8 to 13 of the treasury management strategy.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and treasury staff, who must act in line with the treasury management strategy approved by Full Council. Half yearly reports on treasury management activity are presented to the Accounts and Audit committee and then to Full Council. The Accounts and audit committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are contained within the investment strategy.

Commercial Activities

With central government financial support for local public services declining, the Council will potentially invest in commercial property purely or mainly for financial gain.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return. The council may fund the purchase of the property by borrowing money, normally from the Public Works Loan Board. The rental income paid by the tenant should exceed the cost of repaying the borrowed money each year. The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. In order that commercial investments remain proportionate to the size of the council, these are subject to an overall maximum investment limit of £15m.

Governance: Decisions on commercial investments are made by the Deputy Chief Executive/Director of Resources, S151 Officer in line with the criteria and limits approved by Council in the investment strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on commercial investments and limits on their use are contained within the investment strategy.

Liabilities

In addition to debt of £90m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £65.9m 2018/19). It has also set aside a Collection Fund provision of £3.4 m to cover risks of Non Domestic Rates Appeals.

Governance: Decisions on incurring new discretional liabilities are taken by business managers in consultation with the Director of Resources. The risk of liabilities crystallising and requiring payment is monitored by the corporate finance team. New liabilities are reported to full Council for approval/notification as appropriate.

- Further details on liabilities and guarantees are on pages 89 to 95 of the 2018/19 statement of accounts.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential Indicator: Proportion of financing costs to net revenue stream in £'000

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
General Fund					
Financing costs	-120	38	45	151	532
Proportion of net revenue stream	-0.61%	0.26%	0.32%	1.30%	4.46%
Financing costs	13,243	12,046	13,760	11,941	17,117
Proportion of net revenue stream	58.74%	53.76%	60.12%	50.14%	69.05%

- Further details on the revenue implications of capital expenditure are contained within the 2020/21 revenue budget.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for potentially up to 50 years into the future. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Resources is a qualified accountant with 17 years' experience, the Business Manager – Asset Management is a qualified Quantity Surveyor, Chartered to MRICS level and also has 18 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and actively encourages staff to attend relevant training courses and seminars.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Asset Services as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- The Council's policy on the use of temporary agency workers and consultants is available on the Councils Intranet.

APPENDIX B

MANAGING THE CAPITAL PROGRAMME

A key role in the monitoring of the capital programme is undertaken by the Capital Monitoring Group, which meets on a quarterly basis. This Group is attended by responsible officers and the relevant accountant and is chaired by the Business Manager for Financial Services. It is a supportive environment in which problem areas are identified and corrective actions agreed and implemented at an early stage to avoid slippage. Each scheme has a nominated project manager who is responsible for the successful completion of the scheme both to time and on budget.

The Council maintains comprehensive and robust procedures for managing and monitoring its Capital Programme. Ongoing monitoring arrangements for the delivery of the approved programme consist of:

- Project Managers are identified for each scheme who are responsible for monitoring progress, spend and income and producing action plans to respond to variations in pace or cost of delivery;
- The Deputy Chief Executive/Director of Resources and S151 Officer co-ordinates high level monthly reporting and detailed quarterly reporting to the Management Team, Audit & Accounts Committee, and Policy and Finance Committee;
- The quarterly capital monitoring where project managers report on performance outputs on each of their capital projects in progress. Variations and unexpected items are discussed and appropriate action taken; and
- Business Managers are responsible for ensuring that Project Manager monitoring reports are quality assured and challenged, and that corporate implications arising from capital monitoring are brought to the attention of the Corporate Management Team and Policy and Finance Committee.

PROCUREMENT

The purchase of capital assets should be conducted in accordance with the Contract Procedure Rules, ensuring value for money, legality and sustainability at all times. Contract standing orders and rules governing the disposal or write off of assets are contained in the Constitution which is consistently reviewed.

VALUE FOR MONEY

The Council recognises that effective procurement lies at the heart of delivering value for money and is essential if the Council is to obtain real improvements to quality and service costs. The Council seeks to achieve value for money by applying rigorous procurement standards in the selection of suppliers and contractors to ensure efficiency, economy and effectiveness is received throughout the life of a contract. The significant resources applied to capital expenditure require the adopted principles of value for money to be at the heart of our capital strategy. Specifically we will seek to strengthen the outcome indicators as part of post project reviews.

APPENDIX C

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2020/21

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 - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2016 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option 1);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year. However as the Council deems it more prudent MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years.

From 1 April 2016 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);

This option provides for a reduction in the borrowing need over approximately the asset's life.

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

APPENDIX D

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Introduction and Background

Following the Spending Review 2015, the Ministry of Housing, Communities and Local Government (MHCLG) recently issued guidance on the flexible use of capital receipts which came into effect from 1 April 2016 to 31 March 2022. The guidance, underpinned by a direction from the Secretary of State for Communities and Local Government, will enable local authorities to capitalise costs incurred on transforming or improving service delivery designed to generate ongoing revenue savings. The guidance also states that each local authority should prepare a Flexible use of Capital Receipts Strategy.

In summary, the key elements of the MHCLG guidance on the flexible use of capital receipts are:

Types of qualifying expenditure

1. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

2. Set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure. In addition, one off costs, such as banking savings against temporary increases in costs/pay cannot be classified as qualifying expenditure.

Financing of the qualifying expenditure

i. Up to 100% of capital receipts from property, plant and equipment disposals received from 2020/21 (excluding Right to Buy receipts) can be used to finance qualifying expenditure. Existing capital receipts in hand prior to 2020/21 are not permitted to be used.
ii. Local authorities may not borrow to finance qualifying expenditure.
iii. The guidance will apply for 2020/21.

APPENDIX E

NEWARK & SHERWOOD DISTRICT COUNCIL
CAPITAL PROJECT APPRAISAL FORM

PORTFOLIO	
DIRECTORATE	
BUSINESS MANAGER	
PROJECT OFFICER	
PROJECT TITLE	

1. DESCRIPTION OF PROJECT

2. DEMONSTRATION OF NEED (include supporting information with this appraisal)

3a. DETAIL HOW THE PROJECT MEETS LINKS TO THE COUNCIL'S KEY PRIORITIES

3b. DESCRIBE THE IMPACT OF THIS PROJECT ON OTHER COUNCIL SERVICES

3c. PROJECT DEPENDENCIES

4. RESOURCE REQUIREMENTS

4a. LAND/BUILDINGS CURRENTLY IN COUNCIL OWNERSHIP (State whether General Fund or HRA).

4b. ESTIMATED CAPITAL COSTS INCLUDING PROFILE OF SPEND OVER FINANCIAL YEARS (best estimates should be given which can be firmed up when details scoping has been completed)

2020/21 £	**2021/22 £**	**2022/23 £**	**2023/24 £**

4c. FUNDING AVAILABLE

Source	2020/21 £	2021/22 £	2022/23 £	2023/24 £

4c. REVENUE IMPLICATIONS (this should include costs associated with implementation, ongoing revenue costs and ongoing savings and should be agreed with relevant accountant).

4d. VAT IMPLICATIONS (do we need to consider an option to tax?)

5. ANTICIPATED START AND END DATES FOR PROJECT ONCE APPROVED

FORM COMPLETED BY: ______________________________

DATE: ____________

SIGNATURE OF SPONSORING DIRECTOR: ____________________

PRIORITISATION CRITERIA

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
1	**Key Priorities** Scheme must link to at least one of the Council's priorities and be an objective contained within a Service Plan.	If a scheme does not clearly relate to these areas it will not be considered further.	Each scheme to be marked as to how well it fits with the following- • Prosperity • People • Place • Public Service	**35%**
2	**Evidence of Need** Service Strategy National Strategy or Guidelines Statutory Obligation	In some cases local demands are in excess of national guidelines and strategies and this tries to acknowledge that the two must be balanced. This will cover Health and Safety related schemes.	The following factors will receive equal weighting :- • Statutory Obligation • National Strategy • Validity of consultation in relation to project. e.g. How specific to this project? Who was consulted, was this comprehensive? • Quality of evidence of need for project .e.g. size of sample base, date of evidence, format of evidence	**10%**
3	**Partnership** Eligibility under existing criteria can be demonstrated.	Show that work has been done to ensure that the obtaining of external finance is realistic. The degree to which the partnership will add value to the project.	The proportion of finance which will be met by third party. The likelihood of receiving support. Assessment of the value the partner will add to the project.	**15%**

	STAGE 1 FACTOR	Comments	STAGE 2 DETAILED PRIORITISATION	STAGE 2 WEIGHTING
4	**Outputs and Outcomes** These have been clearly identified and can be justified from supporting evidence. Specific comments should be made as to how the scheme represents value for money when compared to other options	This will enable the council to improve the way it reports its work and clearly show what is being achieved. The comments should refer to any performance indicators which the proposal is addressing specifying what the improvement target is.	Assessment then made on what the scheme will achieve.	**15%** Assessment of all factors or group of factors
5	**Financial** Capital costs have been based on internal or external professional advice Revenue implications have been properly developed	Capital costs include both works and land purchase and cover all associated costs. Try and avoid “guesstimates” which result in schemes requiring increased finance or having to be reduced to meet finance available.	Capital will be based on the quality of work which has been put into estimate. e.g. costed feasibility studies. Revenue will be based on whether the effect is positive, neutral or negative on the revenue budget. Positive effect scores 10 Neutral effect scores 3 Negative effect scores 0	**15%** Capital marked 1 to 5 Revenue marked 0 to 10
6	**Risk Assessment** Identify the level of risk in a project not being able to proceed. For example planning appeals, listed building consent. Over subscription of partnership funds	Try and ensure that not all schemes selected are high risk with the danger that there will be delays in delivery or no-delivery.	The following will all need to be considered:- Technical Issues Financial Uncertainty Partnership uncertainty Planning Issues Legal issues Timescale	**10%**

AUDIT AND ACCOUNTS COMMITTEE
5 FEBRUARY 2020

INVESTMENT STRATEGY

1.0 Purpose of Report

1.1 This investment strategy is for 2020/21, meeting the requirements of statutory guidance issued by MHCLG Investment Guidance in January 2018.

2.0 Background Information

2.1 The definition of an investment covers all of the financial assets of the Council as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

A loan is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

2.2 Statutory Requirements:

- The MHCLG Investment Guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

- For each financial year, a local authority should prepare at least one Investment Strategy (“the Strategy”). The Strategy should contain the disclosures and reporting requirements specified in this guidance. The Strategy should be approved by the full council.

3.0 Proposals

3.1 A copy of the Investment Strategy 2020/21 is attached as an Appendix to this report.

4.0 RECOMMENDATION(S)

That Committee approves each of the following key elements and recommends these to Full Council on 9th March 2020 while noting that as the budgets are still being finalised some of the figures within the Strategy may alter:

4.1 The Investment Strategy 2020/21, contained within Appendix A.

4.2 The Investment Prudential Indicators and Limits, contained within Appendix A.

Reason for Recommendation(s)
Not to approve these policies would contravene the requirements of both legislation and good practice. In addition, the Mazars External Auditors may pass comment in their Report to those charged with governance (ISA260).

Background Papers

MHCLG Investment Guidance 3rd Edition

For further information please contact Andrew Snape on Ext 5523.

Sanjiv Kohli
Director – Resources and S151 Officer

APPENDIX A

Investment Strategy Report 2020/21

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to, or buying shares in, other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a relatively new report meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories. This new investment strategy has been created in line with the Councils Treasury Management Strategy Statement and the Councils Investment Plan. The initial strategy may be replaced with a revised strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £11m and £40m during the 2020/21 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, local businesses, local charities and any other bodies to support local public services and stimulate local economic growth. Over the years the Councils main service investment loan has been via the Growth Investment Fund. These investments during 2018-19 generated £16,800 of investment income for the Council after taking account of direct costs, representing a rate of return of 4.01%.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Loans for service purposes

Category of borrower	**31.3.2019 actual**			**2020/21**
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Subsidiaries	0	0	0	14.000
Local businesses	0.419	0.419	0	1.000
Local charities	0	0	0	0.500
Other Bodies	0.042	0	0.042	0.500
TOTAL	**0.461**	**0.419**	**0.042**	**16.000**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2019/20 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how theses will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Director of Resources. All loans will be subject to contract agreed by Legal and credit risk will be determined by reference to the "expected credit loss" model for loans and receivables as set out in International Reporting Standard (IFRS) 9 Financial Instruments. All loans must be approved by full Council and will be monitored by Director of Resources.

Service Investments: Shares

Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth. Currently the Council doesn't intend to invest in any shares with suppliers or local businesses; however the Council has invested £4m of equity funding into Arkwood Development Limited for which it has received 100% of the share capital issued, making it wholly owned by the Council.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Shares held for service purposes

Category of company	31.3.2019 actual			2020/21
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries	0	0	0	5.000
Suppliers	0	0	0	0.250
Local businesses	0	0	0	0.250
TOTAL	**0**	**0**	**0**	**5.500**

Shares are classed as capital expenditure and purchases will therefore also be approved as part of the capital programme.

Risk assessment: The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiarity will be active in including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by Director of Resources.

Liquidity: Although this type of investment is fundamentally illiquid, in order to limit, this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

<u>Commercial Investments: Property</u>

Contribution: The Council can invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Currently none of the Council properties meet the investment property definition as defined in International Accounting Standard 40: Investment Property.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent. The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type will be agreed by Policy and Finance committee.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The investment strategy for the Council for 2020-21 is proposed to remain broadly unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated officers to access suitable investment opportunities.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees and this strategy does not include them for 2020/21.

Borrowing in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £165 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Capacity, Skills and Culture

Elected members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investments decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council establishes project teams from all the professional disciplines from across the Council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

Commercial deals: The Council will ensure that the Account and Audit Committee, Policy and Finance Committee and officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

Corporate governance: Any investment decisions will be scrutinised by Senior Leadership Team before final approval.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Total investment exposure	**31.03.2019 Actual £m**	**31.03.2020 Forecast £m**	**31.03.2021 Forecast £m**
Treasury management investments	41.370	37.983	32.560
Service investments: Loans	0.461	1.890	13.060
Service investments: Shares	0	4.000	4.000
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	**41.831**	**43.873**	**49.620**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**41.831**	**43.873**	**49.620**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing	31.03.2019 Actual £m	31.03.2020 Forecast £m	31.03.2021 Forecast £m
Treasury management investments	0	0	0
Service investments: Loans	0	1.890	13.060
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	**0**	**1.890**	**13.060**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	0.73%	0.85%	1.50%
Service investments: Loans	3.85%	3.62%	4.21%
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
ALL INVESTMENTS	**2.29%**	**2.24%**	**2.86%**

AUDIT AND ACCOUNTS COMMITTEE
5th FEBRUARY 2020

INTERNAL AUDIT PROGRESS REPORT

1.0 Purpose of Report

To receive and comment upon the latest Internal Audit Progress Report which covers the period up to 31 January 2020.

2.0 Introduction

The purpose of the internal audit progress report (Annex A) is to provide a summary of Internal Audit work undertaken during 2019/20 against the agreed audit plan and any remaining reports from 2018/19.

The report contains details of actions within reports which have a Limited assurance rating, Managers will be in attendance to provide an update on the implementation of actions and respond to any questions.

3.0 RECOMMENDATION

That the Audit and Accounts Committee consider and comment upon the latest internal audit progress report.

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson
Business Manager Financial Services

Internal Audit

Progress Report

Newark and Sherwood District Council – January 2020

Assurance LINCOLNSHIRE

For all your assurance needs

NEWARK & SHERWOOD DISTRICT COUNCIL

Contents

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Introduction

The purpose of this report is to:

- Provide details of the audit work during the period October 2019 to 31 January 2020
- Advise on progress with the 2019/20 plan and outstanding work carried forward from 2018/19
- Raise any other matters that may be relevant to the Audit Committee role

Key Messages

During the period we have completed one assurance audit and have 9 audits currently in progress with 5 of these at draft report stage. The 4 which are currently in progress include:-

- Key Controls – Final testing
- Corporate Planning – Initial testing started, delayed due to client staff absence
- Buttermarket – Testing started
- Procurement – Final testing

We have also completed the combined assurance work and 2020/21 planning. Further details of the audits is provided within the body of this report and Appendix 5.

There are 7 audits remaining for this quarter, only 1 of which is delayed, Performance. This has been affected by the delays with the corporate planning audit as the two are linked.

Overall there are 39 agreed actions remaining to be implemented (8 'High' and 31 'Medium'). There are no actions which are overdue.   There have been a total of 21 extensions granted all of which have been approved by Directors as required by the process. Appendix 4 provides the breakdown of these.

We have now issued a total of 3 Limited reports and no Low reports this year. Appendix 2 provides the summary for the Limited report issued this quarter and Appendix 3 shows all of the outstanding actions for the reports previously issued. Managers will provide an update on the implementation of the recommendations within these appendices.

0
HIGH ASSURANCE

0
SUBSTANTIAL ASSURANCE

1
LIMITED ASSURANCE

0
LOW ASSURANCE

1
Other / Consultancy

*Note: The assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan. The definitions for each level are shown in Appendix 1.

Limited Assurance

Business Continuity – Follow-up

Our overall assurance rating for the Business Continuity follow-up audit is limited. At this stage, we are unable to give a higher rating due to the fact that the Business Impact Assessments (BIA) and service plans are incomplete. However, most of the actions are being progressed and therefore, the direction of travel is positive. The vacancy within the team has been filled, meaning that risk 4 has now progressed. The majority of the risks should move to green as they become more integrated into business as usual.

It is important to note, that greater progress has occurred on the Emergency Planning side due to the fact that it is public facing and will significantly affect reputation if anything was to go wrong. As a result of this, Emergency Planning has taken priority over Business Continuity in recent months.

The Corporate Business Continuity Plan was approved by SLT in March 2018, which includes alternative locations, critical services and recovery requirements. The only addition necessary to the appendices is a contact list that should be available on senior staff copies.

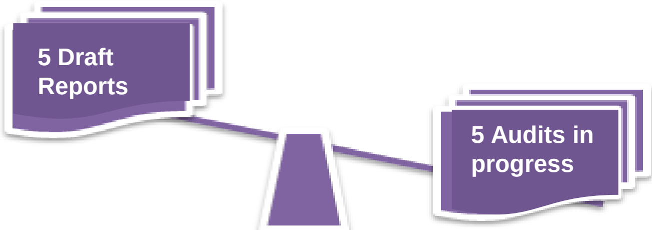
The Corporate BCP is scheduled to go to SLT for review every 6 months and the Emergency Planning Officer has the responsibility to review the plan every 3 years. However, they have verbally told us that they will informally review it annually.

BCM hasn't become part of the appraisal process however, we don't feel that it is necessary for every employee. Although, critical services like ICT should have BCM as a part of their appraisal.

The Emergency Planning Officer has started training Business Managers by taking them through a presentation about BC and how to fill out the BIA and service plan. Workshops have been suggested as a follow up form of training but there is no formal plan in place to roll out training to lower level employees.

Roles and responsibilities have been outlined in the Corporate BCP including a lead from SLT being responsible for ensuring that BIA are completed, which is good as it means that they can be held to account at SLT meetings.

As the service plans haven't been finished yet, there has been no testing of the current corporate BCP.



Audits reports at draft

We have 5 audit's at draft report stage:

- Building Control
- Project / Programme Management
- Commercialisation
- ICT incident Management
- ICT Patch Management and Change Control

These will be reported to the committee in detail once finalised.

Work in Progress

We also have 4 audits in progress :

- Key Controls
- Corporate Planning
- Buttermarket
- Procurement

Details of these can be seen in the 2019/20 plan at Appendix 5.

Other work

Assurance mapping is now complete and the report is included on the agenda for the February Audit and Accounts Committee.

Changes to the Plan

We have not made any further changes to the plan since the previous Committee.

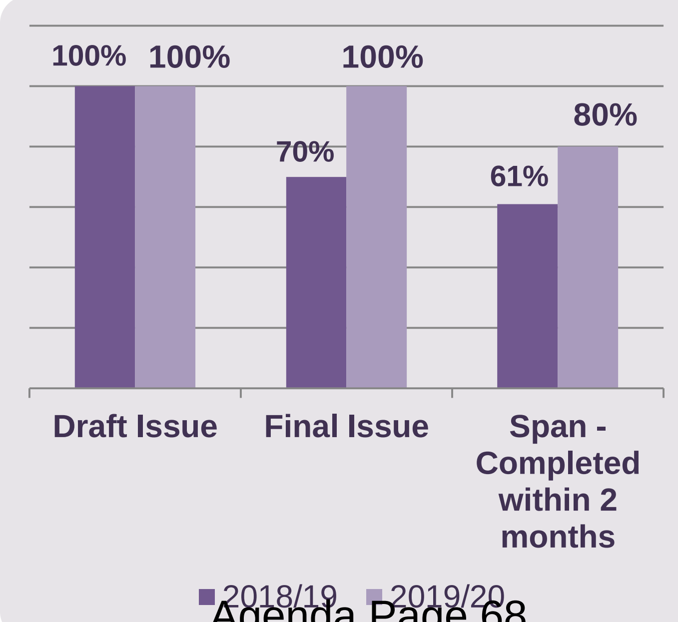
Benchmarking

Internal Audit's performance is measured against a range of indicators. The statistics below show our performance on key indicators year to date.

Performance on Key Indicators

100%

Rated our service Good to Excellent



Other Matters of Interest

A summary of matters that will be of particular interest to Audit Committee Members

CIPFA Financial Management Code 2019

CIPFA have updated their financial management code for UK Local Authorities to acknowledge the pressures of a tightening fiscal landscape.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- Financially manage the short, medium and long-term finances of a local authority
- Manage financial resilience to meet unforeseen demands on services
- Manage unexpected shocks in their financial circumstances

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

Assurance

High	Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
Substantial	Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.
Limited	Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
Low	Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.

Ranking of Recommendations

High	Necessary due to statutory obligation, legal requirement, Council policy or significant risk of loss or damage to Council assets, information or reputation.
Medium	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
Low	Current procedure is not best practice and could lead to minor inefficiencies.

Business Continuity

Risk	Rating (R-A-G)	Direction of Travel	Recommendations High	Recommendations Medium
Risk 1 – Management arrangements for Business Continuity Management is not effective.	Red	Positive	4	0
Risk 2 – Staff don't have the necessary skills/experience for BCM.	Amber	Positive	1	0
Risk 3 – BCM is not effective in meeting the needs of the Council.	Amber	Positive	2	0
Risk 4 – There is ineffective engagement in respect of BCM.	Green	Positive	0	0

Scope

This audit aims to review the previous action plan set by the 2018 audit and assess what progress has been made and the plans going forward.
The risks being assessed during the audit are:-

- Management arrangements for Business Continuity Management are not effective.
- Staff don't have the necessary skills/experience for BCM.
- BCM is not effective in meeting the needs of the Council.
- There is ineffective engagement in respect of BCM.

Management Comments

There is a recognition that the process for Business Units to manage their Business Continuity needs to be streamlined and simplified as well as at the same time being fit for purpose. There is still some work outstanding on achieving this but it must be recognised that the co-operation and involvement of Business Managers in this process is crucial.

Finding Recommendation	Action	Priority	Original Due Date	Revised Due Date	Owner	Resolution
If service managers are failing to complete the BIA and service plans in a specific period of time, the issue should be escalated to SLT. Provide a timetable/timeline that the service areas can realistically adhere to and provide information.	A timetable will be created providing a realistic period of time in which Service Managers will complete the BIAs and plans.	High	30/09/2019	30/09/2019	Business Manager Public Protection	Actioned
	Any Service Managers that fall outside of this period will be escalated to SLT.	High	30/09/2019	30/09/2019	Business Manager Public Protection	Actioned
Establish a module that is compulsory for all staff members outlining what BCM is and what their role is.	Establish a face to face, compulsory for all training programme that outlines what BCM is and what their role is.	High	13/06/2019	13/06/2019	Emergency Planning and CCTV Officer	Actioned

Appendix 2 Audits with Limited Assurance

Finding Recommendation	Action	Priority	Original Due Date	Revised Due Date	Owner	Resolution
Ensure BCM is easily accessible for all employees.	Ensure that BCM is easily accessible for all employees across the Council.	High	13/06/2019	13/06/2019	Emergency Planning and CCTV Officer	Actioned
Create a 18 month plan as to how BCM will be integrated into business as usual, which will include SLT meetings, training, awareness management, testing etc.	Create an 18 months action plan that outlines 6/7 key tasks that will encourage BCM integration into business as usual.	High	30/06/2019	30/06/2019	Emergency Planning and CCTV Officer	Actioned
Make BCM/BCP a regular item/reminder on the Business Manger's meeting agenda with updates as required.	Take BCM/BCP to the monthly Business Manger's meeting regularly giving updates when necessary.	High	31/05/2019	31/05/2019	Business Manager Public Protection	Actioned
Report on BCM to SLT every 6 months.	Report to SLT every 6 months giving BCM updates.	High	31/05/2019	31/05/2019	Business Manager Public Protection	Actioned
Liaise with partners who share premises to allow for a comfortable immediate action if an emergency occurs	Liaise with partners and Assets to ensure comfortable immediate action following an incident.	Medium	31/05/2019	31/03/2020	Emergency Planning and CCTV Officer	Not Actioned
Establish a plan for testing. Report to SLT based on what progress has been made- every 6 months.	Finalise training programme	High	30/09/2019	30/09/2019	Business Manager Public Protection	Actioned
	Test known problem areas of the plan	High	30/09/2019	30/09/2019	Business Manager Public Protection	Actioned
	Report to SLT every 6 months on progress	High	30/09/2019	30/09/2019	Business Manager Public Protection	Actioned

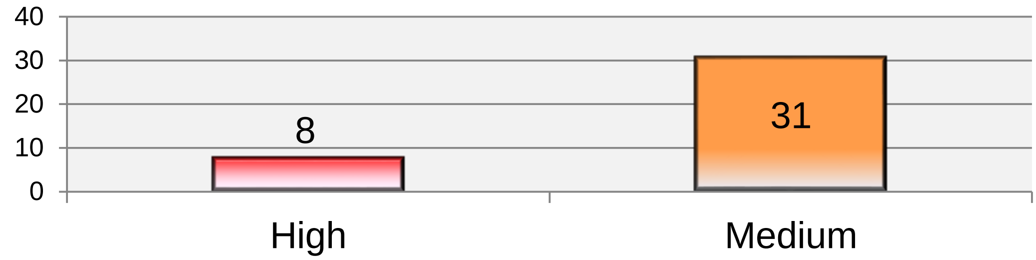
Appendix 3 Details of Outstanding Actions for Limited Reports

The following report has been included in a previous progress report and these are the actions remaining to be implemented

Audit	Recommendation	Action	Priority	Due Date	Owner
Community Centres	That a structure and timetable for visits to centres is introduced. Alongside this a checklist containing key responsibilities from the lease e.g. maintenance activities to be carried out, should be completed as part of the visit.	To introduce a timetable for annual visits and record summary of notes for the visit.	Medium	31/12/2020 Extended to 31/03/20.	Senior Health and Community Relations Officer
Community Centres	That Community centres are brought into the Community Plan structure and that some reporting is considered on an annual basis.	To create a service plan for the Community Centres. Outlining targets and what they want to achieve within the community. To produce a low level report annually, providing an overview of what has been achieved over the year. Can be used to provide information for councillors should this be requested.	Medium	28/03/2020	Senior Health and Community Relations Officer
Community Centres	Council should look to bring together all information in regards of community Centres so that they are available in one place e.g. leases, insurance certificates, maintenance schedules, site visit notes. This will allow for accurate up to date information and compliance monitoring. This may be possible through the introduction of the Concerto system.	To investigate the use of Concerto as a way of bringing all information together (document control), providing a central control and compliance monitoring.	Medium	28/03/2020	Senior Health and Community Relations Officer

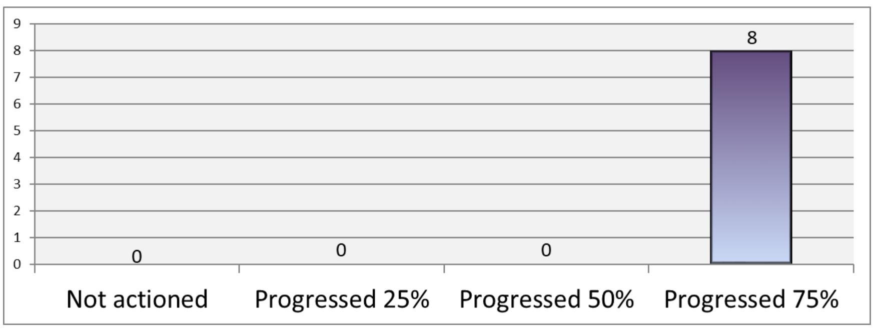
Outstanding Audit Actions for all audits at 31 January 2020

All Actions remaining to be implemented



High Priority Actions remaining to be implemented

Overall



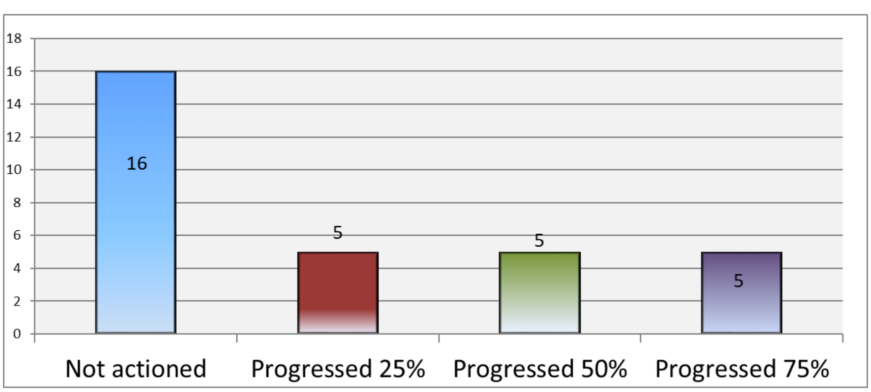
Overdue

Overdue 0

5 Extensions agreed

Medium Priority Actions remaining to be implemented

Overall



Overdue

Overdue 0

16 Extensions agreed

Appendix 5 2019/20 Audit Plan to date

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Commercialisation	There is a clear strategy and action plan in place covering the Council's commercial aspirations and this conforms with the relevant legislation.	Apr-19	Jul-19		Put on hold for priority work but now at Draft report
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts	Apr-19	Apr-19	Apr-19	Complete
Customer Comments	To review the process in place for the receipt of customer comments/complaints and provide assurance that these are dealt with in accordance with the Councils processes and used to inform future service improvements.	May-19	Apr-19	Jul-19	Substantial (Completed)
Pay and grading	To review the process for implementing the revised pay and grading structure to provide assurance that it has been approved and implemented correctly.	May-19	Apr-19	Jun-19	High (Completed)
Financial Strategy and Modelling	To review the financial strategy and provide assurance that it is accurate, compliant and assumptions are realistic, documented and tested. Appropriate approval has been obtained.	Jun-19	Jun-19	Jul-19	High (Completed)
Community Centres	Review of the processes in place which ensure compliance with lease and occupiers liabilities providing the Council with assurance over their assets.	Jun-19	Jun-19	Oct-19	Limited (Completed)
Building Control	There are effective monitoring arrangements in place which ensure that the residents of the district are getting the service expected and included within the agreement.	Jun-19	Aug-19		Draft Report
Newark Cattlemarket	Completion of the rent calculation for 2018/19	Jun-19	Jun-19	Jun-19	Completed
Corporate Planning	To provide assurance that there is a corporate plan in place which clearly links to the priorities of the Council, activities completed by Business Units and how achievement of the priorities are measured - the golden thread.	Jul-19			Terms of Reference
ICT Incident Management	To provide assurance that there is a consistent and effective approach to the management of incidents and cyber security events, including communication on security events and weaknesses.	Jul-19 Revised to Sept due to client capacity.	Dec-19		Draft report
Workforce changes and succession planning within the Council including changes within the management team	The Council has a workforce plan in place which meets the changing needs of the Council and the demographic and skills of staff. There is also a plan in place for succession planning of key staff identifying positions which hold the greatest risk if vacant i.e. specialist knowledge, statutory responsibility, lone workers etc.	Aug-19			Changed to February following request by Auditee and approval by NW.

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
Performance	To provide assurance that the performance process is effective and has a clear link with the Councils' corporate plan. To follow up the recommendations made within the previous report which received a Limited assurance rating.	Sep-19			Planned
Buttermarket	To provide assurance that there is effective management of the Buttermarket to ensure that it meets the objectives of the Council.	Sep-19	Oct-19		Testing
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.	Sep-19	Sep-19	Sep-19	Completed
Budgetary Control /Management	To provide assurance that the budgets are set in accordance with the financial strategy and Council priorities with accurate reporting and monitoring.	Oct-19	N/A	N/A	Deferred until Financial year 2020/21
Procurement	To provide assurance over the new arrangements in place for procurement.	Oct-19	Dec-19		Testing in progress
ICT Patch Management and Change Control	To provide assurance that established organisational processes for patch management and change control are followed and that the systems upon which the Council relies are routinely and regularly checked for vulnerabilities with remedial actions being promptly taken where vulnerabilities are identified.	Oct-19	Nov-19		Draft report
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.	Oct-19	Oct-19	N/A	Completed
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council's financial control environment.	Nov-19	Oct-19		In progress
Capital Programme	To provide assurance that the capital programme is appropriately approved, financed and reported.	Jan-20			Planned
Newark Cattlemarket	The provide assurance that the arrangements in place for the management of the cattlemarket ensure that the income is collected in accordance with the lease and the terms of the lease are adhered to. The council ensures that the current use and lease supports it's priorities on regeneration for the town.	Jan-20	N/A	N/A	Cancelled
Housing Options	To provide assurance that the homelessness service is meeting it's objectives and priorities and complies with legislation. The project for the provision of temporary accommodation is well managed and complies with Council processes.	Jan-20			Planned

Area	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Current Status / Assurance Opinion
General Ledger/Financial reporting	To review the general ledger to provide assurance that transactions within it are accurate and agree with the feeder systems. Access to the ledger is appropriately restricted.	Feb-20	N/A	N/A	Deferred until Financial year 2020/21
Strategic Risks	Strategic risks are identified, managed and linked to the corporate priorities of the Council. There is a process in place which ensures that they remain current and action plans ensure that risk mitigation actions are implemented as planned.	Feb-20			Planned
Land Charges	To provide assurance that applications are processed on time and in accordance with legislation.	Feb-20			Planned
Public Protection	To provide assurance that the Council is complying with it's duties in respect of Public Protection including a clear strategy and partnership working. Income due through the issue of Fixed Penalty notices is collected and used as prescribed.	Mar-20			Planned
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.	Final Mar-20	Nov-19		Started
Consultancy work completed		Aug-19	Aug-19	Aug-19	Completed
Consultancy Work in Progress - Debtors arrears		Oct-19	Oct-19	Dec-19	Completed

AUDIT AND ACCOUNTS COMMITTEE
WEDNESDAY 5 FEBRUARY 2020

ANNUAL INTERNAL AUDIT PLAN

REPORT PRESENTED BY: BUSINESS MANAGER FINANCIAL SERVICES

1.0 Purpose of Report

1.1 The Internal Audit Plan (Appendix A) sets out the proposed work of Internal Audit for 2020/21.

2.0 Introduction

2.1 The Internal Audit plan has been developed to demonstrate how assurance can be given on:

- Financial Governance
- Governance and Risk
- Critical Activities
- Projects
- ICT

2.2 Assurance Lincolnshire have developed a combined assurance model for the Council which is a record of assurances against your critical activities and risks. It provides an overview of assurance provided across the whole Council – not just those from Internal Audit – making it possible to identify where assurances are present, their source, and where there are potential assurance 'gaps'.

2.3 The internal audit plan has been developed with reference to our draft combined assurance model as well as previous audit work, audit risk assessment, discussions with senior management, strategic and emerging risks.

2.4 Appendix A sets out in detail Assurance Lincolnshire's approach and what we intend to review in 2020/21. Any slight changes to the plan during the year will be agreed with the Business Manager Financial Services and subsequently notified to the Audit and Accounts Committee.

3.0 RECOMMENDATION

The Audit and Accounts Committee approve the Internal Audit plan.

Background Papers

Nil.

For further information please contact Lucy Pledge on 01522 553692.

Nick Wilson
Business Manager Financial Services

Internal Audit

2020/21 Plan

Newark and Sherwood District Council

January 2020

Assurance LINCOLNSHIRE
For all your assurance needs

NEWARK & SHERWOOD DISTRICT COUNCIL

Contents

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The Planning Process

Introduction

This report sets out the Internal Audit Plan as at 1st April 2020. The plan details the activities to be audited and the indicative scope for each audit. The draft plan gives you an opportunity to comment on the plan and the priorities that we have established.

The plan details the audits to be undertaken in a financial year, with the number of audits in the plan being limited to the internal audit resource purchased. This year the plan includes the days which would previously have been spent on audits in Newark and Sherwood Homes. Therefore the days have increased to 323 from 285. The fee reflects the rates included within the new agreement. The plan is amended throughout the year to reflect changing assurance needs.

In Appendices A to E we provide for you information details of:

- Auditable Activities
- How the draft plan achieves the requirements of the Audit and Accounts Committee and Head of Internal Audit
- Our Working Protocols and Performance
- Our Quality Assurance Framework

Developing the plan

The internal audit plan has been developed from the Council's Assurance Map – which was updated in November 2019 with input from Management. **Figure 1** shows other key sources of information that has helped inform the plan.

We have prioritised our audit work taking account of the impact an activity will have on the Council if it fails. The criteria for determining priority are:

- **Significance** - how important is the activity to the Council in achieving its objectives, key plans and in managing its key risks. We look at both financial loss and strategic impact.
- **Sensitivity** - how much interest would there be if things went wrong and what would be the reputational and political impact.
- **Level of Assurance –** we assess the current level of assurance evaluating reliability and contribution to the Head of Internal Audit annual opinion on governance, risk and control.
- **Time**– when it will happen (this will determine when is the best time to do the Audit).

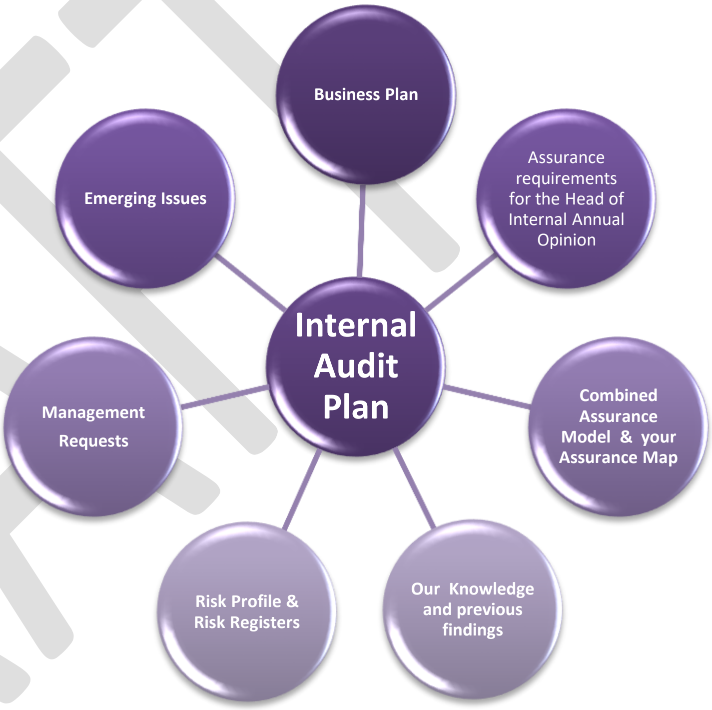

Figure 1 – Key sources of information

Updating the Plan

Through the year we will liaise with the Council and collect business intelligence that identifies emerging audits which could be included in the plan according to priority.

The primary source of business intelligence will be the regular liaison meetings between our team and the nominated liaison contact, other sources of intelligence will include:-

- Committee reports
- Pentana Performance and Risk
- Key stakeholders

Delivery and Focus

Delivering the Plan

The audit plan has been developed to enable us to respond to changes during the year. Whilst every effort will be made to deliver the plan, we recognise that we need to be flexible and prepared to revise audit activity – responding to changing circumstances or emerging risks. The plan is therefore a statement of intent – our liaison meetings with senior management will enable us to firm up audit activity during the year.

The aim is to deliver the audits included in the plan in accordance with the schedule which will be devised once the plan is agreed. The schedule will be drawn up following liaison with the various auditees and Directors. Resources will then be allocated accordingly to the audits at the specified times. It is therefore important that any changes required to the audits or the schedule are notified to Internal Audit as soon as possible to avoid abortive time being spent on audits and for us to reallocate resources.

The Council's Internal Audit Plan is **323 Days.** The core team who will be delivering your Internal Audit plan are:

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Audit Focus for 2020/21

In the following table we provide information on key audit areas and the rationale for their inclusion in the audit strategy and plan. Appendix A outlines the various audits to be undertaken within each area. Appendix B contains those areas which we have not been able to include in the plan but management may wish to consider whether they should be included.

Area	Reason for inclusion
Financial Governance	Providing assurance that key financial controls are in place and operating effectively during the year across all areas of the Council. This work provides the Section 151 Officer with a key element of his assurance that the Council has effective arrangements for the proper administration of its financial affairs.
Governance & Risk	Providing assurance that key governance controls are in place and are operating effectively. These cross cutting audits focus on the Council's second line of assurance - corporate rather than service level systems.
Critical Activities	The combined assurance work undertaken in 2019/20 identified some critical activities where a potential audit would provide independent assurance over the effectiveness of risk management, control and governance processes.

Area	Reason for inclusion
Project Assurance	There are a number of critical projects identified by the Council. We have selected one to seek to provide assurance around the successful delivery (on-time – within budget – deliverables achieved and benefits realised).
ICT	Technology and associated threats and opportunities continue to evolve at a pace. The effectiveness of ICT has a great impact on how well the Council works. We will seek to provide assurance that key controls comply with industry best practice and are operating effectively. Audits planned come from previous year assessments and our awareness of current ICT risks.
Follow Up	We will carry out a follow up audits throughout the year to provide assurance that a sample of identified control improvements have been effectively implemented and the risks mitigated. Working with management we also track the implementation of agreed management actions for all audit reports issued.
Combined Assurance	Working with management we co-ordinate the levels of assurance across the Council's critical activities, key risks, projects and partnerships – producing a Combined Assurance Status report in January 2021.
Consultancy Assurance	At the request of management we undertake specific reviews where they may have some concern or are looking for some advice on a specific matter or around governance, risk and controls for a developing system. Such reviews are not normally given an audit opinion.

Annual Internal Audit Opinion

We are satisfied that the level and mix of resources - together with the areas covered in the plan - will enable the Head of Internal Audit to provide their annual internal audit opinion.

Appendix A – Internal Audit Plan

Our current planned audits are listed below.

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Financial Governance						
Key Control Testing	Delivery of key control testing to enable Head of Internal Audit to form an opinion on the Council’s financial control environment.	N/A	N/A		✓	
Budgetary Control /Management	To provide assurance that the budgets are set in accordance with the financial strategy and Council priorities with accurate reporting and monitoring.	A	A	✓		
General Ledger/Financial reporting	To review the general ledger to provide assurance that transactions within it are accurate and agree with the feeder systems. Access to the ledger is appropriately restricted.	A	A	✓		
NNDR	NNDR is billed correctly, collected promptly and all discounts are appropriately awarded.	A	G			
Council Tax	Council Tax is billed and collected in accordance with the agreed charge for the property and location and all discounts are appropriately awarded.	A	G			
Governance and Risk						
Information Governance	There are effective processes in place for the management of information throughout the Council.	A	G			
Critical Activities						
Newark Castle	Review of the key processes in place for income, security, maintenance and management of the Castle.	A	A	✓		✓
Deliver a HRA affordable housing growth 5 year programme	To provide assurance that the Council has a plan in place for the delivery of affordable housing which is realistic, adequately resourced and will meet the requirements laid down.		A	✓	✓	
Ensuring homes are safe and decent	To provide assurance that the Council is meeting its obligations to it’s tenants in the provision of safe and decent homes.				✓	

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Strategic Asset Management	To provide assurance over the arrangements in place for the operational management of the Council's land and buildings and the maintenance /improvement thereof.	A	A		✓	✓
Climate Change Emergency	Following the declaration of a climate emergency the Council has plans in place for action to be taken by itself and within the District.				✓	
Tourism	To provide assurance that there are plans in place for the development of Tourism within the District which meet the Community Plan objectives and align with those within other Business Units.	A	A		✓	✓
Contract management - General	There are effective arrangements in place which ensure that all contracts are recorded, allocated contract managers and there are processes in place which ensure that they are managed effectively.	R	A	✓	✓	
Enforcement	To provide assurance that there are effective processes in place for development enforcement action which are complied with.	A	G			✓
Debt	There are effective and joined up arrangements for the management of debts owed to the Council. Such processes are documented, consistent and shared prior to allowing further credit wherever possible.	A	A			
Stakeholder engagement	To provide assurance that there are effective processes in place to ensure stakeholder engagement in decision making, both for internal and external stakeholders.					✓
Apprenticeships	To ensure that there is compliance against the scheme requirements, maximisation of take-up and consideration is given to the retention and integration of apprentices into the workforce once they have completed their apprenticeship.	A	A			
Project Assurance						
Robin Hood Hotel	There are appropriate governance arrangements in place for the Robin Hood Hotel company with oversight maintained of the construction project.	A	A	✓	✓	

Audit Area	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
ICT						
Physical and Environmental Security	Looking at the security of Castle House, satellite locations (Brunel drive cited as a concern), the Beacon and locations where any off-site back-ups are stored.	G	A			
Capability and Capacity	Skills audit and training needs assessment wasn't done when we looked at ICT Governance. If they take on N&SH staff then this will need to be reviewed anyway.	G	A	✓		
Follow-up						
Follow-ups	Follow-up of recommendations made for the progress report and on a sample basis.					✓
Combined Assurance						
Combined Assurance	Updating the assurance map and completing the Combined Assurance report.			✓		✓
Other						
Gilstrap	Independent Examination of the Gilstrap accounts in accordance with S145 of the Charities Act 2011.					✓
Mansfield Crematorium	Completion of the audit of the Mansfield Crematorium Accounts					✓
Newark Cattlemarket	Completion of the rent calculation for 2018/19				✓	✓
Days		285				

Non-Audit	
Advice and liaison	
Annual Report	
Audit Committee	
Review IA Strategy and Planning	
Days	**38**

Grand Total	Total
Internal Audit Days	**323**
Fee	**£95,285**

Appendix B –Areas not included in the current plan

These are the areas which are not on the plan but are important.

Auditable Areas	Assurance Sought	Internal Audit Risk Assessment	Assurance Map RAG Rating	Strategic Risk Register	Corporate Priority	Management Request
Critical Activities						
NSH Integration - embeddedness	Outcomes of project, review of processes in place, structure. Is it working, savings achieved.				✓	
Estates Management	Business Innovation Centre	A	A		✓	
Car Parks - Overall	Lorry Park	R	A		✓	
Business Rate Pool	Plans, link to MTFP		A		✓	
Strategic Asset Management (Incl Acq and disp)	Concerto – implementation and accuracy	A	A			
Void Management	Housing properties				✓	
Parks and amenities (general)	Processes, external contracts, inspections, contract monitoring.	A	G		✓	
Environmental Health (Misc environmental legislation covering noise, air quality, licensing etc)	Licences	A	G		✓	
Safeguarding children and vulnerable adults		A	G			
Collaboration/partnership/joint working						
IT - User Education and Awareness	Staff completion rates of the mandatory e-learning are as expected, that content is good and that users are being directed to complete the courses promptly after starting or alternative provision is provided to new starters. Also covering policy direction which has links to PCI DSS.	A	A			
Town Centre Development	Plans in place for the development of Town Centres which meet the Community Plan objectives.					
Due Diligence						
Housing Benefits	Cyclical Audit	A	G		✓	
Insurance	Cyclical Audit	A	A		✓	
Procurement	Cyclical Audit	R	A		✓	

Appendix C – Head of Internal Audit's Opinion

Our work is carried out in conformance with the UK Public Sector Internal Audit Standards. These require that the scope of Internal Audit covers the whole range of the Council activities – seeking to provide an annual internal audit opinion on the governance, risk and internal control environment of the Council which has been established to:

- Achieve strategic objectives
- Ensure effective and efficient operational systems and programmes.
- Safeguard assets and interests of all kinds (including risks that relate to work it undertakes through partnerships)
- Ensure the reliability and integrity of financial and operational information.
- Ensure economic, efficient and effective use of council resources.
- Ensure compliance with established policies, procedures, laws, regulations and contracts.

Our Internal Audit Strategy

It is important that the Internal Audit function focusses its work on what matters most to you – providing insight, assurance and added value to the Council. Whilst we have a plan in place this is flexible and may be changed during the year enabling greater flexibility and responsiveness – ensuring each piece of work is the right one, delivered at the right time. The plan is therefore more dynamic and responsive – essential for an effective Internal Audit service.

Our internal audit activity and plan has been driven by the Council's key objectives within the corporate plan, your key risks and critical service areas identified as part of the Combined Assurance Map.

We aim to align our work with other assurance functions – seeking to look at different ways of leveraging assurance to help us to maximise the best use of the Internal Audit resource and other assurance functions in the Council.

By adopting this approach it is possible to give the Council comfort that there is a comprehensive risk and assurance framework with no potential gaps. We are then able to use our audit planning tool to target resources. This will to minimise duplication of effort through sharing and coordinating activities with management and other management oversight functions.

We have identified the level of assurances in place by using the "Three lines of assurance" model – See **Figure 2.**

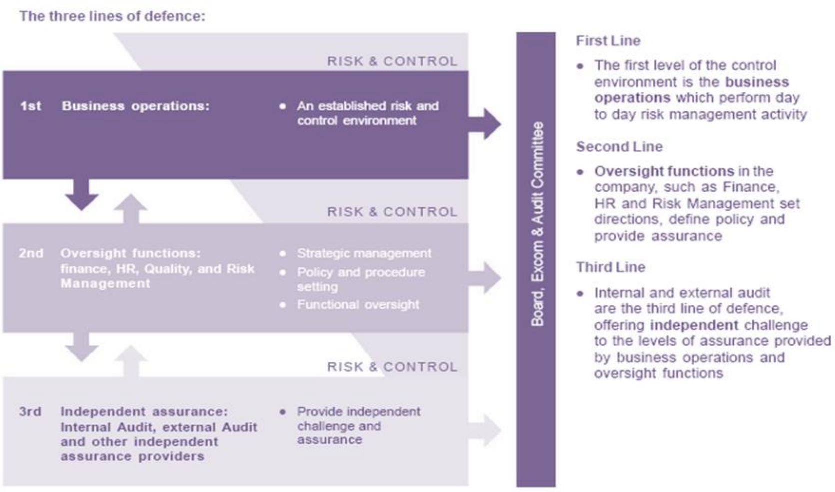


Figure 2 – The three lines of defence

Figure 3 shows the overall assurance levels on the Council's critical activities as at November 2019.

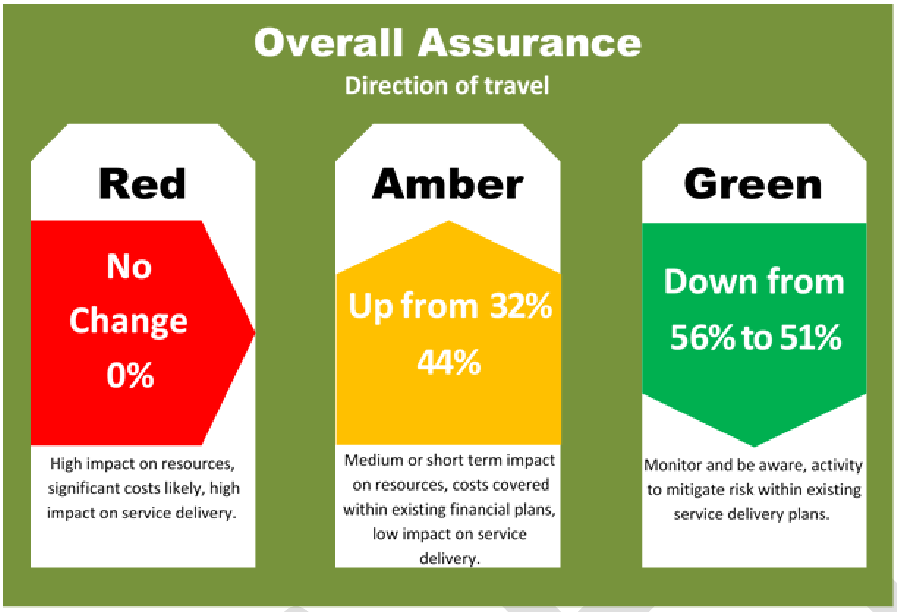


Figure 3 – Overall Assurance Status

Our Internal Audit Strategy also seeks to co-ordinate our work with other assurance providers where we can. In particular we liaise with External Audit to ensure the Council gets the most out of its combined audit resource – keeping audit fees low.

Appendix D – Working Protocols

Our approach to delivering of internal audit work is based on a clear protocol detailed in the Audit Charter. How this works in practice is set out at the bottom.

Our performance is monitored by the Section 151 Officer and the Audit Committee - measured against 3 key areas:

- Delivery of planned work.
- Timeliness (contemporary reporting).
- Quality and Impact of work (communicating results / added value).

Strong communication is fundamental to quality delivery and maintaining trusting relationships. We keep management informed in accordance with agreed protocols including:

- Agreeing potential audit work for the forthcoming year
- Providing quarterly updates to evaluate progress and discuss activities and priorities for the next quarter.
- For individual audit engagements we hold planning meetings in person (our preference) by phone or email to discuss and agree the terms of reference and scope of our work..
- We keep you informed of key findings during the audit and upon conclusion we hold a debrief meeting in person to discuss our findings and any outstanding issues.
- We communicate the results of our audit work in a clear and concise way – securing management action where control improvements are needed.

Weeks prior to fieldwork	-4	Notify key stakeholders of audit at least 4 weeks prior to fieldwork
	-0-4	Meet with Director or Business Manager (Audit Sponsor) to agree draft terms of reference (TOR) and obtain approval
Fieldwork		Initial meeting with auditees and audit sponsor
		Keep in regular contact with audit sponsor throughout the fieldwork
		Fieldwork completed
Weeks after fieldwork	+2	Draft report ready for internal review within 10 working days of fieldwork completing
	+3	Internal review
	+4	Draft issued within 5 working days of review
	+7	Closure meeting and Management response within 15 days of receipt of draft report
	+9	CMT review of draft
	+10	Final report issued within 5 days of management response

Appendix E – Our Quality Assurance Framework

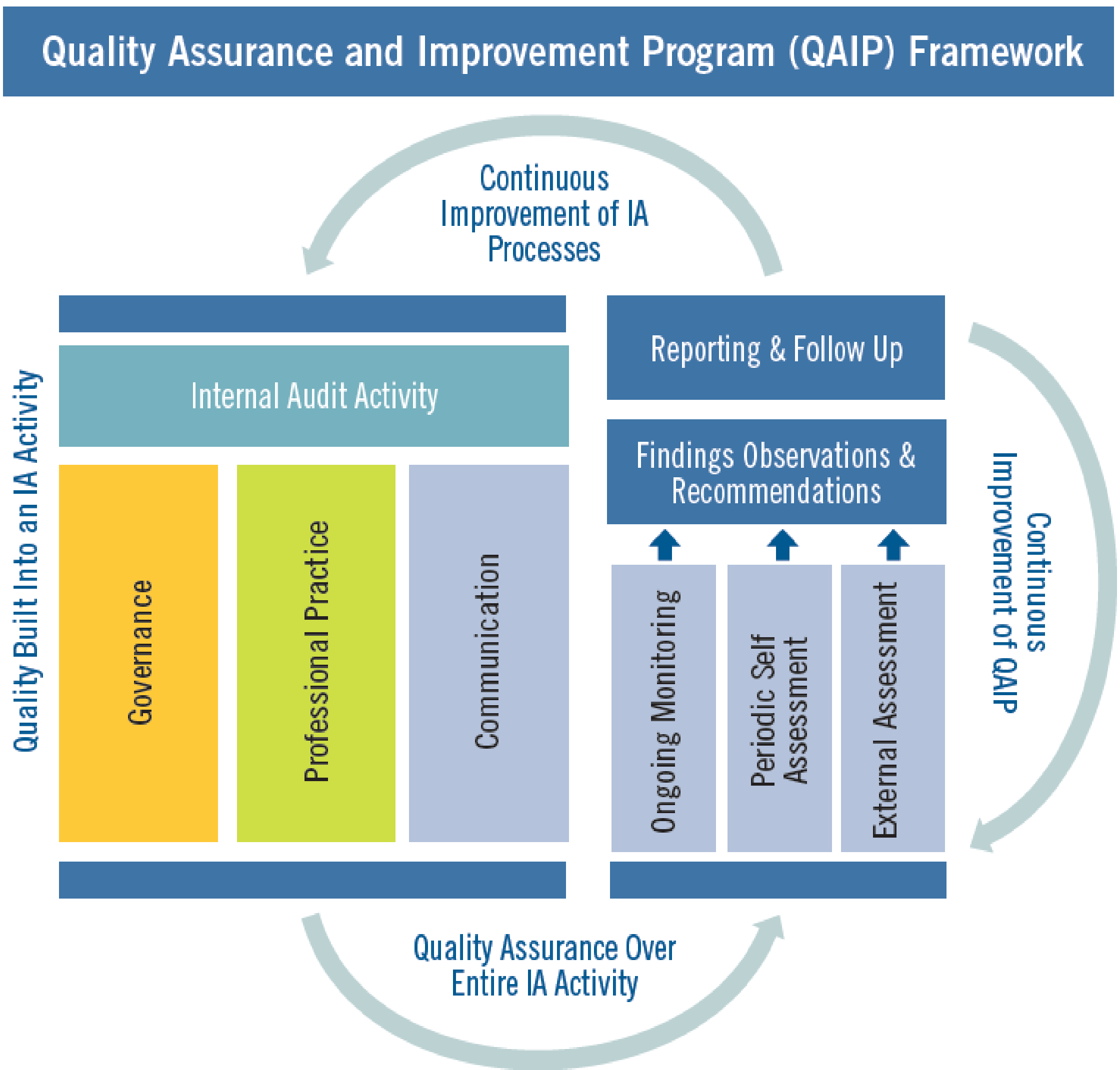
Quality is built into the way we operate – we have designed our processes and procedures to conform to best practice applicable to Internal Audit – in particular the UK Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

Our audit team offers a wide depth of knowledge and experience gained across different organisations. We promote excellence and quality through our audit process, application of our Quality Assurance Framework and our training and development programme.

Our Quality Assurance Improvement Programme incorporates both the internal (self) and external assessments – this is a mandatory requirement and the Head of Audit reports annually on the results and areas for improvement. Our internal assessments must cover all aspects of internal audit activity – **The diagram below** shows how we structure our internal assessments to ensure appropriate coverage.

We use a number of ways to monitor our performance, respond to feedback and seek opportunities to improve. Evidence of the quality of our audits is gained through feedback from auditees and the results of supervision and quality assurance undertaken as part of our audit process.

Our Internal Audit Charter sets out the nature, role, responsibilities and authority of the Internal Audit service within the Council – this was approved by the Audit & Accounts Committee and was reviewed in 2019 following the planned revision of the CIPFA Local Government Application Note.



AUDIT & ACCOUNTS COMMITTEE
5 FEBRUARY 2020

REVIEW RELATING TO THE APPOINTMENT OF AN INDEPENDENT MEMBER

1.0 Purpose of Report

1.1 To enable Members of the committee to consider the appointment of an Independent Member to the Audit and Accounts Committee as per the CIPFA Best Practice Guidance.

2.0 Background Information

2.1 At the meeting on 27th November 2019 the results of the self-assessment exercise highlighted an action in relation to the consideration of including at least one independent member to the Committee.

2.2 The action plan detailed that a report would be tabled to this Committee which facilitated the consideration of an independent member.

2.3 CIPFA's position statement states that "*The committee should: in local authorities, be independent of both the executive and scrutiny functions and include an independent member where not already required to do so by legislation*".

2.4 Under the Council's constitution, the first item in the remit for the Audit and Accounts Committee's is:- "*to approve the Authority's statement of accounts, income and expenditure and balance sheet or record of receipts and payments*".

2.5 Under S102(3) of the Local Government Act 1972, Co-opted members are not permitted to be members on Committees which are responsible for "*regulating and controlling the finance of the local authority*".

2.6 CIPFA do acknowledge these limitations recommending that Local Authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. This states that "*A person who – (a) is a member of a committee appointed under a power to which this section applies by a relevant authority and is not a member of that authority; shall for all purposes be treated as a non-voting member of that committee*".

2.7 Their view is that where an audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee (including an co-opted members) should be able to vote on those recommendations. However, where a council has delegated decisions to the committee, for example the adoption of the financial statements, then independent members will not be able to vote on those matters for decision.

2.8 As part of the Committees remit is therefore to regulate and control the Councils' finances, under S102(3), co-opted members with voting rights are not permitted on this Committee, the arrangements therefore mean that the Council are at variance with the CIPFA position statement.

2.9 CIPFA also acknowledge that there are no statutory requirements that determine that local authorities must appoint independent co-opted members, albeit such appointments are a requirement within police authorities, English combined authorities and for local authorities in Wales.

2.10 CIPFA's view is that the injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- To bring additional knowledge and expertise to the committee;
- To reinforce the political neutrality and independence of the committee;
- To maintain continuity of committee membership where membership is affected by the electoral cycle.

2.11 CIPFA do though acknowledge there are potential pitfalls to the use of independent members which should also be borne in mind:

- Over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
- Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
- Effort is required from both independent members and officers to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

2.12 The National Audit Office (NAO) recent publication: Local Authority Governance reported that their focus groups of internal and external auditors had stressed the benefits to audit committee effectiveness of having independent committee members. The same report identified (from the NAO's review of local authority website) that 33% of local authority audit committees have an independent member.

2.13 The NAO has recommended that government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of independent members.

2.14 Analysis across Nottinghamshire shows that only one of the other District Authorities currently have independent members co-opted onto their audit committees. This is Mansfield District Council and currently they remunerate them £530 per annum.

3.0 <u>CONCLUSIONS:</u>

3.1 At present there are no statutory requirements on the authority to appoint an independent member to the audit committee. The NAO has recommended that further work be done by government with local authorities and other stakeholders to examine how the use of independent members on audit committees can be increased.

3.2 Guidance from CIPFA notes both positive and cautionary reasons for such appointments and decisions of this nature need to take account of each local authority's own circumstances.

4.0 <u>RECOMMENDATIONS:</u>

That the Committee:

(a) Review and discuss the proposal to co-opt an independent member onto the committee and make recommendations to Council where appropriate.

Background Papers

CIPFA Audit Committees Practical Guidance for Local Authorities and Police
NAO Report – Local Authority Governance

For further information please contact Nick Wilson, Business Manager – Financial Services on Ext 5317

Nick Wilson
Business Manager – Financial Services

AUDIT & ACCOUNTS COMMITTEE
5 FEBRUARY 2020

REVIEW OF SIGNIFICANT GOVERNANCE ISSUES IN THE ANNUAL GOVERNANCE STATEMENT

1.0 Purpose of Report

1.1 To update members of the Audit & Accounts Committee on the significant governance issues identified in the Annual Governance Statement.

2.0 Background Information

2.1 At the meeting of the Audit & Accounts Committee on 24 July 2019, Members approved the Annual Governance Statement for the Council, with forms part of the Council's Statement of Accounts. To ensure that Members are able to undertake their assurance role, this report updates the Committee on the status of the significant governance issues identified within it.

2.2 An extract from the Annual Governance Statement showing the issues identified is attached at Appendix A.

3.0 Results of the Review

3.1 The issues identified are considered separately below with details of any further work undertaken.

3.2 Organisational Change – The Council's in year actual net expenditure is in line with the budget for 2019/20. The forecast outturn position remains an underspend due to an increase in planning fee income and additional business rates growth funding. The delay in the business rates re-base has mean a positive funding position. This is however a temporary position and therefore appropriate reserves have been set aside to meet future known
Pressures from 2021/22 onwards.

The Community Plan has now been fully embedded into the organisation and forms the framework for performance management. Financial resources (both revenue and capital) are allocated in accordance with the objectives of the Community Plan with performance being reported quarterly to individual directorates, Senior Leadership Team and Policy and Finance Committee.

The objectives of the Plan are included in the Forward Plans for each Committee and form the framework for service plans and personal appraisals.

The work of the commercials team has slowed down as staff have been diverted to support the transfer of the housing repairs and maintenance service from Newark and Sherwood Homes and to support the General Elections. The target savings/income for 2019/20 will therefore not be met but the shortfall will be met from additional planning fee income.

The Council will, in January 2020 review the on-going functionality of the Commercials and Major Projects service area.

3.3 Development Company – The Company's business case for its first development at Bowbridge Road, Newark was approved by the Shareholder Committee on 22 January 2020, and the release of the equity and loan funding approved by Policy & Finance Committee on 23 January 2020. Loan agreements are currently being prepared by the Council's external solicitors.

Recommendations from the most recent internal audit concerning the Development Company that the Shareholder Committee's remit be extended to oversee the Company's risk register are being actioned.

3.4 Estate Regeneration Programme – The Council is out to tender for a development partner to undertake to undertake the regeneration project, tenders are due to be received in February and will be analysed and a report submitted to the 2 April Policy & Finance Committee for approval to select the development partner.

Funding applications are also being progressed with Homes England and their strategic partners to help bridge the funding gap for the scheme, which will be reported on to Policy & Finance in April.

3.5 Emergency Planning – Operation Northshore (Business Continuity and Emergency Planning exercise) was delivered and was very effective in highlighting the roles and responsibilities of SLT and Business Managers in an Emergency Planning situation. This was further examined in real life incidents of flooding during November. The lessons learned are now being implemented and there are regular meetings between Director, Business Manager and Emergency Planning Officer to monitor progress.

3.6 Business Continuity Arrangements – All Business Managers have now completed the update of the Business Impact Assessments. Operation Northshore (Business Continuity and Emergency Planning exercise) was delivered and this has focused the minds of Business Managers of their responsibilities with regard to Business Continuity. Training has been delivered to Business Managers and deputies.

3.7 Re-integration of the Housing Management Function – The housing management service is scheduled to transfer back to the Council with effect from 1 February 2020. TUPE regulations have been fully complied with to facilitate the transfer of the staff from the Company to the Council. The Council has adopted a new management structure, incorporating a Housing, Health and Wellbeing Directorate to ensure that the Council retains its housing focus.

The recruitment process is underway to recruit the new Director and interim resources have been put in place through an external housing consultant to cover these responsibilities pending the Director's appointment.

There is a cross Council and Company project team in place that is overseeing the project, and ensuring that all the necessary workstreams to reintegrate the Service are delivered and all identified risks within the project plan are mitigated.

3.8 Counter-Fraud Arrangements – Assurance Lincolnshire were appointed in 2016 to assist the Council with proactive Counter-Fraud arrangements and have undertook a refresh of the Fraud Risk Register in February 2019. This work will again been completed during February 2020 which will be reported to this Committee in April. The session had a more pro-active agenda to look for practical ways to continue to detect suspected fraud.

3.9 Compliance with Financial Regulations re authorisation of goods, works and services – The S151 Officer sent an email during April 2018 to all Senior Managers, Business Managers and Budget holders reminding them of the procedure for raising orders for goods, works and services. This was then further supplemented by a briefing during a Business Managers workshop during July 2019.

A further review during January 2020 has seen that the percentage has decreased slightly to 53.81%. A further communication will be sent round to all officers responsible for authorising orders to remind them of their responsibilities. Should this prove ineffective then a report will be brought to this Committee to inform members of those officers who do not comply with these regulations.

4.0 RECOMMENDATION

That the Committee notes the results of the review of significant governance issues as identified in the Annual Governance Statement.

Background Papers

Annual Governance Statement for 2018/19

For further information please contact Nick Wilson, Business Manager– Financial Services on Ext: 5317

Nick Wilson
Business Manager – Financial Services

AUDIT & ACCOUNTS COMMITTEE
29 FEBRUARY 2020

RISK MANAGEMENT

1.0 Purpose of Report

1.1 To provide an update to members on the Council's Risk Management arrangements and status of the Council's Strategic Risks.

2.0 Background Information - Risk Management

2.1 An annual strategic risk workshop was held with SLT in July. During this workshop the following actions were undertaken:

- Annual review of the strategic risk register
- Full overview of the last audit report actions
- Evaluation of the risk review process
- Evaluation and determination regarding management of project risks
- Evaluation and determination of corporate risk maturity and appetite

2.2 The last audit of the Council's Risk Management arrangements, carried out by Assurance Lincolnshire in 2018, identified a **substantial** level of confidence in service delivery, management of risks and operation of controls and/or performance.

2.3 Performance of all strategic risks continue to be reported to SLT quarterly via the performance assurance reporting system.

2.4 All red or failing strategic risks continue to be reported to SLT at appropriate intervals.

2.5 A full review of the risk management policy, associated guidance document and processes is currently being undertaken. The updated documents will be approved by SLT.

2.6 During the last risk workshop SLT considered risk maturity ratings, as identified with the last Risk Management Audit. As part of this review SLT have determined corporate objectives in developing risk management systems across the council. These are to be developed, where required, to ensure risk management systems are at these agreed levels.

2.7 The corporate Risk Management Group continues to meet on a quarterly basis. Members of this group are provided with an overview of the current status and performance of strategic and operational risks. In addition members of the group raise and discuss new and/or emerging risks.

2.8 Operational risks identified as red are monitored and reported to SLT as part of the wider assurance arrangements. Further assistance will be provided to Business Managers in reviewing and developing their operational risks.

3.0 Strategic Risks

3.1 Strategic risks are those that have the potential to halt or interfere with the Council's ability to achieve its priorities and/or deliver its statutory duties.

3.2 As detailed in 2.1 a risk workshop, involving members of SLT, has been undertaken to agree risks that are strategic in nature for the forthcoming year. When reviewing strategic risks consideration is given to how the whole organisation is positioned to deliver its objectives having regard to internal/external factors, some of which are out of the Council's control e.g. economic downturn.

3.3 The current register has 12 strategic risks. These are listed in the table below.

Title	**Description**	**Notes**
SR101 Financial sustainability – General Fund	Ensuring financial sustainability of the general fund to allow the council to undertake its core functions, deliver services, meet its corporate priorities and objectives	Revised strategic risk.
SR102 Financial sustainability - HRA	Financial sustainability of the HRA to ensure the council is able to provide, maintain and develop its housing stock.	Revised strategic risk.
SR103 Safeguarding	Preventing failures within safeguarding arrangements to ensure protection of vulnerable persons	Existing risk - no significant change.
SR104 Failure to deliver growth infrastructure	Facilitating the provision of local infrastructure to ensure growth within the district to meet agreed plans & corporate priorities	Revised risk based on previous wider growth risk.
SR105 Contract/supply failure	Managing contracts with key suppliers, including NSDC wholly own companies, to ensure the continued delivery of an effective service and ensure delivery of the council's priorities and objectives.	Existing risk with greater focus on wholly owned companies.
SR106 Workforce	Ensuring the council is able to recruit, maintain and retain appropriate staffing resource to ensure it is able to deliver its services and meet its corporate objectives.	Revised risk.
SR107 Loss of community cohesion	The risk of vulnerable communities with NSDC feeling disengaged, excluded or being unable to access available services and opportunities.	Existing risk with new focus.
SR108 Emergency response	The Council's ability to effectively respond as a category 1 responder to a major emergency and maintain a suitable response without affecting essential service delivery.	Existing risk – no significant change.
SR109 Corporate governance	Risk of failure in systems of governance within the council, council owned/influenced organisations and partnerships or other collaborative arrangements.	Existing risk - no significant change.
SR110 Data	Deliberate or unintentional loss/disclosure of	Existing risk

management and security	personal, sensitive, confidential, business critical information or breach of information governance legislation.	- no significant change.
SR111 Arkwood Development	Managing performance and the relationship between the Council and Arkwood Developments in accordance with the governance agreement.	Existing risk - no significant change.
SR112 Brexit	Effects of BREXIT on the council's ability to deliver services and to the sustainability of its communities.	Existing risk- no significant change.

3.4 **Significant changes to the strategic risk register**

SR101 &102 Financial sustainability - The previous financial sustainability risk has been removed and replaced with separate assessments for the General Fund (SR101) and the Housing Revenue Account (SR102). It was felt that the original risk, which covered all financial matters, was too broad and didn't allow for specific issues posed by the GF and HRA accounts to be properly expressed.

SR 104 Failure to deliver growth - The previous remit of this risk was very wide ranging considering all issues that affected growth within the district, many of which weren't within the Council's control. Due to its wide ranging remit it was difficult to manage. It was agreed that this risk should remain but its focus should be narrowed to concentrate on facilitating the delivery of local infrastructure to enable growth within the district.

SR105 Contract/supply failure - It was agreed that this risk should remain, however, it has been refocused to concentrate on major suppliers of council services/functions, especially those that assist in the delivery of the community plan.

SR106 Workforce – This was previously entitled Organisational Development and mainly considered risks posed through changes to the organisation. The new focus of this risk is now on ensuring that the available staffing resource is suitable to ensure the council can meet its corporate priorities/objectives.

SR107 Loss of community cohesion - Previously entitled sustainable communities this risk's remit considered wide ranging issues to all communities. It was agreed that it should be refocussed to establish the issues facing vulnerable communities which may cause them to become disengaged or unable to access critical services provided by the council.

SR10 Impact of welfare reform changes – This has now been removed from the strategic risk register. The main purpose of this risk was to consider the risks associated with the implementation of the welfare reforms. This will now be covered within Operational risks for those specific sections who are specifically delivering services that are directly affected by issues relating to welfare payments.

3.5 Ownership of each risk is assigned to a relevant director. Owners, with the assistance of lead officers and Safety and Risk Management Officer, have now developed all new risks.

3.6 All risks have been reviewed and action plans developed.

3.7 Strategic risks SR104, SR108, SR110 and SR112 are currently identified as red risks. Whilst every reasonable effort will be made to reduce the risk to a level to ensure compliance with the corporate risk appetite, it should be noted that the very nature of strategic risks are complex and influenced by many outside factors/controls. Some actions can be very long term and in other cases the ability to reduce the risk further may not be in the control of the council.

3.8 All twelve Strategic Risk assessments have been appended to this report.

4.0 Equalities Implications

4.1 There are no specific equalities implications arising from the details set out within this report. Where appropriate equalities are considered as part of the risk management process and where appropriate these are noted against the relevant risk and mitigation put in place to manage the risk along with any other risks identified.

5.0 Financial Implications

5.1 FIN19-20/2208 - There are no direct financial implications arising from this report.

6.0 RECOMMENDATION

Members of the Committee are recommended to note the content of this report.

Reason for Recommendations

To update the Committee on the Council's approach to risk management and provide an update on the status of the Council's strategic risks

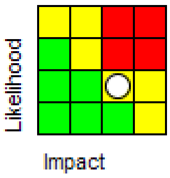
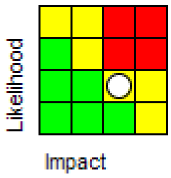
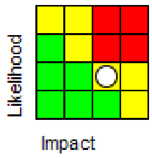
Background Papers

Nil.

For further information please contact Richard Bates – Safety and Risk Management Officer on extension 5593.

Karen White
Director – Governance and Organisational Development

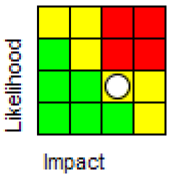
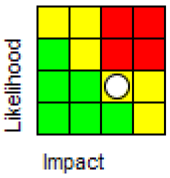
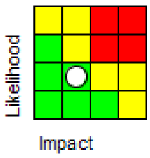
Appendix 1

Management Action Plan	**SR101 Financial sustainability – General Fund**		**Risk Owner**	Kohli, Sanjiv (SLT)	
Description	Ensuring financial sustainability of the general fund to allow the council to undertake its core functions, deliver services, meet its corporate priorities and objectives		**Assigned To**	Wilson, Nick (BM - FIN)	
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			22-Jan-2020	31-Mar-2020	Controlled

Risk Officer Review	
Vulnerability	Financial Meeting corporate objectives Service delivery Reputation Governance Compliance
Trigger/Event	Unforeseen rise in interest rates over forecasted levels Changes in national policy eg. fair funding review, change to government political parties Banking crisis Over reliance and poor decision making on investments Member priorities diverging from corporate priorities Increase CPI/RPI figures Failure of subsidiaries Major contract failure Failure of HRA Reduction in Business Rates 2. Poor decision making and business planning Budgeted income levels not meeting target Impact on promised funding not as expected Change in significant income/funding Failure in compliance/ governance Fraud Loss of critical income streams
Impact	Inability to deliver services Inability to meet corporate priorities Inability to meet legislative requirements External auditors review Government taskforce Negative media/reputation Loss of ability to make local decisions Division between members and officers Greater division between political parties Staff morale and loss of key staff Fines/ enforcement S151 officer issues S114 notice GF fails due to third party failure, i.e. HRA/subsidiaries Impact on residents and communities
Measures in Place	Quarterly Capital monitoring meetings Investments approved in line with the annually agreed Treasury Management Strategy Annual refresh of MTFP including management of reserves Council approved Capital programme Financial implications added to Committee reports by Financial Services

	Financial strategies and budget reviewed through Policy and Finance Committee annually Use of external MTFP tool which assists with forecasting future Business Rates income Assigned project manager for each major project the Council is embarking on Corporate Projects Team established to identify business opportunities in service areas Director/Business Unit Manager quarterly meetings reviewing Directorate financial position Approved Commercial strategy to support objectives set out in the MTFP Approved Investment Plan to support the objectives set out in the Commercial Strategy Nottinghamshire Business Rates Pool mitigating large impacts of reductions in Business Rates. This is kept under review by Nottinghamshire S151 officers Quarterly budget monitoring report tabled at SLT and Policy and Finance Committee Annual Financial Regulations training in place
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

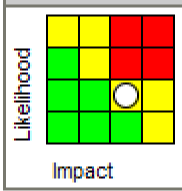
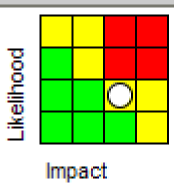
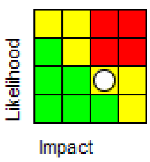
Linked Actions	**Progress Bar**
RP-SR101 Financial sustainability – General Fund	0%
Linked PIs	**Status**

Management Action Plan	**SR102 Financial sustainability - HRA**		**Risk Owner**	Kohli, Sanjiv (SLT)	
Description	Financial sustainability of the HRA to ensure the council is able to provide, maintain and develop its housing stock.		**Assigned To**	Wilson, Nick (BM - FIN); Main, Rob (BM - HSD)	
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			25-Nov-2019	31-Mar-2020	Control Pending

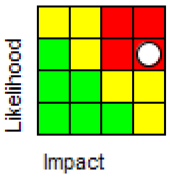
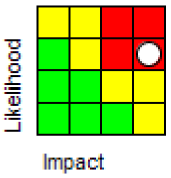
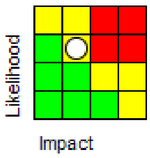
Risk Officer Review	
Vulnerability	Financial Meeting corporate objectives Service delivery Reputation Governance Regulation and compliance
Trigger/Event	Change in national policy Increase in interest rates Increased rent arrears Increased voids Suitability of stock meeting future standards Increase or change in standards required Current stock does not meeting housing needs Workforce issues Housing management review and implementation Failing to ensure compliance with relevant legislation causing regulatory bodies to intervene Noncompliance with rent standard Meeting tenant priorities Ineffective strategic decision making and business planning Key HRA major projects failure Ineffective management of housing maintenance function Loss of critical income streams Fraud Failure to manage critical income streams/ invest
Impact	Inability to maintain stock to acceptable level including development of future stock Budget unable to address changes in national policy

	Reprioritisation of service delivery including resource delivery Cash reserves used to right off rent arrears and voids Substandard housing stock Loss of morale and high staff turnover Fines, notices, court cases and legal fees Moratorium of services Dissatisfaction with service delivery Greater scrutiny on service slowing decision making Poor local housing policy Project failure Contract disputes S151 officer issues S114 notice Failure to service debt Legislative requirements not met Impact on residents and tenants
Measures in Place	Quarterly Capital monitoring meetings Investments approved in line with the annually agreed Treasury Management Strategy Annual refresh of MTFP including management of reserves Council approved Capital programme Financial implications added to Committee reports by Financial Services Financial strategies and budget reviewed through Policy and Finance Committee annually Use of external MTFP tool which assists with forecasting future Business Rates income Assigned project manager for each major project the Council is embarking on Corporate Projects Team established to identify business opportunities in service areas Director/Business Unit Manager quarterly meetings reviewing Directorate financial position Approved Commercial strategy to support objectives set out in the MTFP Approved Investment Plan to support the objectives set out in the Commercial Strategy Nottinghamshire Business Rates Pool mitigating large impacts of reductions in Business Rates. This is kept under review by Nottinghamshire S151 officers Quarterly budget monitoring report tabled at SLT and Policy and Finance Committee Annual Financial Regulations training in place
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR102 Financial sustainability - HRA	0%
Linked PIs	**Status**

Management Action Plan	**SR103 Safeguarding**		**Risk Owner**	Finch, Matthew (SLT)	
Description	Preventing failures within safeguarding arrangements to ensure protection of vulnerable persons		**Assigned To**	Batty, Alan (BM - PPR)	
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			09-Dec-2019	31-Mar-2020	Controlled
Risk Officer Review	9/12/19 - MF, AB, RB, LM				
Vulnerability	Compliance /Legislation Reputation Financial Resourcing Partnerships Governance Vulnerable persons				

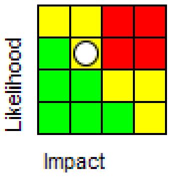
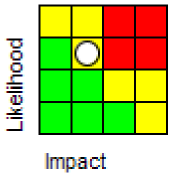
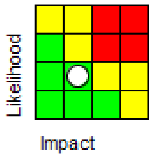
Trigger/Event	Reduction of Managers means that relevant officers may not be available Lack of Training Turnover of staff resulting in loss of continuity Failure to identify a serious case Resurrection of a historic case Lack of resources to respond to the safeguarding process (identification through to investigation and report) Inappropriate response to a case Lack of corporate awareness and culture (members and officers) lack of communication / Partnership failure Non adherence to corporate policy, not escalating and not reporting	
Impact	Foreseeable and avoidable harm is suffered by a vulnerable person Serious case review by Nottinghamshire safeguarding board Litigation (criminal and civil) Disruption caused by targeting by group/individual Possible effect on future insurance costs depending on liability and claims history Personal Liability Staff Morale Radicalisation Reputational damage with community e.g. negative media Resourcing any additional works Child exploitation, domestic abuse, radicalisation, modern day slavery Organisational abuse (e.g. older people in care homes)	
Measures in Place	**LEAD OFFICER: Director of Communities & Environment - M Finch** Countywide safeguarding policy adopted – and reviewed / updated March 2018 Disciplinary policy Annual Review and Update of the Council's Safeguarding Policy Key Staff already undertaken E-Learning BMs and safeguarding specific training PREVENT introduction to safeguarding training rolled out to all staff Staff Induction training organised Member training Officer represented on the Notts Safeguarding Children's Board and Notts Safeguarding Adults Local procedures in place Corporate safeguarding group meet quarterly Safeguarding Support Officers in place Shared safeguarding email Annual completion of Section 11 return Annual review and report to SLT DBS notification process Internal Audit Notts wide network for referring information relating to PREVENT Participating in serious case reviews as required Learning from serious case reviews Annual assurance report to committee with exception reporting if require Undertake domestic homicide reviews as directed by CSP	
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.	
Linked Actions		**Progress Bar**
RP-SR103 Safeguarding		44%
Linked PIs		**Status**

Management Action Plan	**SR104 Failure to deliver growth infrastructure**		**Risk Owner**	Lamb, Matt (SLT)	
Description	Facilitating the provision of local infrastructure to ensure growth within the district to meet agreed plans & corporate priorities		**Assigned To**	Main, Rob (BM - HSD); Hughes, Lisa (BM - PDV); Norton, Matthew (BM - PPO)	
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			23-Dec-2019		Control Pending

Risk Officer Review	RB/LH/MN/ML 20/12/2019
Vulnerability	Inability to deliver infrastructure to support growth Political Reputation Financial Partners and stakeholders
Trigger/Event	Government change in policy Government funding withdrawn Funding reduced Funding bid failure Housing development stalls Change in leadership Poor strategic decision making Change in partnership priorities Withdrawal of Partners Failure of other related major infrastructure projects
Impact	Infrastructure not delivered Inappropriate infrastructure delivered Growth within district affected Inadequate service provision Government sanctions for inability to deliver housing growth Housing development stalls Social Inequality Large Employer relocating outside district Inward investment stalls
Measures in Place	Community Plan Infrastructure delivery plan CIL charging schedule and infrastructure list Development plan (Amended Core Strategy and Allocations and Development Management DPD) Local Development Framework Task Group Economic Development Committee and Full Council Planning Committee High performing planning service Active Lobbying Engagement with Developers, Stakeholders & Partners
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR104 Failure to deliver growth infrastructure	0%

Linked PIs	**Status**

<table>
<tr><td>Management Action Plan</td><td colspan="2">SR105 Contract/supply failure</td><td>Risk Owner</td><td colspan="2">Johnson, Deb (BM - CMP); Kohli, Sanjiv (SLT)</td></tr>
<tr><td>Description</td><td colspan="2">Managing contracts with key suppliers, including NSDC wholly own companies, to ensure the continued delivery of an effective service and ensure delivery of the council’s priorities and objectives.</td><td>Assigned To</td><td colspan="2">Syddall, Steven (BM - AMP); Wilson, Nick (BM - FIN); Main, Rob (BM - HSD); Batty, Alan (BM - PPR); Zemontas, Megan 1 Admin</td></tr>
<tr><td>Original Risk Matrix</td><td>Current Risk Matrix</td><td>Target Risk Matrix</td><td>Risk Review Period</td><td colspan="2">Quarterly</td></tr>
<tr><td>
</td><td>
</td><td>
</td><td>Last Review Date</td><td>Target Date</td><td>Management</td></tr>
<tr><td></td><td></td><td></td><td>22-Jan-2020</td><td>31-Mar-2020</td><td>Control pending</td></tr>
</table>

<table>
<tr><td>Risk Officer Review</td><td>DJ risk assessed 2/12/19, Sent to SK for authorisation</td></tr>
<tr><td>Vulnerability</td><td>Service delivery
Financial
Compliance (Regulatory, Health & Safety, Legislative)
Governance
Resources
Reputational</td></tr>
<tr><td>Trigger/Event</td><td>CONTRACT INCEPTION
. Lack of understanding of requirements and different provision mechanisms available
. Lack of commercial approach and knowledge
. Inadequate/ambiguous specification
. Inadequate/ambiguous control/performance measures
. Inadequate/ambiguous exit arrangements
. Failure to engage relevant specialists in contract design
. Contract is not signed and saved in corporate register
. Limited market supply
. Over reliance on single supplier(s)
. Lack of competence in procurement
. Lack of resource dedicated to procurement
. Lack of preplanning for contracts
. Lack of appropriate exit strategies

CONTRACT MANAGEMENT
. No assigned contract manager
. Contract manager is not appropriately trained/skilled
. Contract manager resource is insufficient
. Ineffective performance monitoring and reviews
. Evergreen contracts in place
. Change control/variations are not appropriately managed
. Lack of ongoing challenge throughout the contract
. Loss of key personnel/ key resilience
. Relationship breakdown
. Contractor fails to deliver/ isn't able to deliver (bankruptcy)

WHOLLY OWNED COMPANIES
. Management agreement not robust
. Governance and oversight not appropriate
. Inadequate/ambiguous governance arrangement
. Contract management resource is insufficient/ unsuitable
. Inadequate/ambiguous control/performance measures
. Relationship breakdown and – objectives do not align
. Lack of ongoing challenge throughout the contract
. Board directors do not perform within required parameters
. Lack of appropriate review of purpose of contract

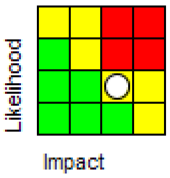
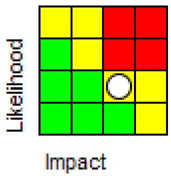
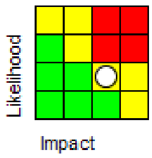
OTHER</td></tr>
</table>

	. Financial management not embedded as part of contract management process . Impact of Brexit (link to STRAT SR012 Brexit) . Business continuity/Emergency incident . Contracts not entered on contract register . Provision commences before contract is in place . Lack of appropriate overview of contract management . Link to SR106 - Workforce
Impact	FINANCIAL IMPACT . Additional costs to council (hidden costs, increased costs) . Best value not achieved . Fines SERVICE DELIVERY IMPACT . Provision is not timely/delayed . Poor/declining quality of service/provision . Increased unplanned demand . Inability to scale up/scale down provision to meet demand . Service failure . Not aligned to corporate objectives LEGISLATIVE IMPACT . Data loss/GDPR compromised . Council’s legislative obligations not met . Providers are not able to be challenged as contract not in place when service is commenced REPUTATIONAL IMPACT . Customer/service user complaints increase . Member complaints increase . Negative media coverage RESOURCE . Contract manager resource requirement is increased (leading to impact on other duties) . Other officer resource required to manage impacts (leading to impact on other duties)
Measures in Place	CONTRACT INCEPTION & MANAGEMENT . Contract register developed using Pro-Contract and actively managed by OD team (not fully populated or embedded yet see action) . Contact renewal early warning provided by OD at quarterly meetings . Procurement advice provided through Welland procurement . Call off contract arrangements/template devised . SLA template devised for consistency . SLAs all reviewed . SLA register devised and actively managed by OD . Comprehensive audit undertaken of contracts WHOLLY OWNED COMPANIES . Management agreements regularly reviewed . Contract managers named for each . Regular contract management meetings in place . Active partnership approach embedded TRAINING . Session delivered to BMs on contract management . Session delivered to members on contract management
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR105 Contract/supply failure	0%

Linked PIs	**Status**

Management	**SR106 Workforce**	**Risk Owner**	White, Karen (SLT)

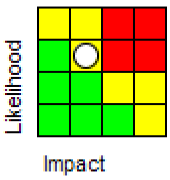
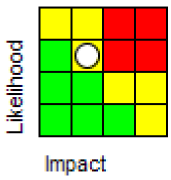
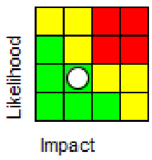
Action Plan					
Description	Ensuring the council is able to recruit, maintain and retain appropriate staffing resource to ensure it is able to deliver its services and meet its corporate objectives.		**Assigned To**	Baker, Jill (BM - CSC); Richardson, Dave (BM - ICT)	
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			18-Dec-2019	31-Mar-2020	Controlled

Risk Officer Review	CG 18/12/19
Vulnerability	Service delivery and resources Financial Compliance Governance Reputational Competence and Capability Leadership
Trigger/Event	Key staff leaving e.g. with specific qualifications and/or experience and membership of professional body Number of staff leaving from one area/high turnover Inability to recruitment to key posts Lack of development opportunity Lack of team cohesion Lack of alignment with corporate values/behaviours/culture Pressure of work Demand in a specific skill set Uncompetitive in the job market place Poor industrial relations Working environment Key member of staff goes on long term sick Organisational restructure
Impact	Service delivery impact Reputational impact through poor service Reputation as an employer resulting in inability to recruit staff Loss of capacity/under resourced Loss of expertise and corporate memory High recruitment costs Additional time required to support introduction of new staff and development thereof Additional training costs Impact on morale, culture and team performance Increased levels of staff absence Loss of opportunity through loss of networks Inability to operate in accordance with statutory requirements Increase in accidents Impact of potential civil claim (e.g. employment tribunal. insurance) or criminal actions Increased demand on corporate services (e.g. HR)
Measures in Place	Business Managers have individual development plans to help them manage change and risk. Senior HR Officers provide support to Business Managers to manage staffing issues, e.g. sickness absence, capability etc. Effective communication arrangements are in place. Rolling programme of review for HR policies to ensure they remain robust and fit for purpose. Selima system provides Business Managers with ownership / control over staff sickness/Holiday approval etc. and provides corporate overview HR working closely with Business Managers to support organisational change. Partnership approach with recognised trade unions to support organisational change. Counselling/therapy and welfare support services in place for staff. Visible leadership. Annual employee planning process. Training and development programme to support ongoing development of skills and competencies and BM

	and other staff change management such as recruitment. Review of training requirements linked to appraisal process to ensure that appropriate development is sourced and implemented for staff to include facilitation of succession management. Incentivised terms and conditions, e.g. agile and flexible working Use of Apprenticeships to support service areas and support succession management. Approved corporate priorities within the Community Plan 2019-23 Annual financial planning Project team and plan in place for housing implementation
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR106 Workforce	0%
Linked PIs	**Status**

Management Action Plan	**SR107 Loss of community cohesion**	**Risk Owner**	Finch, Matthew (SLT)
Description	The risk of vulnerable communities with NSDC feeling disengaged, excluded or being unable to access available services and opportunities.	**Assigned To**	Baker, Jill (BM - CSC); Monger, Leanne (BM - HHC); Batty, Alan (BM - PPR)

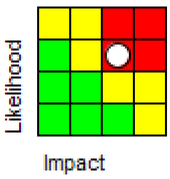
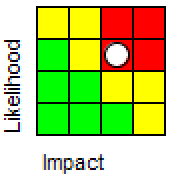
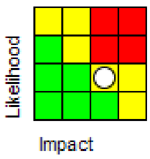
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			09-Dec-2019	31-Mar-2020	Control Pending

Risk Officer Review	9/12/19 - MF, AB, LM, RB
Vulnerability	Disengagement Partners and stakeholders Reputation Community leadership Vulnerable persons
Trigger/Event	Lack of understanding of communities' needs and consequent actions Not meeting expectations of communities New unforeseen incident or situation Poor judgement in making decisions Loss of key partner in delivering key service Change in partners funding/delivery priorities Unilateral decisions by partners National decision or event Internal community issue Lack of engagement with key community leaders outside of democratically elected Non representative community leader Withdrawal or reduction of services
Impact	Diversion of resources to address problems Isolation of vulnerable groups Loss of confidence in the council and other agencies Reputation Engaging with the wrong people Physical unrest Civil disobedience Divided communities Economic loss Hate Crime
Measures in Place	Diversionary activities Days of Action

	Development of community database Residents surveys Diverting resources into vulnerable communities Supporting national initiatives, e.g. Hate Crime Awareness Week Community Engagement Strategy Actions within the Community Plan working around vulnerable communities Place based community relations. Cultural orientation training LMAPS (local multi agency partnership) Community Safety Partnership Work Severe weather and new winter shelter. Tolney Lane working group.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR107 Loss of community cohesion	0%
Linked PIs	**Status**

Management Action Plan	**SR108 Emergency response**	**Risk Owner**	Finch, Matthew (SLT)
Description	The Council's ability to effectively respond as a category 1 responder to a major emergency and maintain a suitable response without affecting essential service delivery.	**Assigned To**	Richardson, Dave (BM - ICT); Batty, Alan (BM - PPR)

Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			18-Dec-2019		Control pending

Risk Officer Review	18/12/19 MF assessed in Directorate meeting
Vulnerability	Resourcing Reputation Expectations Partners Financial Suitability of response Service delivery
Trigger/Event	Extreme weather event of greater frequency and severity. Unpredictable district/regional/national emergency events. Council headquarters or key facilities are damaged. Pandemic Flu Cyber Attack Counter terrorist Attack Partners not playing part/full role Failure of resources / suppliers / supply chain Availability and resilience of key personnel A "no deal" Brexit (further information see Strategic Risk Brexit) Insufficient time given to BMs/SLT to deliver appropriately considered BCPs
Impact	Drain on services and resources to provide an immediate and appropriate response. Managing and resourcing the longer term recovery process Business Continuity issues at Castle House and other council facilities - centres could be flooded, staff unable to get into work - loss of resources i.e. vehicles, premises. Reputational damage due to perceived failure to respond to emergency or maintain services

<table>
<tr><td></td><td>Reputational damage to the District and attraction to place to live/work
Failure to maintain critical services day to day
Manage financial requirements of the emergency event
Financial issues of being unable to claim back funding spent on assisting communities
Financial implication of up front costs required during an emergency.
Less likely to receive long term support to obtain government flood grants compared with high density areas due to cost benefit ratio.
Effect on communities (commercial or domestic)
Loss of key/ critical systems
Inability to support critical projects and projects at a critical stage</td></tr>
<tr><td>Measures in Place</td><td>LEAD OFFICER - Matthew Finch
<u>Emergency Plan/ Business Continuity</u>
Emergency plans in place and securely stored on Resilience Direct
Incident specific emergency plans in place.
The plan is regularly reviewed and tested.
Periodic review of key services by EPO e.g. Emergency Planning and Business Continuity.
Management shows support for BCM through regular discussions in key meetings. Business Continuity is a regular agenda item.
Management shows support to appropriately prepare, maintain and exercise a Business Continuity Plan by assigning adequate resources, people and budgeted funds.
Periodic review of documents e.g. Emergency Plan, Business Continuity Plan.
Business Continuity Audit Review.
There is a Business Continuity Management (BCM) Policy and it is updated periodically. -
Managers and staff have been made aware of BCP and BCM and their responsibilities.
Managers have been consulted in developing the plan and key individuals who input is more important than others have been identified.
The Business Continuity Plan identifies all critical areas of the authority
There is an up to date Business Continuity Plan.

<u>Financial</u>
Corporate budget available to support flood alleviation schemes.
Council maintaining budget figure and reserve up to Belwin amount to cover emergency incidents.
Facilitation of government grant scheme in flood affected areas to enhance future resilience.

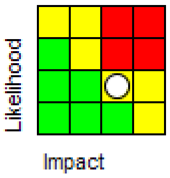
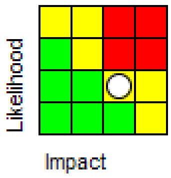
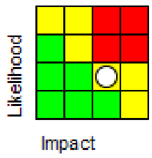
<u>Equipment/ Resources</u>
Flood stores in some communities with provisions to self help and therefore not be as reliant on council.
Agile working arrangements.
Cyber security arrangements
Use and Audit of Resilience Direct as a Document Management System/repository
Load key documents onto Resilience Direct
Annual stock take of equipment in our Emergency Stores.
exercise carried out gap analysis of the testing.
Training & LRF Training
Improved understanding of snow implications and therefore better plans in place.
Memorandum of Understanding for mutual aid.
Local Resilience Forum and annual risk assessment.
Produced BCP BCM training timetable
Offering of Health & Wellbeing advice e.g. offering flu vaccinations

<u>Partners/Public</u>
Work with EA (Environment Agency) on flood resilience work has mitigated/reduced the risk in some areas.
Improved monitoring systems by EA for earlier warning for floods.
Raised awareness of flood risk, therefore increased understanding self help and increasing resilience.

Develop emergency response management tool i.e. Meritech (AB)
Deliver One off workshop for BMs on BCP
Implement the training of BCP & BCM and general training for all staff - Production of induction training package</td></tr>
<tr><td>Further control/actions required</td><td>The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.</td></tr>
</table>

Linked Actions	**Progress Bar**
RP-SR108 Emergency response	60%
Linked PIs	**Status**

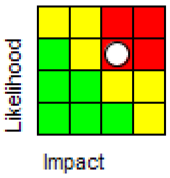
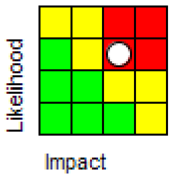
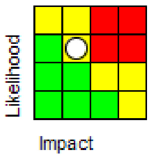
Management Action Plan	**SR109 Corporate governance**	**Risk Owner**	White, Karen (SLT)
Description	Risk of failure in systems of governance within the council, council owned/influenced organisations and partnerships or other collaborative arrangements.	**Assigned To**	Wilson, Nick (BM - FIN); ~~Piper, Tracey 1 Admin~~

Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			22-Aug-2019		Controlled

Risk Officer Review	
Vulnerability	Service delivery Governance Fraud Poor decision making/leadership Reputation Financial Legal compliance Partners/stakeholders
Trigger/Event	Failure to communicate, define, review and uphold governance standards policies to ensure fitness for purpose. Failure of staff and councillors to understand their governance roles and responsibilities. Failure to observe good governance. Failure to adequately manage risk or monitor performance. Failure in Policy adherence (All policies). Malicious event eg. Fraud, money laundering, etc. Reduction in capacity and loss of key personnel and resources Failure to adequately oversee governance standards of partnerships and other entities that the Council is involved in. Failure of governance in partnership organisations
Impact	Financial resource loss. Service delivery issues. Criminal or civil liability. Government or peer intervention. Reputational risk to the Council. Negative media coverage. Policies could be open to challenge. Excessive legal costs incurred. Poor or inadequate decision making. Poor staff morale. High staff turnover. Regulator finding fault eg. Internal Audit, External Audit, Ombudsman. Community disengagement. Capacity redirected to address failures. Loss of opportunity and ability to meet corporate priorities Inappropriate use Fraud and corrupt practice identified. Fraud and corruption practices not identified or dealt with leading to an incident of fraud and corruption. Failure of partnerships
Measures in Place	**LEAD OFFICER - Karen White** Code of corporate governance created, maintained and monitored in accordance with CIPFA guidance. . Corporate Governance self-assessment against the code of Corporate Governance undertaken periodically. . Periodic review of governance by 3 statutory officers. Annual review of Constitution which includes fit for purpose and up to date:

	. Officer code of conduct. . Officer registers of interests - Related third party transactions. . Section 151 officer/Monitoring officer/Head of Paid Service. . Gifts and hospitality - policy and register place. . Council Financial regulations and procedures, . Contract procedure rules . Whistle blowing policy . Anti-fraud and corruptions strategy Annual governance statement reviewed annually and reported to Audit and Accounts Committee. Annual Governance Statement goes to Feb meeting of Committee Creation of annual combined assurance report in conjunction with SLT and BMs. Internal Audit work including risk based Audit Plan. Effective use of External Auditor. Scrutiny by Audit and Accounts Committee Staff and member training in place . Training on governance issues including anti-fraud and financial regulations. . Counter fraud training delivered. . Member induction at the start of each new Council cycle. Complaints: . Localised standards framework and effective arrangements for dealing with complaints overseen by Policy and Finance Committee. . Internal complaints procedure. Fraud . Annual internal review of the Fraud Risk register to carry out proactive work, check on internal controls and is reported to members . Participation with National Fraud Initiative process . Options appraisal for counter fraud and implementation of preferred option. Appropriate insurance cover including Fidelity Guarantee. Oversight of Active4Today, Newark and Sherwood Homes, Arkwood and East Midlands Building Control. . Appropriate monitoring of performance of the third party or alternative service delivery methods. HR policies in place Recruitment process controls, e.g. References, Immigration, DBS. Horizon scanning at Business Manager briefings and effective communication between SLT and business managers. Measures in place to ensure IR35 compliance Schedules review of Corporate Governance (Q4 19/20 Governance review ongoing with support from LGA
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR109 Corporate governance	0%
Linked PIs	**Status**

Management Action Plan	**SR110 Data management and security**		**Risk Owner**	Kohli, Sanjiv (SLT)	
Description	Deliberate or unintentional loss/disclosure of personal, sensitive, confidential, business critical information or breach of information governance legislation		**Assigned To**	Baker, Jill (BM - CSC); Wilson, Nick (BM - FIN); Richardson, Dave (BM - ICT)	
Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			22-Jan-2020	31-Mar-2020	Control Pending

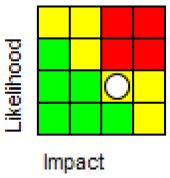
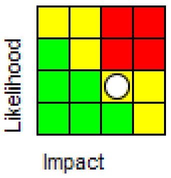
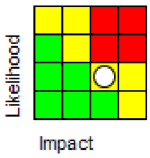
Risk Officer Review	3 September 2019, SK and RB
Vulnerability	Loss of vulnerable, personal, sensitive valuable data Legal compliance Reputation Financial Partners/stakeholders Disruption of service from a cyber attack
Trigger/Event	Personal, confidential or corporately sensitive/business critical information disclosed unintentionally or through error of judgement when responding to requests for information, data breach - intentional (malicious) or unintentional. Theft or loss of equipment/papers/data belonging to the council, partners or third party companies. Cyber attack: (either targeted such as denial of service or unintentional access to link on another website. Agile Working ie. mobile/remote/home working/home printing/disposal of printed data/ /Outreach posts. Reducing resources with less capacity for processing data. Collaborative working, sharing, outsourcing and partnership working (including external printing and hybrid mail)/involvement in other peoples' data Use of BYOD (Bring your own device). Government integration agenda e.g. Increased working between public bodies Use of suppliers/third parties, etc. Decommissioning of property. Partnership working and sharing new service locations/data sharing issues. Partner's/contractor's/host's poor data management and information security leading to data breach/loss. Devolution/change in service delivery model. Loss of key resources. Third party access to IT systems. New and inexperienced staff/elected members with access to data. Termination of PSN/GCSX standards by the Cabinet Office limiting options for securely sharing with some Public Sector organisations. Failure to comply with relevant standards and legislation including PCI-DSS/Cyber Essentials/NCSC best practice/PSN. Unsupported software/unforseen loss of support Housing management transfer Adoption of unsupported/dated systems from third parties
Impact	Individual loss/damage to an individual where the Council inappropriately released their personal data eg. civil claims. Damage to reputation of the Council/trust by the public. Breach of Access to Information legislation bringing about financial/legal damage - imposed on the Council by the Information Commissioner and other Statutory Bodies. Financial/ resource impact of Information Commissioner investigation. Disciplinary action taken against a member of staff and elected members if a breach is found to be deliberate/malicious. Operational and resource issues eg. service interruption - where focus has to be taken away from service delivery to dealing with the breach. Individual loss/damage to an individual where the Council inappropriately released their personal data eg. civil claims. Drain on resources to process and enable conformity in legislation. Greater demand on existing resource Impact on Agile working - lack of ability to work remotely and available physical resource Cyber attack leading to system downtime/damage/loss of data (Ransom Ware) and financial loss/ resource drain Loss of provision to customers and partners eg. NSH, Active4Today, DWP, CCTV (under current

	arrangements) leading to disputes over SLAs and contracts and potential loss of income, e.g. partner rent for Castle House. Negative media coverage Less control over data as service delivery models become more complex Loss of partner data where the council is the data processor - subsequent impact on partner's reputation. Loss of confidence with the Council Loss of confidence with partners and stakeholders Withdrawal of service from partners and stakeholder Increased demand on existing services
Measures in Place	**LEAD OFFICER - Sanjiv Kohli** Training/ Guidance/ Compliance/ Agreements Data protection training including a section on information security and targeted training ongoing for staff located elsewhere and forms part of the induction process. Guidance and training available for elected members. 3 GDPR sessions provided for newly elected members. Guidance on security breach procedures for Business Managers as Information Asset Owners. Ongoing training for all staff taking payments in line with PCI-DSS requirements. Relevant training for ICT staff. Weekly review of ICO guidance. Compliance with the governments security arrangements. PSN compliant data & internet connections implemented. Compliance with new Cabinet Office email standards achieved. Information governance check on furniture that is being disposed of. Information E Training completed by all staff. Cyber Security now standing agenda item on monthly business unit management meetings. Annual review of Information Asset Register. Annual mandatory GDPR and cyber/phising online training for all staff and councillors. Governance arrangements established through CIGG with monthly review. ICT/Equipment External Audit on ICT security annually. Encryption for mobile devices. VASCO tokens and Google Authenticator. Quarterly ICT security checks internally. Penetration test annually for external company - monthly scans of servers for weaknesses, monthly server updates and monthly scans of Microsoft Office and Windows. Perimeter software - eg. mailmarshall & webmarshall. Hardening test on new virtual servers. Documents scanned reducing the need for paper. Secure server room. East Midlands WARP membership - alerting networking facility regarding any breaches. Monthly updates of Adobe products. Program in place to ensure the continual maintenance & upgrade of the ICT environment. Secure portal for Members to access the Extranet. Airwatch MDM (Mobile Device Management) implementation for mobile devices. DMark, DKim SPF and TLS secure email authentication software. Cryptshare for encrypting secure emails and large files for email. Report & record all cyber-attacks/attempts and escalate to CMT where appropriate Users own devices cannot connect to network 'Consent' tick box on appropriate forms. Policies/Audit Information management framework incorporating Security Policy and Security Breach Policy. Annual SIRO audit. Retention of document policy. Data Protection policy. Confidential waste handling procedure. Review of policies and procedures to ensure compliance with latest Payment Card Industry- Data Security Standard (PCI-DSS) Data security part of consideration as part of future strategic projects. All aspects of GDPR action plan completed including compulsory e-learning for all staff. SIRO audit completed confirming processes in place for identifying risks associated with any new project/process. CIGG meeting every two months to review any new risks. Periodic PCI/DSS compliance checks - see Corporate risk for further details. Data Privacy Impact Assessment. Partners/ Stakeholders/ Staff

	Non-disclosure agreements in place for third party access. Use of data processing and agreements with partners. CIO/SIRO/DPO appointed. CIGG in place. Use of licensed Confidential waste handler. Letters sent to all third parties who process personal data on behalf of NSDC advising of additional responsibilities under GDPR and data processing agreements in place. Actions arising from report to SLT on third party users implemented.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR110 Data management and security	20%

Linked PIs	**Status**

<table>
<tr><td>Management Action Plan</td><td colspan="2">SR111 Arkwood Development</td><td>Risk Owner</td><td colspan="2">White, Karen (SLT)</td></tr>
<tr><td>Description</td><td colspan="2">Managing performance and the relationship between the Council and Arkwood Developments in accordance with the governance agreement.</td><td>Assigned To</td><td colspan="2">Wilson, Nick (BM - FIN)</td></tr>
<tr><td>Original Risk Matrix</td><td>Current Risk Matrix</td><td>Target Risk Matrix</td><td>Risk Review Period</td><td colspan="2">Quarterly</td></tr>
<tr><td>
</td><td>
</td><td>
</td><td>Last Review Date</td><td>Target Date</td><td>Management</td></tr>
<tr><td></td><td></td><td></td><td>08-Oct-2019</td><td></td><td></td></tr>
</table>

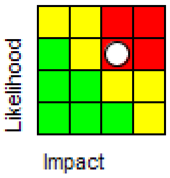
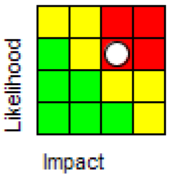
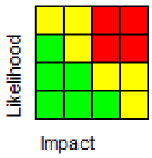
Risk Officer Review	
Vulnerability	Financial Reputation Service Delivery Conflict of interest
Trigger/Event	<u>Financial</u> Loan repayments from the company are not made Company failure to deliver approved Business Plan Company failure to pay monies to the Council e.g. land transactions costs, SLA costs Company failure to pay monies in a timely way Company failure to manage cash flow <u>Reputational</u> Poor leadership Company insolvency Poor quality development leading to customer dissatisfaction Secretary of State call in planning decisions made by council on company developments <u>Compliance Issues</u> Operational failure leading to non compliance/legislative failure Compliance failure by the Company (ie. legislative & policy) <u>Lack of Delivery</u> Failure to adhere to business plan Lack of awareness of company purpose Company failure to secure planning consent on developments <u>Market & External Factors</u> Brexit - market volatility Downturn in economy Failure to understand and develop to meet market needs Changes in local and national policy & legislation e.g. restraints in legislation from Council Lack of skills to deliver developments to quality and on time (e.g. skills shortage) Market and external construction prices leading to increased cost of build <u>Resource Demand</u> Insufficient resourcing (e.g. internal capacity to deliver) Over resourcing Incorrect or over demanding SLA's Failure to deliver Council objectives due to increased amount of time spent by board of directors on company rather than substantive role <u>Relationship with Company</u> Lack of communication between Company and Council Lack of regular updates/ assurance from company Conflict of interest - failure of the council to demonstrate the company's independence
Impact	<u>Financial</u> Return on investment to the council not realised Lack of sustainability and viability of company Council not achieving aims & objectives as set out in Council's Commercial strategy

	Resource Demand Substantive council roles of directors compromised Council resource overstretched – poor quality service to council or company Reputational Adverse impact on reputation Inability to contribute to local plan housing numbers Impact on reputation with key partners and stakeholders Market & External Factors Lack of housing that meets market demand Partners/Relationships Relationship breakdown between council and company
Measures in Place	**LEAD OFFICER - Karen.** **Support: N Cook** Shareholder Committee established and membership agreed Shareholder meetings scheduled Shareholder Committee Members training session completed on 17/1/18 Company's Articles and shareholder agreement in place Shareholder Committee approve business plan for company and business case for each development site Monthly officer contract meetings between Arkwood and council Internal Audit Report giving substantial assurance Inclusion of risk register by company with business cases
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR111 Arkwood Development	20%

Linked PIs	**Status**

Management Action Plan	SR112 Brexit	**Risk Owner**	Finch, Matthew (SLT)
Description	Effects of BREXIT on the council’s ability to deliver services and to the sustainability of its communities.	**Assigned To**	Syddall, Steven (BM - AMP); Baker, Jill (BM - CSC); Wilson, Nick (BM - FIN); Monger, Leanne (BM - HHC); Main, Rob (BM - HSD); Richardson, Dave (BM - ICT); Norton, Matthew (BM - PPO); Batty, Alan (BM - PPR); Ward, Phil (BM - R&B); Marshall, Kate 1 Admin; ~~Piper, Tracey 1 Admin~~

Original Risk Matrix	**Current Risk Matrix**	**Target Risk Matrix**	**Risk Review Period**	Quarterly	
			**Last Review Date**	**Target Date**	**Management**
			18-Dec-2019		

Risk Officer Review	18/12/19 MF assessed in Directorate meeting
Vulnerability	Financial Reputation Resource demand Service delivery Communities
Trigger/Event	<u>Economic downturn</u> Cost of goods and services increase Lack of investment from businesses in the lead up to Brexit due to uncertainty in the economy Weak currency due to ‘drawn out negotiations of Brexit’ <u>Regulatory impact</u> New legislation/guidance that will be enforced as part of Brexit will cause major delays <u>Financial Implications</u> Lack of funding for initiatives which would previously have qualified for EU funding <u>Uncertainty</u> Brexit negotiations resulting in uncertainty (e.g. No Deal) Delaying Article 50 leading to uncertainty Leadership contest causing further delay on outcome of Brexit <u>Reputational</u> Lack of planning <u>Resource Demand</u> Lack of resource (financial and staffing) to maintain services resulting from Brexit <u>Service Delivery</u> Lack of awareness of the implications of any Brexit scenario (not sharing crucial data internally) Lack of business continuity planning for any Brexit scenario Delays in announcements on wider Domestic policies such as social care, public transport, homelessness, waste strategy due to Brexit negotiations still ongoing Cyber attack Protests and other actions planned Further electoral activity
Impact	<u>Economic Development</u> Cost of living – food prices higher than the price of inflation. Businesses that are offering offers are not making profits. House prices increases as cost of materials increase making housing unaffordable Increase in zero hours contracts <u>Uncertainty</u> Civil Unrest Long extension to negotiations may cause local unrest

	Financial Implications Certain initiatives funded by the EU will no longer continue Impact on farming/agriculture (Funding) Impact on HRA development programme Increased use of temporary accommodation and possible legal action to remove households who may no longer qualify for access to the service Additional training required to ensure staff are up to speed with any legal changes following Brexit (e.g. changes in eligibility criteria for housing) Service Delivery Increase in homelessness Increase in those relying on universal credit Legislative changes impact heavily on how the waste management service is delivered Blocades may result in lorry park experiencing more demand Potential for fuel shortages Increase in negative decisions and households no longer eligible for services Resource Demand Lack of workforce in specific roles such as social care, service industry Skills shortage in key industries Multi-tier eligibility assessments required of individuals from EEA depending on status and arrival date in UK Increase in referrals to county council for households no longer eligible for public services Re-assessment of allocations scheme and eligibility criteria Impact on residents Potential for unrest and increase in hate crime Demographic changes due to shifts in immigration and migration Democratic implications Lack of engagement
Measures in Place	**LEAD OFFICER - M Finch** Horizon scanning – look at the key messages relating to Brexit from Central government. Quarterly update reviews with BM's to update a register of risks and associated mitigating actions to be fed into the strategic risk and maintained in risk log. Update Reports to SLT. Plans in place to manage impact on the Lorry Park Market trend analysis report developed to highlight differences between East and West regions of NSDC and reporting to Growth and Prosperity meetings. Communications plan informing media responses Responsive risk review in light of central government information. Full participation and engagement with the Local Resilience Forum. Full participation and engagement with LRF Monitor Risk log quarterly with BM's Responsive risk review in light of central government info Develop market trend analysis report to highlight differences between East and West regions of NSDC (quarterly). Agree key indices to report to Growth & Prosperity meetings to inform a joined up strategic approach around "Prosperity") Updates to be provided by CMT following attendance at conferences (e.g. Solace) regarding implications of Brexit (CMT) Working more closely with NFU to understand implications of Brexit, e.g staffing/funding (JRS) SLT have discussed details and considered wider risks/mitigation Communication updates from Food Standards Agency Evaluation of data undertaken and no data shared across borders.
Further control/actions required	The further actions required to be undertaken for this risk (if any) are detailed within the Strategic Risk Action Plan under the Actions Module of Pentana.

Linked Actions	**Progress Bar**
RP-SR112 Brexit	0%

Linked PIs	**Status**

AUDIT & ACCOUNTS COMMITTEE
5 FEBRUARY 2020 **WORK PLAN**

Meeting at which action to be undertaken	Subject and Brief Description	Who will present the report	Intended Outcome
5 February 2020	Draft Treasury Strategy 2020/21	Andrew Snape	Gain assurance that risks in relation to the Council's treasury management activities are to be managed in accordance with need and the Council's risk appetite
	Draft Capital Strategy 2020/21	Andrew Snape	Outlines the principles and framework that shape the Council's capital proposals
	Draft Investment Strategy 2020/21	Andrew Snape	The investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government.
	Internal Audit Progress Report 2019/20	Lucy Pledge/Emma Bee/Amanda Hunt (Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Review of Independent Members Appointment	Nick Wilson	Review options and requirements of appointing an Independent Member to the Audit Committee
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	Review of significant internal control issues highlighted in the Annual Governance Statement	Nick Wilson	Gain assurance that the Council is making progress on any governance issues that were raised in the AGS
	Combined Assurance Report	Nick Wilson/ Amanda Hunt	Combined all levels of assurance throughout the Council
	Draft Annual Internal Audit Plan 2020/21	Lucy Pledge/Emma Bee/ Amanda Hunt(Assurance Lincolnshire)	Ensure that an appropriate plan is in place which will provide assurance on the Council's activities
	Responses to questions raised at previous meeting	Nick Wilson	
	Audit Committee Work Programme	Nick Wilson	

22 April 2020	Statement of Accounting Policies	Andrew Snape	Gain assurance that the Council has appropriate accounting policies in place that reflect the way items are treated in the annual Statement of Accounts
	IAS19 Pension Assumptions	Andrew Snape	Gain assurance that the pension assumptions used by the actuary to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	External Certification of Grant Claims and Returns 2018/19- move to april	TBC (Mazars)	Gain assurance that claims and returns have been managed appropriately,
	Property, Plant and Equipment Valuation Assumptions	Andrew Snape	Gain assurance that the assumptions used by the Council's valuers to produce the figures in the Statement of Accounts are appropriate for the Council's circumstances
	Internal Audit Progress Report 2019/20	Lucy Pledge/Emma Bee/ Amanda Hunt(Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Counter-Fraud Activity Report	Nick Wilson	Gain assurance that counter-fraud activity is appropriately targeted and effective
	Risk Management report	Richard Bates	Gain assurance that appropriate risk management arrangements are in place
	External Audit Plan for 2019/20 Accounts	TBC (Mazars)	Ensure that an appropriate plan is in place which will provide assurance on the Council's Statement of Accounts, Value for Money arrangements and Grant claims
	Fraud Risk Assessment	Nick Wilson	Gain assurance that the Council understands its fraud risks and that actions are put in place to address them
	Responses to questions raised at previous meeting	Nick Wilson	
July 2020	Treasury Management Outturn Report 2019/20	Andrew Snape	Gain assurance that treasury management activities were in line with the Treasury Management Strategy for the past financial year
	External Audit Annual Governance Report 2019/20	TBC (Mazars)	To gain assurance that the Council's Statement of Accounts are a true and fair representation of the Council's financial

			performance for the previous financial year and financial standing as at the Balance Sheet date, and that the Council has effective arrangements for achieving Value for Money
	Statement of Accounts 2019/20 & Annual Governance Statement	Nick Wilson	Gain assurance on the integrity of financial reporting By considering the assurance gained through its activities throughout the previous year, to give assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified, and that arrangements in place support the achievement of the Council's objectives
	Annual Internal Audit Report 2019/20	Lucy Pledge/Emma Bee/ Amanda Hunt(Assurance Lincolnshire)	Gain assurance that the Council's Annual Governance Statement accurately represents governance arrangements, that future risks are identified and that governance arrangements support the achievement of the Council's objectives
	Internal Audit Progress Report 2020/21	Lucy Pledge/Emma Bee/ Amanda Hunt(Assurance Lincolnshire)	Understand the level of assurance for audited activities and ensure management progress recommended actions to mitigate identified risks
	Internal Audit Report Process	Nick Wilson	To set a process for the internal flow of internal audit reports
	Biannual Review of the Effectiveness of the Internal Audit Function	Nick Wilson	To consider whether the Internal Audit function is operating effectively and produce an action plan to address any required improvements
	Partnership Register Report	Kate Marshall	To gain assurance that partnerships the Council are engaged with are, are working effectively.
	Audit and Accounts Committee Annual Report 2019/20	Nick Wilson	To review the work that the Committee has undertaken during the last financial year
	Audit Committee Work Programme	Nick Wilson	