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West Devon Audit Committee

West Devon Borough Council

Title:	**Agenda**
Date:	**Tuesday, 15th March, 2016**
Time:	**11.00 am**
Venue:	**Chamber - Kilworthy Park**
Full Members:	***Chairman*** Davies ***Vice Chairman*** Moody *Members:* Jory, Stephens, Watts
Substitutes:	Councillors:
Interests – Declaration and Restriction on Participation:	Members are reminded of their responsibility to declare any disclosable pecuniary interest not entered in the Authority's register or local non pecuniary interest which they have in any item of business on the agenda (subject to the exception for sensitive information) and to leave the meeting prior to discussion and voting on an item in which they have a disclosable pecuniary interest.
Committee administrator:	Member.Services@swdevon.gov.uk

		Page No
1.	**Apologies for absence**	
2.	**Declarations of interest** Members are invited to declare any personal or disclosable pecuniary interests, including the nature and extent of such interests they may have in any items to be considered at this meeting. If Councillors have any questions relating to predetermination, bias or interests in items on this Agenda then please contact the Monitoring Officer in advance of the meeting.	
3.	**Items Requiring Urgent Attention** To consider those items which, in the opinion of the Chairman, should be considered by the Meeting as matters of urgency (if any).	
4.	**Confirmation of Minutes** Meeting held on 19 January 2016	**1 - 4**
5.	**External Audit Plan 2015/16** Report of KPMG	**5 - 20**
6.	**Local Government Budget Survey February 2016** Report of KPMG	**21 - 44**
7.	**2016/17 Treasury Management Strategy** Report of S151 Officer	**45 - 72**
8.	**Review of the Council's Constitution** Report of Monitoring Officer	**73 - 76**
9.	**Strategic Risk Assessment - Regular Update** Report of Business Development Group Manager	**77 - 86**
10.	**Update on Progress on the 2015/16 Internal Audit Plan** Report of the Internal Audit Manager	**87 - 100**
11.	**2016/17 Internal Audit Plan**	**101 - 108**

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Report of the Internal Audit Manager

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At a Meeting of the **AUDIT COMMITTEE** held in the Council Chamber, Council Offices, Kilworthy Park, Drake Road, **TAVISTOCK** on **TUESDAY** the **19th** day of **JANUARY 2016** at **2.00pm**

Present: Cllr M Davies (Chairman)

Cllr B Stephens Cllr J B Moody
Cllr Watts

Substitutes: Cllr Ball for Cllr Jory

Officers in attendance: Finance Community of Practice Lead
Finance Business Partner (AW)
Case Manager, Strategy & Commissioning
Barrie Morris (Grant Thornton)
Executive Director (Service Delivery and Commercial Development)

***AC 20 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Cllr N Jory for whom Cllr K Ball acted as substitute.

***AC 21 CONFIRMATION OF MINUTES**

The Minutes of the Meeting held on 29 September 2015 were confirmed and signed by the Chairman as a correct record.

***AC 22 THE ANNUAL AUDIT LETTER FOR WEST DEVON BOROUGH COUNCIL**

Mr Barrie Morris presented a report that summarised the key findings arising from the work carried out at West Devon Borough Council for the year ended 31 March 2015.

Following the presentation, Members had no issues to raise and without further discussion, it was **RESOLVED** that the report be noted.

***AC 23 CERTIFICATION WORK FOR WEST DEVON BOROUGH FOR YEAR ENDED 31 MARCH 2015**

Mr Morris talked Members through the certification work for West Devon Borough Council and reported that the authority were in a unique position.

Members thanked the officers for their hard work in gaining this status for the authority.

It was **RESOLVED** that the certification work be noted.

***AC 24 REPORT ON VALUE FOR MONEY FOR THE COUNCIL**

Mr Morris presented a report on value for money for the Council.
Members raised why under the judgment of understanding the 'Understanding of the Financial Environment' RAG (Red, Amber, Green) rating for 2014/15 had been changed to Amber from Green. At this point, the S151 officer and the Finance Business Partner left the room. Mr Morris explained that, due to the change in the management structure at the authority, the S151 Officer was no longer a member of the Senior Leadership Team (SLT) and under CIPFA guidelines it was a requirement for Grant Thornton to flag it as a potential issue.

The Executive Director explained that SLT did not see it as the best use of the S151 Officer's time to attend weekly SLT meetings. However to mitigate any adverse impact various measures have been put in place. Line management of the Officer had also moved so the post reports directly to the Executive Director (Strategy and Commissioning). The Officer has full access to all SLT reports/agendas/minutes and has an open invite to attend any SLT meeting she so wished. It was also felt the Officer was better able to advise and challenge SLT when not a decision making member of the team.

Mr Morris explained that this rating had been flagged as amber to make Members aware, but this did not mean that it was inappropriate for the authority to take this course of action.

It was **RESOLVED** that the report be noted.

The S151 Officer and Finance Business Partner returned to the meeting at this point.

***AC 25 EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE**

The S151 Officer talked Members through the report. Members were notified that footpaths/footways were now required to be surveyed as an asset. The S151 Officer confirmed that the authority only had a couple of footpaths.

Members were also informed that arrangements had to be put in place whereby external auditors had to be chosen for 2017/18 and an all Devon procurement or joint exercise with South Hams District Council were discussed as potential options. The requirement of an audit panel with independent members was also discussed with an action plan to be in place by the summer.

It was then **RESOLVED** that the update be noted.

***AC26 APPOINTING YOUR EXTERNAL AUDITOR**

The S151 Officer introduced the report to the Committee. During this presentation The Executive Director added that there would be an impact on appointing external auditors in the event of a new Local Authority Controlled Company being set up.

It was then **RESOLVED** that the report be noted.

AC 27 TREASURY MANANGEMENT MID-YEAR REVIEW

The s151 Officer introduced the mid-year review.

Without any discussion it was then **RESOLVED** that the report be noted and the Council be **RECOMMENDED** that:

1. The counterparty limit for counterparties set out in Appendix A of the presented agenda report (with the exception of Lloyds Bank PLC) be increased from £2 million to £3 million

2. The counterparty limit for Lloyds Bank plc (the Council's Bank) be increased from £3 million to £4 million. This allows flexibility to maintain a working balance of up to £1 million in the account, with the option to invest up to £3 million additional funds at any one time.

(The Meeting terminated at 3.00pm)

Dated this

Chairman

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KPMG

cutting through complexity

External Audit Plan 2015/2016

West Devon Borough Council

March 2016

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Agenda Item 5

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at £600,000.

We are obliged to report uncorrected omissions or misstatements, other than those which are 'clearly trivial', to those charged with governance (in relation to the Authority this is the Audit Committee). The threshold in relation to this has been set at £30,000.

Significant risks

We have identified one significant risk requiring specific audit attention and procedures to address the likelihood of a material financial statement error. This relates to the risk of management override of controls. As part of our approach to this, we will specifically consider the way in which those costs shared with South Hams District have been allocated to the Authority.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Change in accounting policy relating to the de-minimis applied to revenue accruals.

See pages 3 to 5 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:

- Achievement of savings plans; and
- Delivery of the T18 transformation programme.

This assessment is ongoing and where necessary we will report further VFM significant risks as our audit progresses.

See pages 6 to 9 for more details.

Logistics

Our team is:

- Darren Gilbert – Director
- Adam Bunting – Manager
- Alex Hayward – Assistant Manager

More details are on **page 12.**

Our work will be completed in four phases from February to September and our key deliverables are this outlined on **page 11.**

Our fee for the audit is £39,396 **see page 10.**

Introduction

Background and Statutory responsibilities

This is our first audit plan for the Authority and follows our appointment by Public Sector Audit Appointments Ltd (“PSAA”) as the Authority’s external auditors.

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office’s Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 [and the findings of our VFM risk assessment].

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2016 to March 2016. This involves the following key aspects:

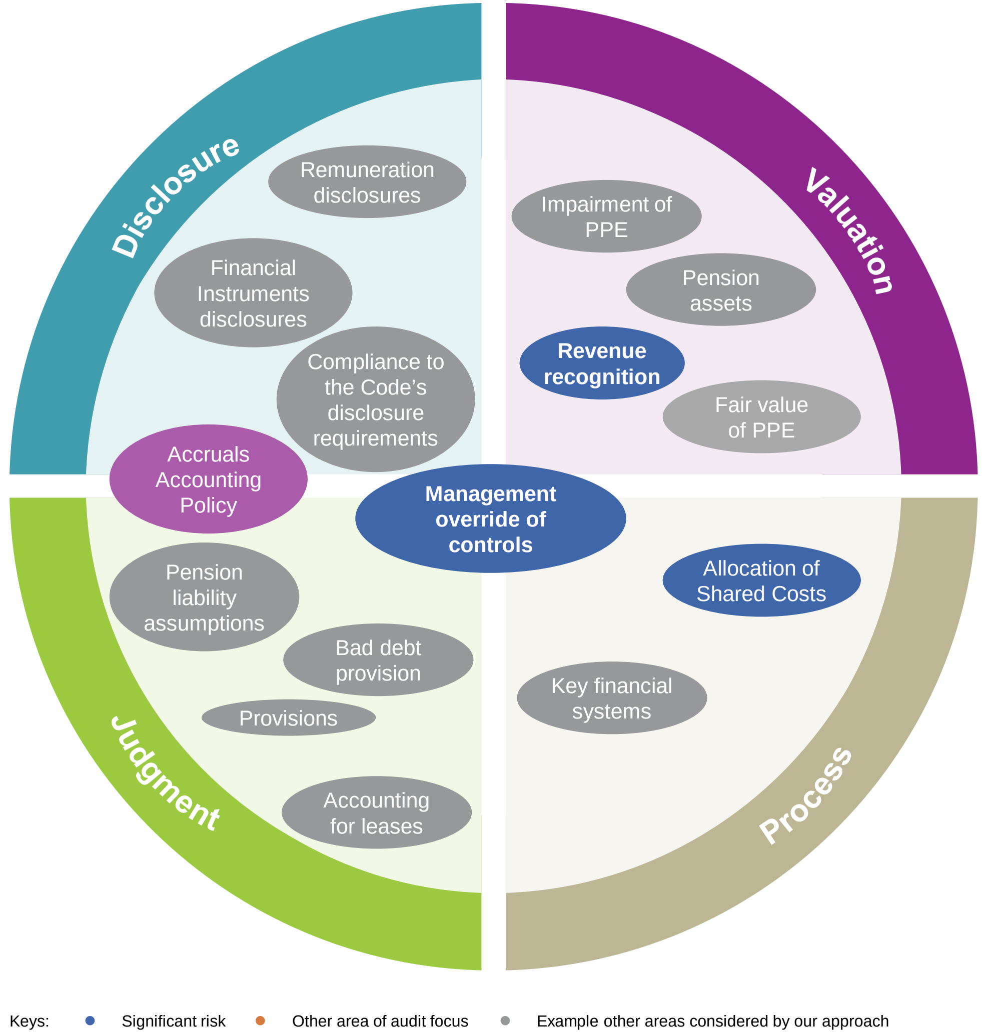
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks

In relation to, and as an extension of, our work on the risk of management override of controls we have identified a specific areas of risk that we will require specific audit attention and procedures to address the likelihood of a material financial statement error.

Allocation of shared costs

- **Risk**

  The Authority operates on a shared service basis with its neighbour, South Hams District Council. As a result of this arrangement, costs are initially borne by each council individually and then an exercise is undertaken in order to ensure that these are shared on an appropriate and consistent basis. This is essential to ensuring that the Authority recognises its full costs and to prevent cross subsidy between the two councils. In order to operate effectively, the allocation of costs must be undertaken on an appropriate basis which reflects the nature of the underlying activities and the way in which resources are consumed.

- **Approach**

  We will review the way in which shared costs have been allocated to the Authority and ensure that:

  1. The basis of allocation is appropriate and reflects the nature of the activities involved;
  2. The allocation basis has been approved appropriately by management and is subject to appropriate review; and
  3. The allocation has been appropriately calculated and the resulting costs recognised.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Change in revenue accruals de-minimis policy

- **Issue**

  During 2015/16 the Authority has amended its policy in relation to the recognition of revenue accruals. Whereas in prior years a de-minimis of £1,000 was applied, this will be set at £2,500 for 2015/16 onwards.

- **Approach**

  We have considered the impact that such a change would have had had it been applied to the 2014/15 financial statements and are satisfied that the new threshold should not result in the accounts being unfairly stated. The analysis undertaken to support this assessment indicated that the change threshold would have reduced debit accruals by £30,251 and credit accruals by £9,119. As part of our audit work we will further consider the change in accruals levels between 2014/15 and 2015/16 and confirm that the policy change has been accounted for appropriately. We will quantify the impact of this policy change and report this to the Committee.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

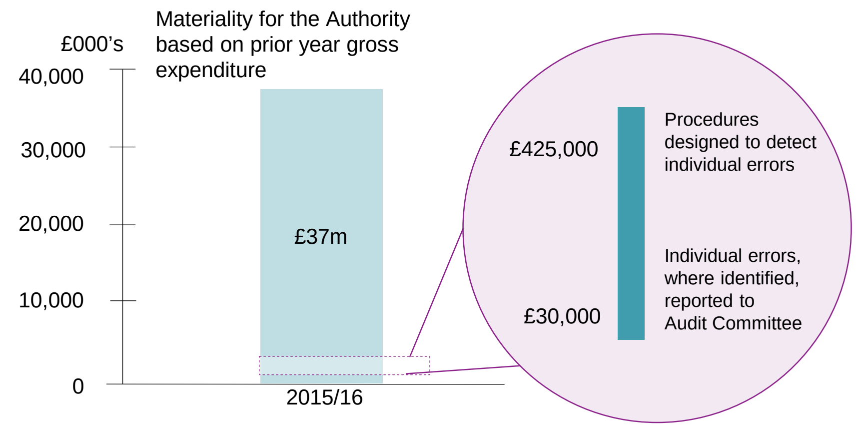
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £0.6 million for the Authority's accounts which equates to 1.6 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.



Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £30,000. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.

Overall criterion

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

- Informed decision making
- Sustainable resource deployment
- Working with partners and third parties

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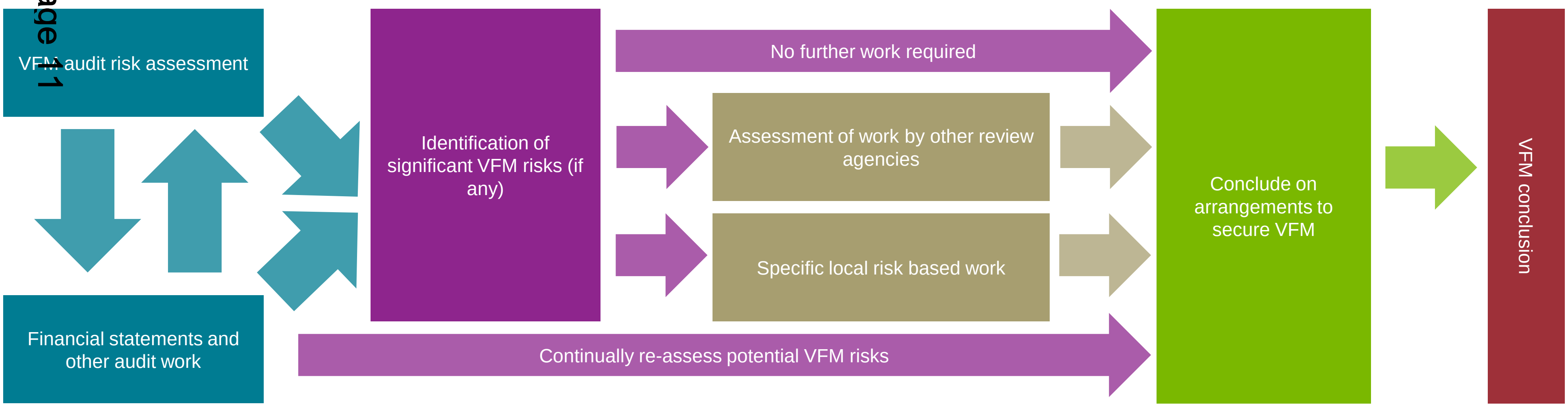

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ▪ Meeting with senior managers across the Authority; ▪ Review of minutes and internal reports; ▪ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

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Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Achievement of savings plans

- **Risk**

  The Authority has identified the need to make savings of £1m in 2015/16. The current forecast shows that the Authority will deliver an underspend of approximately £70,000.

  The Authority's budget for 2016/17 forecasts a budget surplus of £669,292 as a result of the full savings being realised in relation to the ongoing transformation plan and due to the additional Rural Services Delivery Grant that the Council has been allocated in 2016-17 by Central Government. Subsequent years show further funding gaps however, resulting in a total net budget gap of £1,068,674 for the period 2016/17 to 2020/21. Further significant savings will be required in 2017/18 onwards to address future reductions to local authority funding alongside service cost and demand pressures. The need for savings will continue to have a significant impact on the Authority's financial resilience.

- **Approach**

  As part of our additional risk based work, we will review the controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

Delivery of the T18 transformation programme

- **Risk**

  As part of its response to the central government funding reductions, and in order to improve the efficiency of the its operations, the Authority has initiated a major transformation programme ("T18"). This programme results in significant changes to the way in which services are delivered and back office functions undertaken. As part of the transformation programme, all staff roles and responsibilities have been redefined and a more unified model has been developed whereby staff act as key points of contact for service users and work across services rather than operating as separate teams.

  The establishment of this new working model has resulted in significant one-off investment costs, both in terms of redundancy costs and those relating to the establishment of new processes and delivery structures. The Authority expects that such costs will be exceeded by the ongoing recurrent annual savings that will be achieved by way of the programme. The predicted payback period of the programme is 2.75 years.

- **Approach**

  We will review the way in which the Authority has monitored the costs and savings arising from the T18 transformation programme. We will also consider the way in which the progress of the programme has been reported to member enable performance to be monitored.

  In relation to this work, we will consider the findings of the work undertaken by internal audit as well as place reliance upon our own accounts audit work in relation to redundancy costs.

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £39,396. This is a reduction in audit fee, compared to 2014/2015, of £13,132 (25%).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

In light of the significant risks identified it may be necessary to charge an additional fee in relation to the VFM work should the scale of work required exceed that anticipated in setting the scale fee. Should this be necessary we will communicate the revised fee in advance and agree it with the Authority.

Appendix 1: Key elements of our financial statements audit approach

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Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

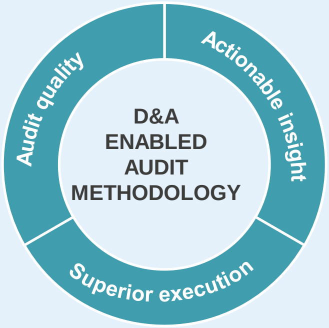
- Audit strategy and plan (Mar)
- Interim report (if required) (May)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct)

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Audit workflow

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Mar)
- Year end audit of financial statements and annual report (Jul)
- Sign audit opinion (Sep)

Planning	Control evaluation	Substantive testing	Completion
■ Perform risk assessment procedures and identify risks ■ Determine audit strategy ■ Determine planned audit approach	■ Understand accounting and reporting activities ■ Evaluate design and implementation of selected controls ■ Test operating effectiveness of selected controls ■ Assess control risk and risk of the accounts being misstated	■ Plan substantive procedures ■ Perform substantive procedures ■ Consider if audit evidence is sufficient and appropriate	■ Perform completion procedures ■ Perform overall evaluation ■ Form an audit opinion ■ Audit Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department.

Darren Gilbert

Director

Name	Darren Gilbert
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Executive Directors.'

Adam Bunting

Manager

Name	Adam Bunting
Position	Manager
	'I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Darren Gilbert to ensure we add value. I will liaise with the Head of Finance and the Executive Directors.'

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Alex Hayward

Assistant Manager

Name	Alex Hayward
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of March 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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KPMG

Local Government Budget Survey

February 2016

www.kpmg.com/uk

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Introduction

Introduction

The local government sector faces well-documented, significant financial challenges for the foreseeable future. There are also opportunities linked to economic growth, notably with the new homes bonus and the prospect of local business rates retention, and the potential devolution of power to local areas. There is also an increased exposure to financial risk and volatility if growth is not as high or as sustained as hoped, or if demands for services outstrip expectations and lead to additional pressures. There is also the challenge of responding to the impact of central policies such as the 1% reduction in social housing rents from 2016-17, and the increased emphasis on home ownership rather than social renting. In this changing environment, high quality budget setting and monitoring are more important than ever for local government.

KPMG's 2011 publication 'The Brilliant Local Authority of the future' summarised the challenge facing local authorities.

"As the public sector recession bites and the localism agenda gathers pace, local government will have to address both the threats and opportunities that these forces are creating."

The paper explained that;

"In an age of austerity an iron-like grip on the organisation's financial position will be imperative….. This will entail a focus on management accounting and understanding the financial and operational performance of all parts of the business".

https://portal.ema.kworld.kpmg.com/audit/countries/europe/AuditPeople/DeptSites/IGHAudit/Technical%20guidance%20Library/RRD254220%20Brilliant%20Local%20Authority_v11.pdf

KPMG is proud to be the external auditor of a significant number of local government clients, and our audit teams consider key aspects of budget setting and budget monitoring alongside their external audit work. This paper sets out the results of a survey they completed in 2015, and analyses the assumptions and techniques used by our clients to generate budgets and to monitor them.

Our audit teams were very aware that when our clients were setting the 2015-16 budgets they were waiting for clarity about their funding for future years. Some clients had chosen not to publish a medium term financial plan until there was more certainty. Where this was the case, we took into account the work that officers were doing in preparation of the Comprehensive Spending Assessment.

Purpose of this paper

Our aim is that our clients find this paper useful when thinking about the budget information required to help address the financial challenges that they face. We hope that it will help our clients to take a fresh look at their approach to budget setting and monitoring. As financial risks and rewards continue to be localised, budgets will need to become more and more flexible and responsive to changes within financial years. We recognise that there is no single solution or blueprint for successful budgetary control, and that it is up to each client to find their own balance of summarised information and detailed data.

We plan to carry out a similar review next year. We would welcome feedback on this first version, and if there are any areas that you think that it would be useful to cover please let us know. Please let your local audit team know if you have any feedback or if there is anything you want us to take into account.

Introduction (cont.)

Our clients

We have analysed the 97 survey responses from our audit teams.

Client Type	Responses
Districts	41
London Boroughs	11
Unitary Authorities	11
Metropolitan Boroughs	10
Police & Crime Commissioners	8
Fire & Civil Defence Authorities	7
Counties	6
Transport Executives	2
Combined Authority	1
Total	**97**

Report Format

The paper provides the results of the responses, along with a brief analysis of the highlights (including extra information that audit teams provided where appropriate). We have also provided some possible questions that Members may wish to consider in the context of their own organisations. These questions are collated at the end of the report for ease of reference.

Key messages

We know that our local government clients have already taken significant steps to deal with the changes in their funding structure over the last few years. This paper highlights that as the financial challenges increase over the next few years there are measures that our clients can consider using in order to strengthen elements of their budget preparation, analysis, monitoring and reporting.

The move to more localised risks and rewards mean that techniques such as sensitivity analyses (to identify pressure points) and financial ratios will be key as the potential for financial volatility in the sector increases. This volatility in income and expenditure could happen at any time as well as on the annual budget-setting process, and so it is also increasingly important that our clients are alert and responsive to changes within the year, and to indications that their budgetary assumptions are no longer valid.

Tracking the achievement of savings is not straightforward. Sometimes plans need to be shelved for positive reasons – for example when there is unexpected demand for a service that generates income. It is important to identify the reasons for successful plans as well as those that fail in order to learn for the future.

The likely link between local growth and our clients' financial well-being means that selecting the right 'invest-to-save' schemes is vital, and the survey suggests that more use could be made of key processes for assessing the potential projects.

As financial pressures increase, savings measures may need to be re-considered or revisited, alongside ways to generate income.

As savings become harder to achieve, the distinction between recurrent and non-recurrent savings becomes ever more important, and also an important element of reporting to members. The General Fund Reserve is a critical safety net, and setting the minimum level is a key task that should take into account the level and nature of usable reserves, and in particular if there is a lack of flexibility within those other reserves.

The results of our survey highlight differences in the way that our clients are budgeting for key financial factors such as inflation, borrowing and lending rates and employee related cost pressures. Similarly, there is variation in the factors used to generate the budget, with some such as demographics and population change less used than others. Whilst there is no single correct approach, all of our clients need to be alert to the impact of variations on expectations.

The amount of Local Government reserves is being increasingly challenged, and there needs to be a clear understanding of the reason for the current and planned levels, and what flexibility there is within them if there becomes a need for them to reduce.

Our survey also suggests that there is some scope for further analysis of our clients' assets to identify options for change. Asset management plans that are aligned to service and staffing changes are important for ensuring that those options are co-ordinated and realistic.

We know that many of our clients are still working hard to address gaps in their savings targets for future years, and all of them will need to re-assess their assumptions when the results of the financial settlement are made clear, along with the detail behind recent announcements are made available. It is vital that their budgetary frameworks are fit-for-purpose to respond to the challenges.

The remainder of this report sets out the results of our survey and the questions we have suggested for Members to consider. We look forward to your feedback.

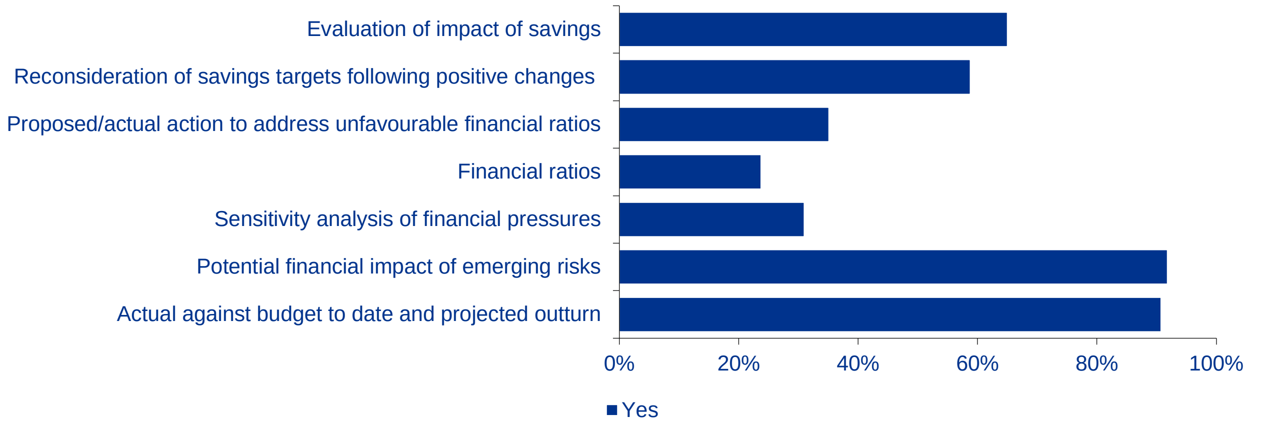
Comparatives

1

What's in your Budget Monitoring Reports?

We looked at our clients' main budget monitoring reports to see if they contained a series of potentially important elements.

Do budget monitoring reports include the following:



As expected, most budget monitoring reports identify the actual position against budget to date and a projected outturn, and the financial impact of emerging risks. The use of sensitivity analysis and financial ratios is less developed. It may be that Members will view these as more important as local financial volatility increases with the move away from block central funding.

Our audit teams highlighted some local practices that influence what goes in to the budget monitoring reports. These included that portfolio holders receive monthly summarised reports for their budget areas that supplement the quarterly reporting, or that particular committees receive detailed reports in addition to the high level reports for all members. Financial ratios are sometimes limited to particular areas, such as in the context of the Treasury Management Strategy.

There is no universal 'right level' of detail in budget monitoring reports – the key is that the reports provide decision-makers with sufficient information in the context of the other information that they receive to allow them to understand the financial position and projections.

Questions to Consider

- Do your budget monitoring reports provide an appropriate level of detail?
- Given the likelihood of increased financial pressures and volatility, do your budget monitoring reports need to evolve?
- Do members have the necessary training, skills & experience to interpret the budgetary reports and information provided?

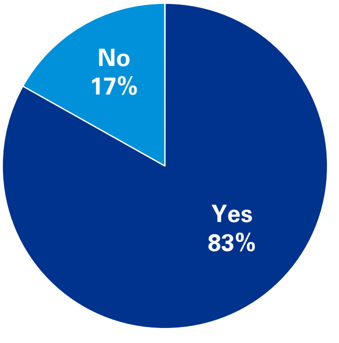
Comparatives (cont.)

2

Did you achieve last year's savings plans?

We looked at the achievement of the overall savings targets alongside the monitoring of the individual savings plans.

Did 2014-15 actual savings meet the budgeted target?



With the uncertainty about the future level and nature of funding, we know that many clients were looking to build up their levels of resilience in 2014-15, and many had savings plans that were designed to help increase useable reserves. The majority of clients met their 2014-15 budgeted savings target.

Some of our audit teams commented that better than expected income had had a significant impact on the net financial outcome – for example from the levels of new homes bonus and planning fees. We recognise that sometimes planned savings such as staff reductions are put on hold in order to meet unexpected demand for services. Tracking the achievement of savings in these circumstances can become complicated, and there is also a risk that unexpected income could result in a reduced focus on making savings elsewhere in the budget.

Our audit teams also noted examples of clients ensuring that the use of reserves is allowed only to provide new or enhanced services, and not to deal with deficits or overspends (which could mask failure to meet the savings targets). They also referred to cases where savings are built into budgets, and so are not separately identified – this links into the question on the following page.

Questions to Consider

– Do you know if your savings to-date in 2015-16 are on target to meet the budgeted amount?

– If you have received unexpected income in 2015-16, are you clear how it has impacted on your savings targets?

– If any of your 2015-16 individual savings schemes or the overall savings targets are not being achieved, do you know why?

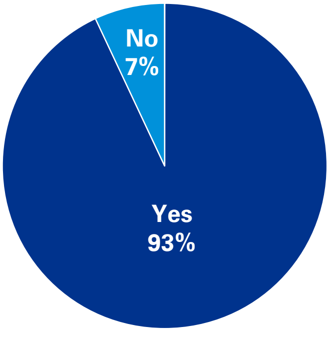
Comparatives (cont.)

3

Are individual savings plans monitored centrally?

We asked whether the individual schemes that make-up the overall savings plans are monitored centrally on an on-going basis.

Were individual savings projects/plans monitored during the year to check that expected savings remained deliverable in 2014-15?



As may be expected, the majority of our clients monitor individual schemes centrally. Audit teams that answered 'no' reported that the client approach is to expect budget holders to deliver their overall net financial target which incorporates the savings plans, and so the central monitoring is based on this net position rather than separating out savings plans.

As the pressure on budgets continues, savings will be increasingly hard to find. Whatever system is used to monitor the achievement of savings plans, it is vital that schemes that are failing to achieve the expected results are highlighted early, and that alternative measures are in place to address the financial shortfall. It is also important to learn the lessons as to why schemes fail in order to help avoid problems recurring. Similarly, successful ones can be analysed to understand the success factors, and to see if they can be replicated.

Questions to Consider

– Are you confident that you identify savings schemes that are failing at an early stage?
– Do you have alternative measures to substitute for failing savings schemes?
– Are successful schemes evaluated to identify why they worked, and to see if they can be applied in other parts of your organisation?

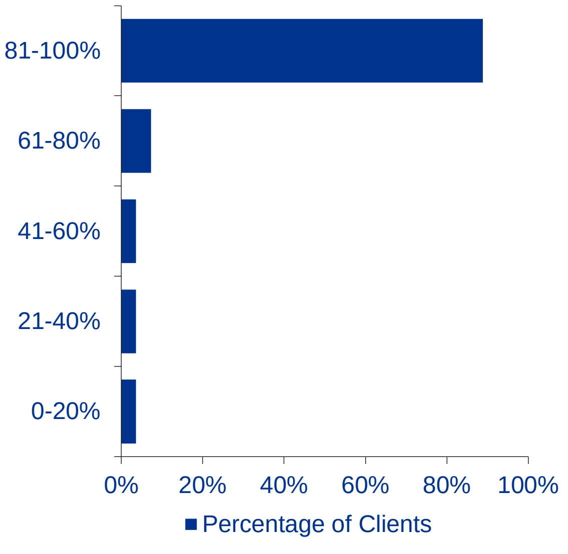
Comparatives (cont.)

4

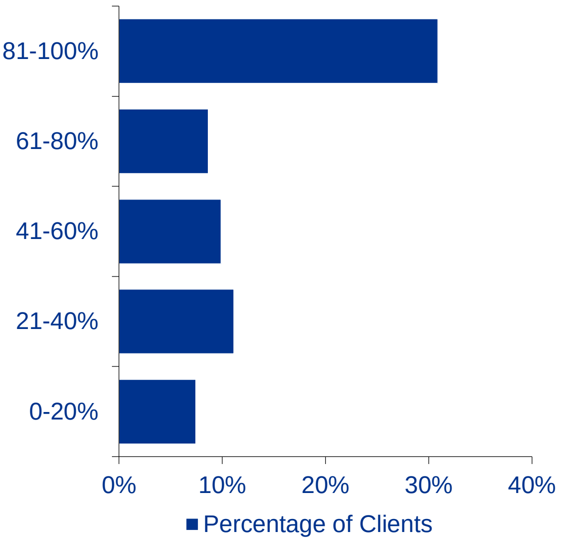
Do you have detailed plans for your savings?

We looked at what proportion of the savings targets for 2015-16 and 2016-17 had detailed plans at the start of the 2015-16 financial year to achieve them. We know that as the level of funding was uncertain beyond 2015-16, officers were estimating what level of savings will be needed.

What percentage of 2015-16 budget savings were backed by detailed plans as at 31 March 2015?



What percentage of 2016-17 budget savings were backed by detailed plans as at 31 March 2015?



At the start of the 2015-16 year, over 80% of clients had detailed plans that covered the level of savings needed. This dropped to below 40% for the 2016-17 year. As the financial position is clarified for 2016-17 and beyond, there will be a need to revisit the expected level of savings to ensure that the assumptions made remain valid and that the plans to achieve them are complete and robust on an ongoing basis.

Questions to Consider

- Are all of your savings targets backed with detailed plans?
- Are you confident that the detailed savings plans are robust and realistic?
- Are detailed savings plans updated to ensure that they reflect changes in circumstances?

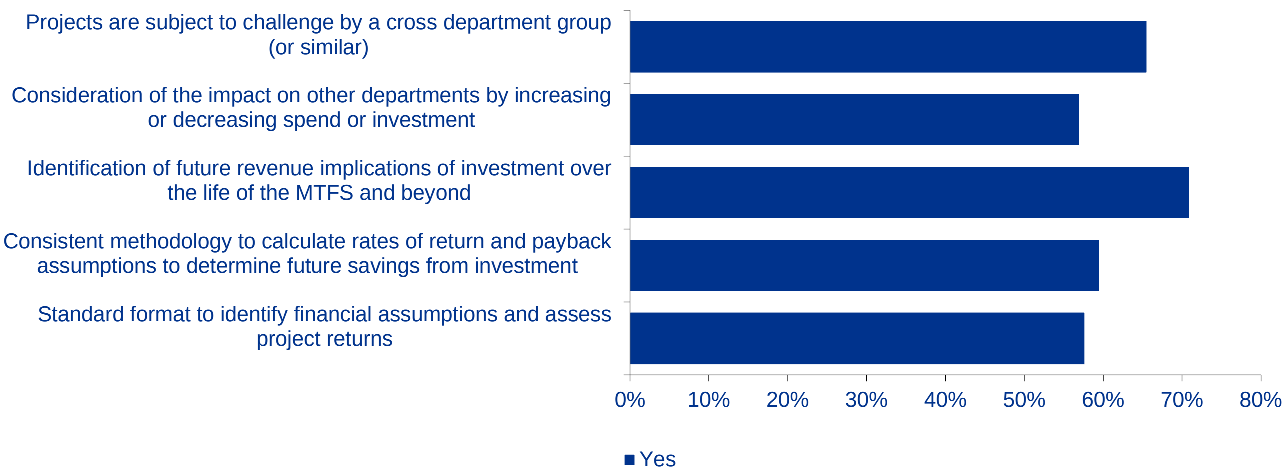
Comparatives (cont.)

5

When you consider possible invest-to-save projects, what factors do you take into account?

Even in financially pressured times we know that our clients will have opportunities to invest in new projects, and that those projects will not necessarily have an immediate or short-term impact, and may go beyond the life of the Medium Term Financial Strategy (MTFS). As available resources become more scarce, and the link increases between local economy growth and councils' financial well-being because of the localisation of economic risk and reward, it is more important than ever to have a strong framework in place to select the most appropriate invest-to-save projects. We looked at all clients for each of the elements below on a yes/no basis.

Are individual invest-to-save projects appraised using the following factors in a consistent way?



Our audit teams identified that not all of the possible tools and techniques available to our clients are being used routinely. We recognise that this may be because for some there is limited opportunity to invest-to-save, and we also recognise that the framework used to select the projects is dependent on local factors, such as the risk appetite, the range of opportunities, potential partners and other factors. However, with the confirmation of the intention to move to local business rate retention and the removal of Revenue Support Grant by 2020, selecting the right invest-to-save projects and monitoring their outcomes against their objectives will become increasingly important. It is also important to check how approved projects perform against the projected outcomes, and to assess why any significant variations have come about.

Questions to Consider

- Is your process for assessing invest-to-save projects robust and consistent?
- Are there tools and techniques you could use to help strengthen your current invest-to-save process?
- How robustly do you review the outcomes of invest-to-save projects?

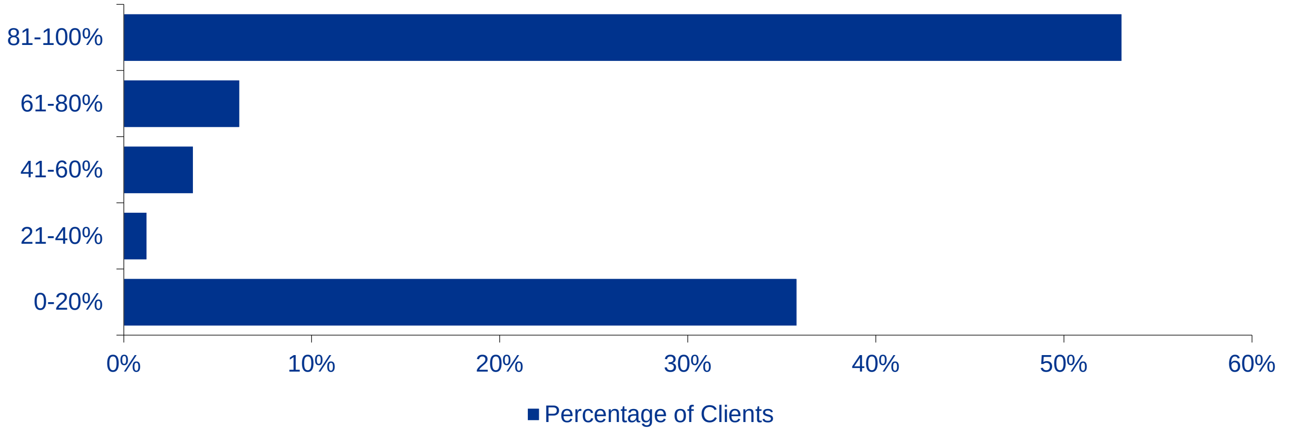
Comparatives (cont.)

6

Are your savings recurrent?

We considered the level of recurrent savings within the overall delivery of the plans. Recurrent savings are those that impact on more than one year. For example, removing a post is a permanent reduction in the budget – a vacancy freeze that delays recruitment to a post is a temporary, non-recurrent measure.

What percentage of 2014-15 actual budget savings were recurrent savings?



The majority or all of many clients' savings were recurrent, which linked to permanent reductions in staffing levels and service reductions. Recurrent savings are particularly important in times where savings are required year-on-year, as any non-recurrent savings from previous years have to be re-achieved alongside the current year's targets.

Unexpected income is welcome, but there can be a risk that it can help to mask either the underachievement of savings. This is a particular problem if the income is non-recurrent, as those savings will need to be made to avoid the financial impact simply transferring to the next year.

In some cases, the proportion of recurrent/non-recurrent savings was not available, and these are included in the 0-20% group above.

Questions to Consider

– Do you know the recurrent and non-recurrent levels in your savings plans for 2015-16 and beyond?
– Has the impact of any non-recurrent savings from previous years been factored into current and future savings plans?
– Do you assess unexpected income to check that it is recurrent/non-recurrent and that it has been factored in appropriately to financial monitoring and plans?

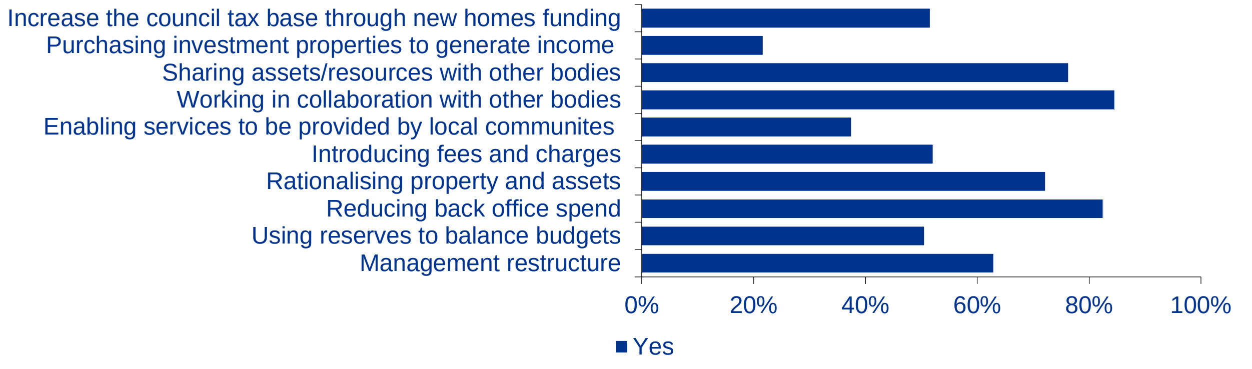
Comparatives (cont.)

7

What savings measures are you relying on for 2015-16 and beyond?

We looked at the savings measures that our clients are using in their budgets to make their medium term financial plans balance.

Which of the following measures are being used to deliver the 2015-16 budget and/or in the following years?



It is inevitable that not all clients will use all the measures, as the levels of financial pressure vary, as does the capacity to implement a variety of measures. We also recognise that some of the 'no' answers in the survey are because our clients have already used particular measures in previous years, such as management restructuring, where a period of stability may be appropriate to enable the changes to take effect.

It may be though that previous decisions – for example not to introduce/increase further fees and charges, or to continue to provide the current range of non-statutory services – will need to be revisited as financial pressures increase, and it is inevitable that some clients will need to make very difficult decisions in order to deliver their statutory financial responsibilities.

We asked our audit teams to highlight any other savings measures that were being used by our clients. They highlighted the following examples;

- Vacancy Management;
- Business Rates income growth;
- Withdrawal of services not deemed a priority or affordable;
- Early repayment of debt;
- Establishing a Housing Growth Company;
- Increased joint working and joint venturing;
- Procurement and contracting renegotiations; and
- Assets review and restructuring.

Questions to Consider

- Are you confident that your plans will enable you to continue to meet your statutory financial responsibilities?
- Have you considered all possible savings measures available to you?
- Are there any aspects of your budget that need to be revisited?

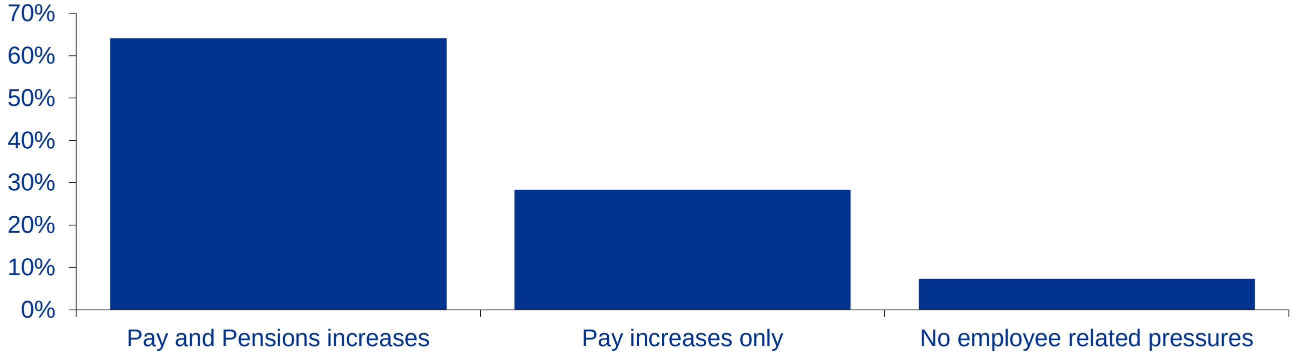
Comparatives (cont.)

8

Do you allow for pay and pension increases in your budget?

We asked all clients about their approach to factoring in employee related cost pressures, namely do you allow for pay and pension increases, just pay, or do you not allocate specific amounts for either?

What employee-related cost pressures does the 2015-16 budget include?



Nearly two-thirds of our clients factored in the impact of pay and pensions increases into the amount given to budget holders to manage. More than a quarter of our clients allowed for pay increases only in 2015-16, and in a year when there is no routine change in the actuary's recommended level of pension contribution (which results from the triennial review), the variation in pension costs is unlikely to be significant overall. However, at an individual budget holder level, pension costs could vary up or down because of factors such as changes in the profile of staff in relation to their age, and decisions by employees to join or leave the scheme. Finally, our survey identified that a small number of clients expect their budget holders to absorb any additional employee-related costs into the overall budget that they are given to manage.

We are aware that our clients will also need to take account of the introduction of the national living wage from April 2016. There may be some internal (including subsidiary company) staff costs, but for many clients the bigger impact will be the additional costs incurred by their suppliers and the need to establish the way forward with them for service provision and continuity.

Questions to Consider

- If you don't allow for pay and/or pension cost increases, can you identify any areas of the budget that are vulnerable to significant cost variations?
- Do you have mechanisms to identify and deal with changes to staff costs within year?
- Have you evaluated the cost of the national living wage across your cost base, including your supply chain?

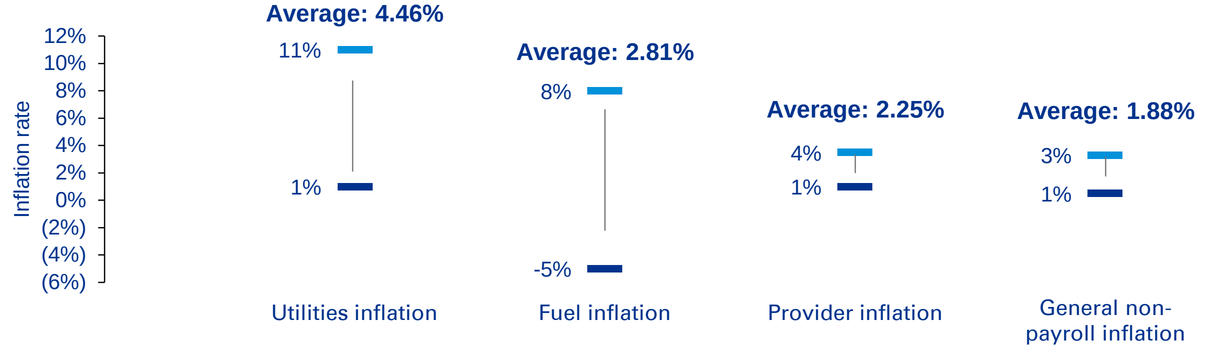
Comparatives (cont.)

9

What inflation rates do you use for particular cost pressures?

We looked at all of our clients' use of non-standard rates of inflation when preparing the budgets, focusing on four common variants. Whilst we were aware that some used a single inflation rate, we knew that others have decided to use differing rates for areas that could have a significant impact on their financial position.

If the 2015-16 budget includes separate inflation rates for the following, which rate is used?



We found that there were some large differences in the inflation assumptions made for fuel and utilities in particular (and we accept that all may be valid due to local circumstances, such as fixed increase, variable or new contract rates). Assumptions by nature are subjective, but they can be updated if it becomes clear that they are not correct. Although overall inflation is at a relatively low level, the current financial pressure means that the impact of variations in aspects of it could make a difference to achieving targets.

Our audit teams also identified that clients used inflation variations for the areas below:

- Hardware and Software price increases;
- Insurance and postage cost increases;
- Indexation increases in partnership arrangements;
- Landfill tax and building repairs; and
- Fee income rates raised to match the overall inflation assumption.

Questions to Consider

- Do you understand how your budget takes inflation into account (e.g. which supplies & services are on fixed/variable rates)?
- Do you know which inflation rate changes would have the biggest impact on your budget?
- How do you deal with inflation variations that happen within the year?

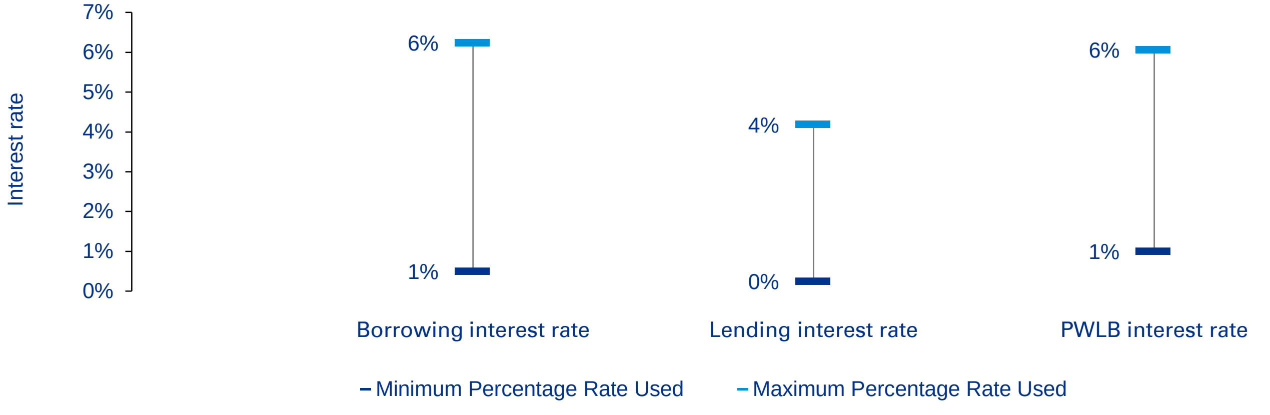
Comparatives (cont.)

10

What rates have you used in your budget for borrowing and lending, and what other specific rates do you factor in to your budget?

We looked at the assumptions about borrowing and lending rates that our clients have used for generating 2015-16 budgets and beyond. We also considered if our clients had identified any further areas of non-pay expenditure for particular rates.

What rates are being used to budget for borrowing and lending?



The chart shows that there were variations in the assumptions used. Lending and borrowing rates are comparatively low historically, but the variations suggest that local circumstances still make a difference to the budget assumptions. This is likely to be related to existing arrangements that date back to when rates were higher.

Audit teams also identified specific assumptions for the following non-pay areas, including the following examples:

– Rent increases;
– Change in the Council Tax base;
– Pension Lump sum increases; and
– Reduction in direct central government support.

Questions to Consider

– Do you know what borrowing and lending assumptions are used when generating the budget?
– Have you identified the areas of your budget where rate assumptions need to be specified?
– Are you alert to changes in rates within year?

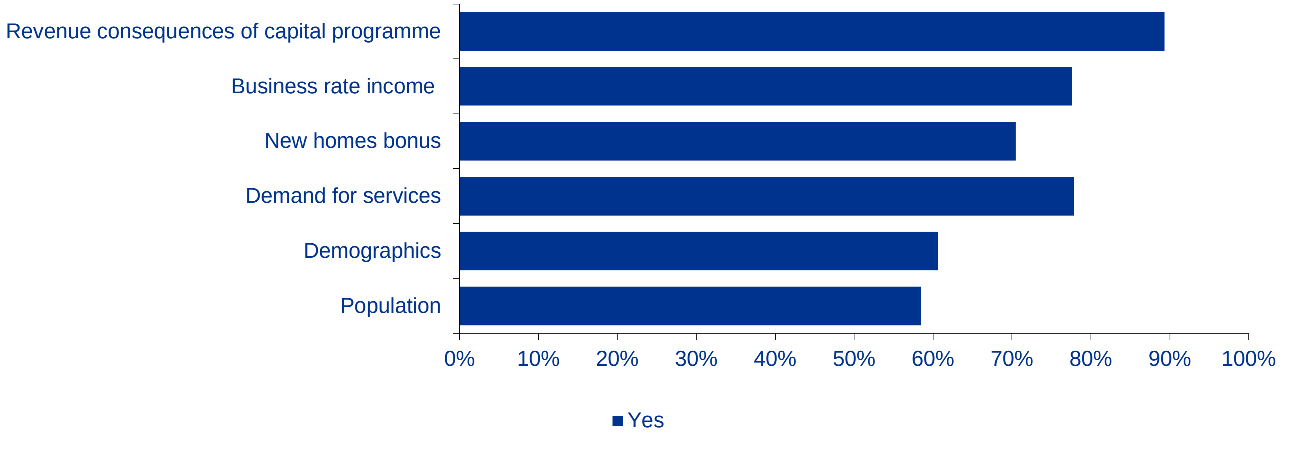
Comparatives (cont.)

11

What factors do you use when developing your budget?

We looked at a particular range of factors that are commonly used when generating budgets, and considered whether our clients used them.

Does the 2015-16 budget include evaluation of the potential financial impact of changes in the following factors?



Although all of these factors were used by the majority of our clients, the proportion using demographics (e.g. deprivation levels, average age) and population (e.g. size and location) factors was smaller than the others. It is generally accepted that the overall population is growing, and that the number of older people with complex needs is likely to increase. However, the impact will vary in different areas.

Income sources such as new homes bonus and business rates, and the demand for services from the public, are subject to variables such as economic conditions and changes in government policy. Scenario planning for the impact of changes is vital to help prepare for different outcomes. It is also important to ensure that the impact of the capital programme is affordable and to update that assessment as budgets are revised.

Questions to Consider

- Do you make use of all available data to help generate your budget?
- Do you understand how your budget is impacted by changes in the factors that drive it?
- Do you revisit the capital programme to ensure its revenue impact remains affordable?

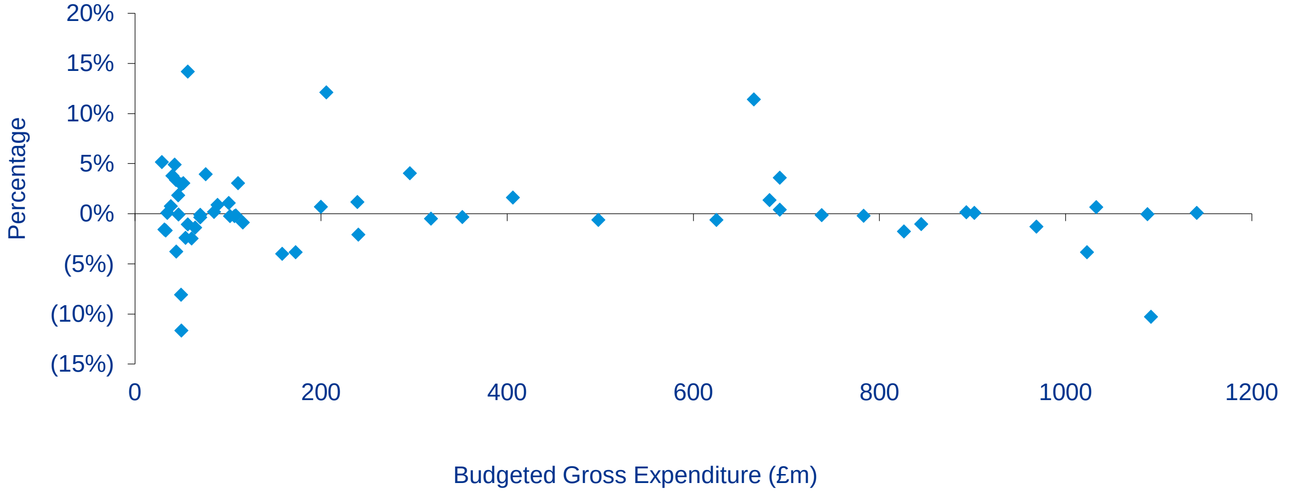
Comparatives (cont.)

12

What is the planned change in usable reserves in 2015-16?

The level of local government reserves is a much-debated topic. We looked at the planned change in the overall level of usable reserves in 2015-16 from the opening to the closing position, and compared it to the level of gross expenditure across all clients. Usable reserves includes amounts earmarked for particular reasons. Earmarked funds can be flexible – changes in policies, intended projects and plans can mean that they can become either insufficient or not needed.

What is the budget change of useable reserves as a percentage of budgeted gross expenditure compared to budgeted gross expenditure?



Many clients are planning to keep usable reserves relatively stable at the end of the year, with most variations within plus or minus 5% of the starting point. A small number have larger variations. The increases reflect that some are aiming to boost financial resilience reserves in preparation for the expected challenges to come. The reductions could be due to the appropriate application of earmarked reserves for planned expenditure. However if reserves are being used to help achieve a balanced budget for 2015-16, this may be a concern given that the financial pressure is expected to increase in the following years.

Questions to Consider

- Do you think the level of your usable reserves is about right?
- Do you understand the reason for any planned changes in the level of usable reserves?
- Do you know how much flexibility you have in your usable reserves?

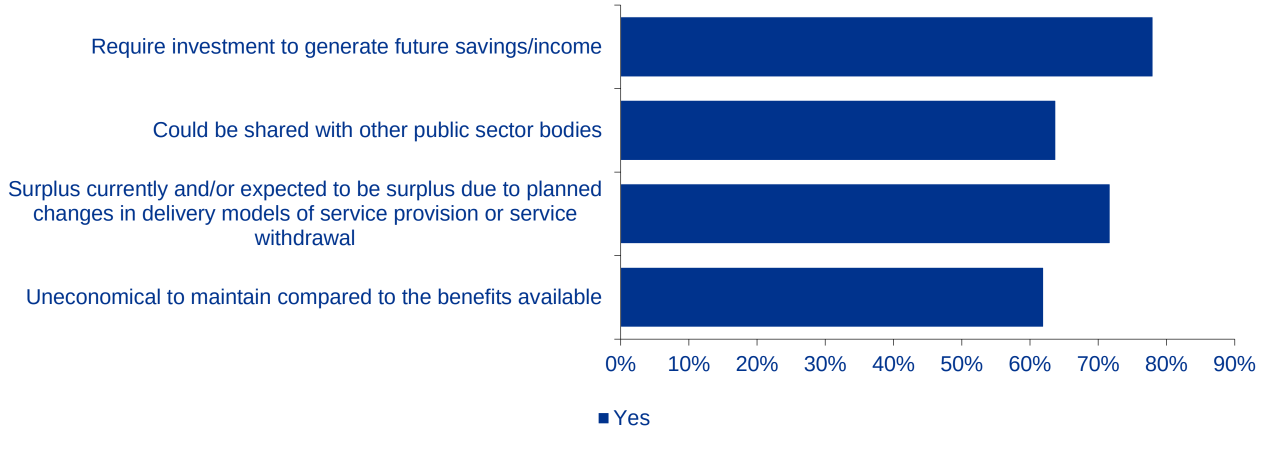
Comparatives (cont.)

13

Have you analysed your asset base?

We are aware that many of our clients are reviewing their assets to see if they can make more use of them. We considered whether our clients had analysed assets that met four categories.

Does the body have an up to date analysis of its assets to identify those that meet the following descriptions:



The results suggest that the analysis of the costs and benefits of assets, and the analysis of current and likely surplus assets is up-to-date at a significant number of clients, but not so at a minority. Similarly, the majority of our clients have an up-to-date analysis of assets that could be made available for shared use, and that more have worked out which assets require investment. However, it is likely that some could do more to fully understand what their options are.

The importance of these assessments will vary depending on the nature of the asset base. We also recognise that some clients are taking steps such as changing ways of working that will release assets in the future, and so their analysis will be on-going. Nevertheless, asset review and management are likely to be important budgetary measures given the financial challenges. An asset utilisation plan can be used to summarise the intended use of assets, and it is vital that it is co-ordinated with any intended changes in the way that services are delivered, or changes to internal operations in order to ensure it is up-to-date.

Questions to Consider

- Do you have a comprehensive and current asset utilisation plan?
- Do your asset plans align with any intended changes to service delivery or internal ways of working?
- Are all options for asset use being considered?

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Summary of Questions to Consider

Questions to Consider

1

What's in your Budget Monitoring Reports?

Questions to Consider

- Do your budget monitoring reports provide an appropriate level of detail?
- Given the likelihood of increased financial pressures and volatility, do your budget monitoring reports need to evolve?
- Do members have the necessary training, skills & experience to interpret the budgetary reports and information provided?

2

Did you achieve last year's savings plans?

Questions to Consider

- Do you know if your savings to-date in 2015-16 are on target to meet the budgeted amount?
- If you have received unexpected income in 2015-16, are you clear how it has impacted on your savings targets?
- If any of your 2015-16 individual savings schemes or the overall savings targets are not being achieved, do you know why?

3

Are individual savings plans monitored centrally?

Questions to Consider

- Are you confident that you identify savings schemes that are failing at an early stage?
- Do you have alternative measures to substitute for failing savings schemes?
- Are successful schemes evaluated to identify why they worked, and to see if they can be applied in other parts of your organisation?

4

Do you have detailed plans for your savings?

Questions to Consider

- Are all of your savings targets backed with detailed plans?
- Are you confident that the detailed savings plans are robust and realistic?
- Are detailed savings plans updated to ensure that they reflect changes in circumstances?

5

When you consider possible invest-to-save projects, what factors do you take into account?

Questions to Consider

- Is your process for assessing invest-to-save projects robust and consistent?
- Are there tools and techniques you could use to help strengthen your current invest-to-save process?
- How robustly do you review the outcomes of invest-to-save projects?

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Questions to Consider

6

Are your savings recurrent?

Questions to Consider

- Do you know the recurrent and non-recurrent levels in your savings plans for 2015-16 and beyond?
- Has the impact of any non-recurrent savings from previous years been factored into current and future savings plans?
- Do you assess unexpected income to check that it is recurrent/non-recurrent and that it has been factored in appropriately to financial monitoring and plans?

7

What savings measures are you relying on for 2015-16 and beyond?

Questions to Consider

- Are you confident that your plans will enable you to continue to meet your statutory financial responsibilities?
- Have you considered all possible savings measures available to you?
- Are there any aspects of your budget that need to be revisited?

8

Do you allow for pay and pension increases in your budget?

Questions to Consider

- If you don't allow for pay and/or pension cost increases, can you identify any areas of the budget that are vulnerable to significant cost variations?
- Do you have mechanisms to identify and deal with changes to staff costs within year?
- Have you evaluated the cost of the national living wage across your cost base, including your supply chain?

9

What inflation rates do you use for particular cost pressures?

Questions to Consider

- Do you understand how your budget takes inflation into account (e.g. which supplies & services are on fixed/variable rates)?
- Do you know which inflation rate changes would have the biggest impact on your budget?
- How do you deal with inflation variations that happen within the year?

10

What rates have you used in your budget for borrowing and lending, and what other specific rates do you factor in to your budget?

Questions to Consider

- Do you know what borrowing and lending assumptions are used when generating the budget?
- Have you identified the areas of your budget where rate assumptions need to be specified?
- Are you alert to changes in rates within year?

Questions to Consider

11

What factors do you use when developing your budget?

Questions to Consider

- Do you make use of all available data to help generate your budget?
- Do you understand how your budget is impacted by changes in the factors that drive it?
- Do you revisit the capital programme to ensure its revenue impact remains affordable?

12

What is the planned change in usable reserves in 2015-16?

Questions to Consider

- Do you think the level of your usable reserves is about right?
- Do you understand the reason for any planned changes in the level of usable reserves?
- Do you know how much flexibility you have in your usable reserves?

13

Have you analysed your asset base?

Questions to Consider

- Do you have a comprehensive and current asset utilisation plan?
- Do your asset plans align with any intended changes to service delivery or internal ways of working?
- Are all options for asset use being considered?

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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Report to:	**Audit Committee**
Date:	**15 March 2016**
Title:	**2016/17 TREASURY MANAGEMENT STRATEGY**
Portfolio Area:	**Support Services – Cllr Cann OBE**
Wards Affected:	**All**
Relevant Scrutiny Committee:	

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken:
(e.g. referral on of recommendation or implementation of substantive decision)

Authors:	Lisa Buckle & David Bennett	Role:	**Finance Community of Practice Lead** **Specialist Accountant**

Contact: **Email Lisa.buckle@swdevon.gov.uk 01803 861413**

Recommendations:

That the Audit Committee RECOMMEND to Council approval of the following:

1. **The prudential indicators and limits for 2016/17 to 2018/19 contained within Appendix A of the report.**
2. **The Minimum Revenue Position (MRP) statement contained within Appendix A which sets out the councils policy on MRP**
3. **The Treasury Management Strategy 2016/17 and the treasury prudential indicators 2016/17 to 2018/19 contained within Appendix B.**
4. **The Investment Strategy 2016/17 Appendix C and the detailed criteria included in Appendix D.**

1. Executive summary

This report seeks approval of the proposed Treasury Management and Investment Strategies together with their associated prudential indicators.

Good financial management and administration underpins the entire strategy. The budget for investment income for 2016/17 has been set at £45,321. This is an increase of £5,000 from the budget for 15/16.

2. Background

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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management 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."

2.1 Reporting requirements

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

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- The capital plans (including prudential indicators);
- A minimum revenue provision (MRP) policy
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- An investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This 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 are required to be adequately scrutinised before being recommended to the Council. The reports are presented to the Audit Committee prior to being recommended to council.

2.2 Treasury Management Strategy for 2016/17

The strategy for 2016/17 covers two main areas:

Capital issues
- The capital plans and the prudential indicators;
- The minimum revenue provision (MRP) policy.

Treasury management issues
- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy;
- Creditworthiness policy; and
- Policy on use of external service providers.

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

2.3 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Treasury management training will be organised for members during 2016-17 financial year.

2.4 Treasury management advisors

The Council uses Capita 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 our external service providers.

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.

3. Outcomes/outputs

In 2015/16 Investment income budget was £40,321and we are going to exceed this by around £15,000.

4. Options available and consideration of risk

The Council will continue to explore alternative investments with our treasury management advisors, for example investing in property portfolios, to determine prospective yields against relative risks. If alternative options have a good return relative to risk, a future report will be presented to Members to recommend varying the treasury management strategy.

5. Proposed Way Forward

With the current Economic climate still very volatile the more prudent option and the one we are not recommending is not to make any changes from 2015/16 strategy.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The elements set out in paragraph 2.2 cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code, the Department for Communities and Local Government (DCLG) Investment Guidance and the DCLG MRP Guidance.
Financial	Y	Good financial management and administration underpins the entire strategy. The budget for investment income for 2016/17 is £45,321, an increase of £5,000 on 2015/16. The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a near risk free investment strategy,

		has meant a significant drop in the level of investment income that supports the revenue budget. As at 31/3/15 (Balance Sheet position), the Council had £7,456,341 in investments. The Council's investments can fluctuate to levels up to 15 million during the year due to the timing of cash flows.
Risk	Y	The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Audit Committee as part of the budget reports.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	N/a
Safeguarding	N	N/a
Community Safety, Crime and Disorder	N	N/a
Health, Safety and Wellbeing	N	N/a
Other implications	N	none

<u>Supporting Information</u>

Appendices:

Appendix A - The Capital Prudential indicators 2016/17 to 2018/19.
Appendix B - The Treasury Management Strategy 2016/17
Appendix C – The Investment Strategy
Appendix D - Treasury Management Practice (TMP 1) – Credit and Counterparty Risk Management
Appendix E - Treasury Management Scheme of delegation
Appendix F - Glossary of Terms Appendix

Background Papers:

Audit Committee: 24/02/15 - TMS & Annual Investment Strategy 2014-15
Audit Committee: 29/09/15 - Annual TM Report 2014-15
Audit Committee: 19/01/16 - TMS (Mid Year Update)

Process checklist	**Completed**
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	**N/a**

APPENDIX A

THE CAPITAL PRUDENTIAL INDICATORS 2016/17 – 2018/19

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

Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	**473**	**451**	**651**	**651**	**651**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

The approved Capital Programme for 2016/17 will be financed from Capital receipts and Capital grants. The Council is not currently undertaking any new borrowing to fund its Capital Programme from 2016/17 onwards. Therefore the Council currently has a nil borrowing requirement.

Capital expenditure £m	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Total	**473**	**451**	**651**	**651**	**651**
Financed by:					
Capital receipts	259	0	0	0	0
Capital grants	186	239	239	239	239
Earmarked Revenue Reserves	28	0	0	0	0
New Homes Bonus	0	212	412	412	412
Net financing need for the year	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). It is essentially a measure of the Council's underlying need to borrow. The negative figure reflects the fact that the Council has a nil borrowing requirement.

	2014/15 Actual £000	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Capital Financing Requirement (CFR)					
Total CFR	1,799	1,757	1,715	1,673	1,631
Movement in CFR	-42	-42	-42	-42	-42
Movement in CFR represented by:					
Net Financing need for the year	0	0	0	0	0
Less MRP and other financing movements	-42	-42	-42	-42	-42
Net borrowing requirement	-42	-42	-42	-42	-42

Minimum revenue provision (MRP) policy statement

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).

CLG 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 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **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)

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

Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the receipt of net investment income against the net revenue stream. It is calculated by dividing investment income and interest received by the Council's Net Budget Requirement.

	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Estimate	Estimate	Estimate
Ratio of net investment income to net revenue stream. (Surplus)	1.2%	1.3%	1.2%	1.1%	0.7%

Estimates of the incremental impact of capital investment decisions on council tax

This indicator calculates the notional cost of the impact of lost investment income on the Council Tax, from spending capital resources.

	2014/15	2015/16	2016/17	2017/18	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Future incremental impact of capital investment decisions on the band D Council tax (Notional cost)	0.03	0.03	0.05	0.12	0.17

APPENDIX B

TREASURY MANAGEMENT STRATEGY (BORROWING)

Introduction

The capital expenditure plans set out in Appendix A provide details of the service activity of the Council. 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. 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 and the annual investment strategy.

Current Portfolio Position

The Council's treasury portfolio position at 31 March 2015, 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.

	2014/15	2015/16	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
External Debt					
Debt at 1 April	2,100	2,100	2,100	2,100	2,100
Expected change in debt					
Debt at 31 March	2,100	2,100	2,100	2,100	2,100
CFR	1,799	1,757	1,715	1,673	1,631
Under/(over) borrowing	-301	-343	-385	-427	-469
Investments					
Total Investments at 31 March	7,456	5,000	5,000	5,000	5,000
Net Debt/(investment)	-5,356	-2,900	-2,900	-2,900	-2,900

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 2016/17 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.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to borrowing activity

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes..

Operational Boundary	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Borrowing	3,000,000	3,000,000	3,000,000	3,000,000
Other long term liabilities	-	-	-	-
Total	**3,000,000**	**3,000,000**	**3,000,000**	**3,000,000**

The Authorised Limit for External Debt – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

2. ***The Council is asked to approve the following Authorised Limit:***

Authorised limit	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
Borrowing	6,000,000	6,000,000	6,000,000	6,000,000
Other long term liabilities	-	-	-	-
Total	**6,000,000**	**6,000,000**	**6,000,000**	**6,000,000**

Prospects for interest rates

The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives our central view.

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%
10yr PWLB rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%
25yr PWLB rate	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%	4.10%
50yr PWLB rate	3.20%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%	4.00%

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and although the 2015 growth rate is likely to be a leading rate in the G7 again, it looks likely to disappoint previous forecasts and come in at about 2%. Quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact of these factors on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% by the end of 2016 and not get to near 2% until the second half of 2017, though the forecasts in the Report itself were for an even slower rate of increase. However, more falls in the price of oil and imports from emerging countries in early 2016 will further delay the pick up in inflation. There is therefore considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

The weakening of UK GDP growth during 2015 and the deterioration of prospects in the international scene, especially for emerging market countries, have consequently led to forecasts for when the first increase in

Bank Rate would occur being pushed back to quarter 4 of 2016. There is downside risk to this forecast i.e. it could be pushed further back.

Treasury management limits on activity

There are two related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on fixed interest rate exposure – This covers a maximum limit on fixed interest rates.
- Upper limits on variable interest rate exposure – This covers a maximum limit for variable interest rates.

The Council is asked to approve the following treasury indicators and limits:

Interest rate Exposures	2016/17	2017/18	2018/19
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	50%	50%	50%
Limits on fixed interest rates: Debt only	3,000,000	3,000,000	3,000,000
Limits on variable interest rates: Debt only	750,000	750,000	750,000
Maturity Structure of fixed interest rate borrowing 2015/16			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	30%
5 years to 10 years		0%	50%
10 years and above		0%	100%

These are limits that apply to the total portfolio for in house investments.

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.

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

Borrowing in advance will be made within the constraints that:

- The Council would not look to borrow more than 18 months in advance of need.

Risks associated with any advance borrowing activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.
If the Council had to borrow temporarily for cash flow purposes only in an emergency, then the S151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks. A report will subsequently be reported to Council. In all other circumstances, approval to borrow money will always be a decision that can only be made by Full Council and a full report will be brought to Members.

Debt Rescheduling

As short term borrowing rates will be considerably cheaper than longer term fixed rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. In light of current interest rates and penalties incurred in repaying debt it is unlikely that debt rescheduling will be undertaken in the near future.

The Council has enquired as to whether there is any opportunity to reschedule the PWLB loan of £2.1 million but the associated early repayment charge and premium that would be charged makes this uneconomic at this stage.
All rescheduling will be reported to the Council, at the earliest meeting following its action.

APPENDIX C

The Investment Strategy

Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectorial Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

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

Creditworthiness policy

This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

- Yellow 5 years *
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix D.*

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

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

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Capita Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to help support its decision making process.

Country and sector limits

The Council has determined that it will only use UK registered banks and Building Societies.

Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2016/17 0.75%
- 2017/18 1.25%
- 2018/19 1.75%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

- 2016/17 0.60%
- 2017/18 1.25%
- 2018/19 1.75%

The overall balance of risks to these forecasts is currently to the downside (i.e. start of increases in Bank Rate occurs later). However, should the pace of growth quicken and / or forecasts for increases in inflation rise, there could be an upside risk.

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principal sums invested > 364 days	£Nil	£Nil	£Nil

End of year investment report

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

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

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that is considered of a high credit quality (such as a bank or building society)

Non-specified investments: These are any investments which do not meet the Specified Investment criteria. **A nil amount will be held in aggregate in non-specified investment.**

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**Max % of total investments/ £ limit per institution**	**Max. maturity period**
DMADF – UK Government	N/A	100%	6 months
Money market funds	AAA	£3 million	Liquid
Local authorities	N/A	£3 million	5 years
Term deposits with banks and building societies	Yellow	£3 million (£4 million for Lloyds plc –see note)	Up to 5 years
	Purple		Up to 2 years
	Blue		Up to 1 Year

	Orange		Up to 1 Year
	Red		Up to 6 months
	Green		Up to 100 days
	No Colour		Not for use
The Council is not recommending using the following investment vehicles and this is reflected by showing 0% against the limit per institution.			
UK Government gilts	AAA	0%	Yellow (5 years)
UK Government Treasury bills	AAA	0%	6 months
Bonds issued by multilateral development banks	AAA	0%	Yellow (5 years)
CDs or corporate bonds with banks and building societies	Yellow	0%	Up to 5 years
	Purple		Up to 2 years
	Blue		Up to 1 year
	Orange		Up to 1 year
	Red		Up to 6 months
	Green		Up to 100 days
	No colour		Not for use

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	-	In-house
Term deposits – local authorities	-	In-house
Term deposits – banks and building societies	Green	In-house

Term deposits with nationalised banks and banks and building societies

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Lloyds Bank plc*	Blue	In-house	£4 million	Up to 1 year
Other UK part nationalised banks	Blue	In-house	£3 million	Up to 1 year

**As Members are aware, the council changed banks in Jan2015 from the Co-op to Lloyds Bank. Council agreed that it would be prudent to increase this limit from £2 million to £3 million specifically for Lloyds Bank in order to facilitate the effective management of daily cash flows. During the Mid Year Treasury Management report this limit was raised again to 3 million per Counterparty with an additional million for Lloyds taking the authorised limit in Lloyds to 4 million.*

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	MMF Rating	In-house
2. Money Market Funds	MMF Rating	In-house

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

A Guide to Money Market Funds	
Definition	A pool of cash managed by an independent fund management company. Frequently these are well known banks or investment houses.
Investment	Investors purchase units (shares) of the fund which are held on their behalf in a custody account.
Returns	Returns in line with either 7-day or 1-month LIBID are targeted by most funds.
Liquidity	The funds are very liquid. Shares can be purchased and sold on the same day if necessary and without penalty. Deals are subject to a cut-off time which varies from manager to manager but can be as late as 2pm.
Variety	Two types of classes exist – 1) Stable Net Asset Value (SNAV) – the most common variety. Prices are fixed and interest is credited to investors in the form of a dividend. 2) Accumulating Net Asset Value (ANAV) – interest is credited to the shares and the price rises to reflect the return achieved.
Accounting	Purchases of MMF shares do not score as capital expenditure. Sales do not score as capital receipts.
Legality	Local authorities are permitted to invest in sterling denominated funds with an AAA credit rating and domiciled in the EU.
Regulation	UK-based Funds are regulated by the Financial Services Authority. Those domiciled in other EU zones (the majority) are regulated via the Undertakings for Collective Investment in Transferable Securities (UCITS) Code. The Code lays down strict common standards of investment and management.
Portfolio holdings	Cash is invested in a selection of high quality, high liquidity securities including: time deposits, certificates of deposit, short-dated gilts, corporate bonds and notes, commercial paper etc.
Credit rating	Local authorities are empowered to place funds in investment schemes with a high credit rating. Money Market Funds fall into this category and are all rated by

Risk management	one or more of the three rating agencies. Credit Quality – measures the financial strength of the fund (not the manager) and the probability of it defaulting. The funds eligible for local authority investment score highly on credit quality and low volatility. All have an AAA rating which means that the chances of default are considered minimal. 1) Rating requirements – in order to maintain an AAA rating fund managers must adhere to requirements specified by the rating agencies. These include: • A maximum exposure to any one counterparty (concentration ratio) between 5% & 10% • A maximum weighted average maturity (WAM) for the entire fund – typically 60 days • A minimum level of overnight investments to ensure high liquidity • A lower limit on quality of investment counterparty 2) Ring fencing – monies received from share purchases are invested in financial instruments by the managing organisation. Deposits/security investments are held in custody by a non-related company that specialises in custody services. Counterparty exposure of the fund (and of the investor) is to the underlying securities and not to the management company.
Exposure limits	In view of the funds' low concentration ratios; quality of asset holdings; maximum WAM and ring-fencing arrangements, counterparty risk is spread widely. MMFs possess the same status as external fund managers operating cash/gilt funds for local authorities. They should have their own counterparty limit which can be considerably greater than that accorded to individual investment counterparties.

APPENDIX E

Treasury Management Scheme Of Delegation

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
- Receiving and reviewing regular monitoring reports and acting on the recommendations
- Approving the selection of external service providers and agreeing terms of appointment

The treasury management role of the Section 151 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
- Recommending the appointment of external service providers
- To ensure that members with responsibility for treasury management receive adequate training in treasury management.
- Te review the training needs of treasury mangement officers periodically

APPENDIX F

GLOSSARY OF TERMS

Basis Point
1/100th of 1%, i.e., 0.01%

Base Rate
Minimum lending rate of a bank or financial institution in the UK

Benchmark
A measure against which the investment policy or performance of a fund manager can be compared

Bill of Exchange
A financial instrument financing trade

Callable Deposit
A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre-agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen, the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower

Cash Fund Management
Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio

Certificate of Deposit (CD)
Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD

Commercial Paper
Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing

Corporate Bond
Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies

Counterparty
Another (or the other) party to an agreement or other market contract (e.g., lender/ borrower/writer of a swap, etc)

CPI
Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time.

CDS
Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap

Derivative
A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g., an option is a derivative because its value changes in relation to the performance of an underlying stock.

DMADF
Deposit Account offered by the Debt Management office, guaranteed by the UK government

ECB
European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle

EMU
European Monetary Union

Equity
A share in a company with a limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain

Fed.
Federal Reserve Bank of America – sets the central rates in the USA

Floating Rate Notes
Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal
The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed date

Forward Deposits
Same as forward dealing (above)

FSA (Financial Services Authority)
Body responsible for overseeing financial services

Fiscal Policy
The Government policy on taxation and welfare payments

Gilt
Registered British Government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government

Money Market Fund (MMF)
A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF

Monetary Policy Committee (MPC)
Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two year’s time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment

Open Ended Investment Companies
A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread

Other Bond Funds
Pooled funds investing in a wide range of bonds

Reverse Gilt Repo
This is a transaction as seen from the point of view of the party which is buying the gifts. In this case, one party buys gifts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gifts on a specified future date, or at call, at a specified price

Retail Price Index (RPI)
Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person

Sovereign Issues (Ex UK Gilts)
Bonds issued or guaranteed by nation states, but excluding UK government bonds

Supranational Bonds
Bonds issued by supranational bodies, e.g., European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts, but pay a higher yield ("spread") given their relative illiquidity when compared with gilts

Term Deposit
A deposit held in a financial institution for a fixed term at a fixed rate

Treasury Bill
Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value

WARoR
Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate

WAM
Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount

WATT
Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount

Report to:	**Audit Committee**
Date:	**15 March 2016**
Title:	**Review of the Council's Constitution**
Portfolio Area:	**Resources and Performance**
Wards Affected:	**All**

Relevant Scrutiny Committee: **Internal**

Urgent Decision:	**N**	Approval and clearance obtained:	**N/a**

Date next steps can be taken: **Council 5 April 2016**
(e.g. referral on of recommendation or implementation of substantive decision)

Author: **Catherine Bowen** Role: **Monitoring Officer**

Contact: **Catherine.Bowen@swdevon.gov.uk**

Recommendation:

That the Audit Committee RECOMMENDS to Council that the amendments to the West Devon Borough Council Constitution (as summarised in paragraph 2 of the report and fully outlined on the website) be approved and that the revised Constitution is adopted at the Annual Meeting in May 2016

1. Executive summary

1) The Council is legally required to formally adopt its Constitution at the Annual Meeting in May for the forthcoming municipal year.

2) The Audit Committee is responsible for an overview of the Constitution and for making any necessary recommendations to the Council and this report seeks to ensure that the Constitution is amended to reflect the changes that have either occurred in the Council over the previous year, or to implement any necessary changes to ensure that it is up to date, lawful and reflects the Council's current practices and priorities.

2. Background

1) In order that the Audit Committee can make informed recommendations to the Council on the adoption of the Constitution at the Annual Meeting, the Committee is requested to review the Council's Constitution.

2) Changes to the Constitution are made throughout the year by the Council and through its consideration of recommendations arising from Committee minutes. Examples over the past year include:

   - Amendment to the number of members appointed to the Standards Committee and frequency of Standards Committee meetings
   - Introduction of a public speaking forum for Overview & Scrutiny
   - Changes to the regulations on dismissal of statutory officers

3) Such changes are effective from the date of approval and are made by the Monitoring Officer.

4) In addition, the Monitoring Officer has delegated authority to make minor (or legal) amendments to the Constitution during the course of the year. For clarity, these changes are not shown as proposed amendments to the Constitution. The changes that have been made under these powers mainly relate to officer job titles and areas of responsibility following the T18 restructure.

5) As part of the annual review, further amendments have been made and highlighted in yellow to the version of the Constitution marked 'Constitution Review 2016'. However, due to the large size of the Constitution, it has not been circulated with the agenda, but is available on request by contacting Member Services (member.services@westdevon.gov.uk).

6) Members will note that, aside from the recommendations on the Council Tax Setting Panel in the next paragraph, most of the amendments are not significant as there has not been a major review of the Constitution's provisions this year. The changes are largely corrective or for clarification.

7) In order to provide clarity and efficiency due to the tight timescales involved, it is recommended that the Council sets up a Council Tax Setting Panel comprising the Leader, Deputy Leader, Leader of the Opposition and the Mayor, who will exercise delegated powers in relation to approving the Council Tax Resolution on an annual basis. The Council Tax Resolution is a largely arithmetical exercise which adds together the council tax amounts set by each of the major precepting Authorities (Devon County Council, West Devon Borough Council, the Police and the Fire Authority) and the amount of council tax set by Town and Parish Councils. The Council Tax Resolution states the amount of council tax required by each Parish and each council tax Band from A to H.

8) The Contract Procedure Rules were reviewed in 2014 and the Financial Procedure Rules were reviewed in 2013 but it is recommended that a further review of both of these sets of rules be conducted during the next year to ensure that they remain relevant following the finalisation of the new T18 structure. A report will be accordingly presented to a future Committee meeting.

3. Outcomes/outputs

1) The Council is required to have an up to date Constitution which reflects the law, its working practices together with best practice to ensure that it delivers efficient services and lawful decisions. The Constitution is a living document and changes are made throughout the year when necessary.

4. Options available and consideration of risk

1) The options are limited as the Council has a statutory duty to adopt its Constitution annually and to review that document to ensure that it is fit for purpose and reflects both statutory requirements and the Council's working practices.
2) If the Council does not review the Constitution there is risk that the Council may make unlawful decisions with a consequent risk of challenge.
3) Senior Officers have been consulted on the Constitution and any necessary amendments incorporated.

5. Proposed Way Forward

1) The Audit Committee is asked to review the Constitution and make any necessary recommendations to Council in order that the Constitution can be adopted at the Annual Meeting in May for the forthcoming year.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Local Government Act 2000 requires the Council to have (and to maintain) a Constitution. The Monitoring Officer must review the Constitution annually and make recommendations to the Audit Committee, who in turn must recommend its adoption to full Council. Only the Council can approve and adopt the Council's Constitution.
Financial	N	There are no financial implications to this report
Risk	Y	There is a risk arising from a failure to review the Constitution and approve the necessary changes because it may lead to unlawful decisions being taken by the Council.

		By undertaking an annual review of the Constitution the Council mitigates this risk by ensuring that the Constitution is up to date and reflects current practice and law. The report needs to clearly set out all the significant risks associated with the decision. Significant risk can be defined as the chances of something going wrong that has a material impact on the Council.
Comprehensive Impact Assessment Implications		
Equality and Diversity		None arising from this report
Safeguarding		n/a
Community Safety, Crime and Disorder		n/a
Health, Safety and Wellbeing		n/a
Other implications		n/a

<u>Supporting Information</u>

Background Papers:
Constitution Review 2016

Report to:	**Audit Committee**
Date:	**15 March 2016**
Title:	**STRATEGIC RISK ASSESSMENT - REGULAR UPDATE**
Portfolio Area:	**Strategy & Commissioning** **Cllr Philip Sanders, Leader of the Council**
Wards Affected:	**All**
Relevant Scrutiny Committee:	**N/A**
Urgent Decision:	**N** Approval and clearance obtained: **Y**
Date next steps can be taken:	**n/a**

Author: **Darren Arulvasagam** Role: **Business Development Group Manager**

Contact: **Darren.Arulvasagam@swdevon.gov.uk**

01803 861222

RECOMMENDATION
That the Committee review the strategic risks and make recommendations to Council on any further action the Committee concludes should be considered.

1. Executive summary

1.1. In accordance with the Joint Risk Management Policy adopted by West Devon Borough Council on 17th May 2012, this report forms the required 6 monthly update to Members.

1.2. The report includes the current corporate strategic risk assessment and a summary of the management and mitigating actions to address the identified risks.

2. Background

2.1. The Council at its meeting on 17 May 2012 resolved to adopt the Joint Risk Management Policy.

2.2. The Joint Risk Management Policy requires the Senior Leadership Team (SLT) to undertake reviews of the Corporate Risk Tables on a monthly 'light touch' basis and more comprehensively on a quarterly basis.

2.3. It also stipulates that a member of the Senior Leadership Team will provide update reports to the Audit Committee on a six monthly basis. This is now the responsibility of the Business Development Group Manager.

3. Outcomes / Outputs

3.1. The risks currently monitored by SLT are set out in Appendix 1.

3.2. The tables include a summary of mitigating and management actions undertaken or proposed, to manage the identified risks. Monitoring requires both a proactive approach to assessing potential risk, as well as carrying out retrospective reviews to improve learning from risk and embedding it across the two Councils.

3.3. Appended to the risk tables as Appendix 2 is the Risk Scoring Matrix which has been used to identify risk status. A risk rating is developed by assessing risk impact/severity and multiplying it by the likelihood / probability of the risk occurring. The risk score identified is the assessment based on the mitigation being successful.

4. Options available and consideration of risk

4.1. The tables are living documents and will regularly change in response to issues arising.

4.2. Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.

5. Proposed Way Forward

5.1. It is suggested that the Committee's attention is focussed on those risks with the highest score i.e. the risks with a score above 12. While members are invited to focus on the key risks, members are welcome to review any of the risks identified, including questioning whether the risk is appropriately scored, or whether further detail around the risk or the proposed mitigating actions is required.

6. Implications

Implications	Relevant to proposals	Details and proposed measures to address
Legal / Governance	Y	The Audit Committee has a role in keeping under review and recommending to Council improvements in relation to effective risk management. There are no direct legal implications arising from the report although a strategic focus on risk management is good practice. Any specific legal implications are considered in individual risk assessments.

Financial	Y	There are no direct financial implications arising from the report, although effective corporate risk management may help protect the Council from budget variances.
Risk	Y	Members should note that while risk is assessed collectively within SLT, the judgements in relation to the scores are inevitably subjective and Member challenge of the officer conclusions is therefore welcomed.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	Factored into individual risk assessments where appropriate. Equalities Impact Review of the Risk Management Policy in place.
Safeguarding	N	Factored into individual risk assessments where appropriate.
Community Safety, Crime and Disorder	N	Factored into individual risk assessments where appropriate.
Health, Safety and Wellbeing	N	Factored into individual risk assessments where appropriate.
Other implications	N	N/A

Supporting Information

Appendices:

Appendix 1: Corporate Risk Report
Appendix 2: Risk Scoring Matrix

Background Papers:

- Joint Risk Management Policy
- Covalent risk register

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#	Owner	Risk Description									After Treatment (if applicable)			Action / Update
		Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1 - 25 *(multiply L vs I)*	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1 – 25 (multiply L vs I)	
1	SJ	Encouraging communities to thrive	Delivery of local plan (inc. 5 Year Land Supply in South Hams)	Risk of speculative development without a 5 year land supply in South Hams, following Riverside ruling. Risk of designation in relation to Development Management & local plan across both councils.	Lack of detail / contingency around 5 year land supply until the Plymouth joint local plan is completed. Work has commenced.	3	4	12	Mitigate	Work underway to agree joint strategic working plan between Plymouth, South Hams and West Devon to ensure land supply across the three areas is sufficient. Collaboration agreement due to be signed by April 2016	2	2	4	Agreement by three Councils; plans and joint team in place, with recruitment where required due soon
2	SJ	Financial Sustainability	Adherence to Medium Term Financial Strategy (MTFS), due to changes in Government Policy and/or Income Streams	Failure to sustain a robust on-going medium term financial strategy with adequate reserves to meet unforeseen circumstances, due to cost pressures and missed income targets, changes in Government policy with regard to business rates and affordable housing; Potential impact on delivering the MTFS, particularly if national/regional businesses successfully appeal against business rate valuations	Reduction in Government grant, increasing demand for services and other cost pressures and increased risks associated with localised business rates and council tax support. Additionally, income from activities may not materialise or may be reduced, e.g. business rate appeals or a reduction in the commercial property market. The amount of income received can be adversely affected by a fall in collection rates due to economic downturn and other factors such as the bankruptcy/liquidation of large ratepayers or any sizeable rateable value reductions achieved by business rated properties in the area. Reclassification of waste classes by the Environment Agency could see items becoming recoverable rather than recyclable material, e.g. leaf sweeping could reduce recycling rate by about 5% in West Devon and 1% in South Hams. It is as yet unknown if and when such changes may take place.	3	4	12	Mitigate	Robust horizon scanning to monitor changes in Government policy. SLT awareness of the risks, cautious approach to budgeting and robust systems of financial control. The Council are not intending to rely heavily on sources of income which may not be sustainable. SLT actively participate in Government consultations, MP discussions and keep aware of changes and the response by peer group, ensuring where appropriate the learning from this is incorporated into strategic plans. SLT have been engaged in the development of the medium term financial strategy in the context of the Transformation Programme. Latest budget reports approved by both Councils in February 2016 after member workshops in October 2015 and result of Government Finance Settlement communicated. The possible effects of a fall in NNDR income are mitigated in WDBC by the Councils membership of the Devon wide pooling scheme, which significantly reduces the risk to income volatility. SHDC do not participate in the pool due to uncertainty surrounding power station.	2	3	6	SLT to keep watching brief over Government changes in policy and to proposals to alter funding - strategically amending the MTFS and local plans to adapt to changes. Officers to develop income generation response as part of MTFS; 'invest to earn' budgets allocated to seed fund income initiatives. Report to both Councils due March/April covering asset strategy. Housing options and income generation principles.
3	SH	Financial Sustainability	Implementation of LACC	Capacity impact on staff and BAU delivery; timescale of delivery may slip; Due diligence before LACC set-up may not be complete; Business case may not evidence a discernible market for the proposed company	Business case and implementation plan are yet to be produced; next milestone is completion of these items and a series of member workshops leading to Council decision on whether to proceed with implementation. At this stage it is difficult to predict impact upon organisation	3	4	12	Mitigate	Procurement underway to employ services of experienced external consultants to prepare business case and implementation plan. This will help determine the validity of the business proposition and help SLT and Members the appropriate timescale for delivery and impact on capacity (along with any necessary mitigations)	2	3	6	Procurement is live; contract award during March 2016
4	SJ	Financial Sustainability	Strategic Leisure Review	Risk that the Councils may not end up receiving a bid that meets its requirements; Capital demands from bidders may exceed available reserves, which could restrict ability to deliver other programmes	Future cost of service may increase in both capital and revenue terms in view of aging assets and potential competition to Meadowlands	3	4	12	Mitigate	Detailed procurement process and constant monitoring; wide review team of officers; budget set and highlighted as part of tender process	2	3	6	Procurement process ongoing; competitive bids received within certain tolerances
5	SJ	Provision of quality services	Adherence to Council policies & processes and Government guidelines	Failure to manage/enforce s106 conditions. Ombudsman complaints could lead to finding of maladministration due to management of issues, e.g. poor record keeping; time to resolve issues or meet imposed timelines; reputational damage. Failure to meet current and changing needs of customers and to manage customer feedback. There is a risk of failure to respond to changes and to recognise external influences such as changes in government policy; Risks of losing JRs, appeals and Ombudsman rulings	T18 programme rollout has seen service levels reduce and customer perception affected for certain services	3	4	12	Mitigate	Plan to measure customer satisfaction during 16/17. Increased customer engagement; review of complaints policy underway to ensure organisations learns lessons from prior failures / compliments	2	3	6	Complete review of customer complaint process and embed new process within organisation

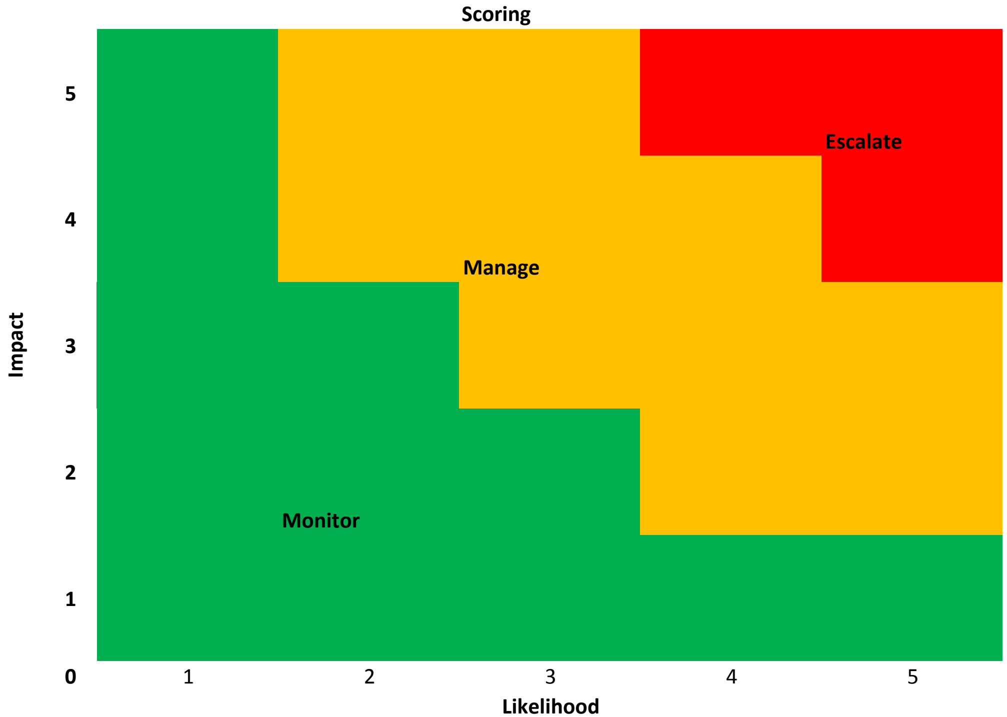
#	Owner	Risk Description									After Treatment (if applicable)			Action / Update
		Strategic Priority	**Title**	**Detail**	**(What is/are the) Uncertainties;**	Likelihood	Impact	Current Risk Rating: 1 - 25 *(multiply L vs I)*	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	**Mitigating Action/Internal Control**	Likelihood	Impact	Target Risk Score: 1 – 25 (multiply L vs I)	
6	SH	Provision of quality services	Business Continuity	Officers fail to develop robust processes to ensure business continuity in the event of a significant event occuring, e.g. Failure to ensure the continuous availability of critical IT systems	Following the event, how quickly will certain systems and processes be able to be back on-line	4	3	12	Mitigate	Agile working reduces reliance on two main office buildings. Locality workers can be despatched more easily to ensure customer engagement can be maintained during any incident. Business Continuity plans have been updated - priority areas - ICT Networking - Payroll & Creditors Payments	1	2	2	Annual work programme to address critical areas. A Business Continuity Plan for the ICT. On-going review of the Business Continuity/Disaster Recovery arrangements.
7	SH	Provision of quality services	Potential for late filing of accounts	There is a requirement that closedown of 16/17 accounts be brought forward 4 weeks to end of May 2017. The risk is that resourcing within the finance cop and delayed process improvement prevents closedown by the government deadline	Whether the new timetable is achievable for the existing team.	3	4	12	Mitigate	Consider resourcing plans, review processes and commence year end processes early, trial run of 4 week early closedown to be held for 15/16 closedown	2	4	8	Mitigation in place. Team working to reduced timetable for 2015/16 closure and additional resource (deputy s151 officer recruited)
8	SH	Provision of quality services	WD Waste Procurement	If LACC does not progress then timeline to procure new provider may exceed time available before existing contract ends and therefore existing provider contract will need to be extended	Future cost of service may increase in both capital and revenue terms in view of aging assets during extension period. Service received during transition / notice period may deteriorate.	3	4	12	Mitigate	Existing contract management / monitoring in place. Detailed procurement process including specification ; wide review team of officers/members; budget will be set and highlighted as part of tender process if required	2	3	6	Procurement process for LACC business case & implementation plan underway. Specification and pre-procurement process for waste also being run simultaneously.
9	SH	Provision of quality services	Data Protection	Failure to control the appropriate use of data and unauthorised Access.	To manage the risk of non compliance with Cabinet Office PSN CoCo, PCI DSS, Data Protection Act, RIPA, Human Rights Act.	2	5	10	Mitigate	Information Security Policy; All employees responsible for adequacy of data security arrangements within their control. Access to electronic data is only available via council managed devices. Look out for advice from the Information Commissioners office. Compliance with relevant PSN CoCo through implementation of security changes required. All staff will be completing a data protection awareness course in the near future via the Council's new eLearning tool.	2	3	6	eLearning tool being rolled out as part of new performance management system during 16/17
10	SH	Provision of quality services	Emergency Response, e.g. Coastal Erosion / Storm Damage / Flooding	There is high public expectation in relation to supporting communities during coastal erosion/storm damage/flooding events, as well as engagement in longer term recovery, in particular assumptions about capital investment to restore assets. The risk relates to how best to support dispersed communities, e.g. with filling, transporting and laying sandbags as well as providing workforce on site, given limited resources and expectations during an event.	Following the event, the expectation that coastal defences and asset repairs will be urgently undertaken despite competing claims on capital resources	3	3	9	Mitigate	Continued management and officer focus on this area to ensure risk is minimised as much as possible; continued close engagement work with DCC and Environment Agency to ensure all parties are aware of each others responsibilities and capacity	3	3	9	Processes have stood up to recent storm damage
11	SH	Financial Sustainability	Inadequate asset maintenance	Failure to maintain all Council owned assets and buildings.	To manage the health and safety risks of customers and staff and to ensure budgets are managed effectively to maintain assets to a satisfactory standard, To consider and manage the risk of redundant properties / assets.	2	4	8	Mitigate	Effective budget monitoring, sound management of assets/ buildings including a planned maintenance approach along with planned capital expenditure programme. Risk assessments and regular health and safety inspections.	1	3	3	HR proposal for dedicated resource, coupled with Asset COP proposal to appoint a consultant to write the initial long-term maintenance plan, will assist with the risk in respect of the maintenance of all Council assets.

#	Owner	Risk Description									After Treatment (if applicable)			Action / Update
		Strategic Priority	Title	Detail	(What is/are the) Uncertainties;	Likelihood	Impact	Current Risk Rating: 1 - 25 *(multiply L vs I)*	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	Mitigating Action/Internal Control	Likelihood	Impact	Target Risk Score: 1 – 25 (multiply L vs I)	
12	SH	Financial Sustainability	T18 Benefits Not Delivered	Failure to deliver sustained benefits from the T18 Programme; Risk of new systems not being fit for purpose during transfer and then for BAU; Capacity risk post March 2016 when budget runs out for temporary staff	Poorly executed delivery could affect quality of customer service; timescales to complete routine tasks and an increase in complaints. Staff moral and reputation can be affected.	2	4	8	Mitigate	Regular SLT and member scrutiny over T18 roll-out; T18 programme being managed closely; currently within budget. Quarterly monitoring reports to Members.	2	3	6	Continued management focus on programme delivery
13	SJ	Provision of quality services	Corporate Governance	Failure to maintain effective Corporate Governance arrangements.	To maintain effective Member standards and develop new Council Constitution. To continue to raise awareness of the risk of fraud and the implications of the Bribery Act 2010. To ensure that there is on-going review and self assessment of the effectiveness of governance arrangements within the Council	2	4	8	Mitigate	Promotion of necessary policies via staff intranet. Reviewed and implemented new Council constitution. To provide necessary Annual governance self assessment review by both ELT and SLT. Audit Committee established with wider terms of reference. External reviews including the Council's external auditors. Appropriate committee monitoring. Service based risk assessments and action plans, with a particular focus on high risk service activity.	1	3	3	n/a
14	SJ	Provision of quality services	Health & Safety	Failure to manage the health, safety and welfare of the public, visitors and staff. Key consideration in relation to number of external frontline staff, including lone workers.	High impact on service delivery resulting in resources / services being unavailable for long periods	2	4	8	Mitigate	Safe working environment, policies and procedures, e.g. fire safety policy, travel at work policy. IIP, PDRs. Revised sickness absence policy, health and other wellbeing initiatives. Awareness of appropriate legislation e.g. Corporate Manslaughter Act, Equalities Act. Up-to-date corporate Health & Safety Policy/procedures	1	3	3	Review as required
15	SJ	Provision of quality services	Inadequate Staffing Resources	Failure to have sufficient staffing arrangements. Loss of staff morale, and inadequate resources for training and re-skilling in an ongoing period of change. Failure to engage staff resulting in uncertainty regarding changes in working practices and job security. Particular risk in relation to future terms and conditions. Cost and time of retraining/up-skilling staff. Unrealistic expectations in relation to staffing capacity.	Performance being reviewed to understand whether resourcing levels are correct; difficult to assess accurately as organisation continues to experience change effects and processes being embedded / roll-out of new technology and working practices	2	4	8	Mitigate	Review of staffing arrangements and GAP analysis is planned for 16/17. New performance management system being introduced linked to recruitment IMPACT behaviours; staff will continue to be set SMART objectives and be regularly appraised to give early warnings if issues. Staff forum to be reintroduced; continued SLT engagement with unions and regular staff comms sessions held. Other comms media under review and several improvements made. Staff satisfaction survey planned for 16/17.	1	4	4	Review of staffing arrangements and GAP analysis is planned for 16/17.
16	SJ	Provision of quality services	Political commitment	On-going political commitment to ensure that the local plan and BAU is delivered in the context of major external change and the inevitable challenges that will emerge as a result	Considerable external change with devolution and Governmental funding cuts; leading to uncertainty within the South West and beyond.	2	4	8	Mitigate	Ongoing liaison with Members to maintain shared vision. Managing interest from potential partners in terms of securing critical project timescales and taking account of organisational capacity. Raise awareness of the scale of organisational change and the impact on existing arrangements for both Members and Staff. Ensure that the new model delivers and retains separate Council identities.	1	4	4	Continued liaison with members to alleviate this risk
17	SJ	Provision of quality services	Safeguarding	Council and/ or contractors fail to adhere to meet safeguarding obligations as set out in legislation such as Children Act 2004 section 11.	Do staff, members and contractors know what is required and how to react?	2	4	8	Mitigate	Policies in place and key staff & management have received appropriate training and contact details to spot and report safeguarding issues	1	4	4	n/a

#	Owner	Risk Description									After Treatment (if applicable)			Action / Update
		Strategic Priority	**Title**	**Detail**	**(What is/are the) Uncertainties;**	Likelihood	Impact	Current Risk Rating: 1 - 25 *(multiply L vs I)*	Risk Approach (Mitigate, Tolerate, Transfer, Terminate)	**Mitigating Action/Internal Control**	Likelihood	Impact	Target Risk Score: 1 – 25 (multiply L vs I)	
18	SH	Provision of quality services	SH Waste Round Review	Risk of reputational issue to the Council if the project fails to run to project timeframe and deliverables. Risk to identified efficiency savings if project not run on time. Failure to manage customer enquiry and feedback in a timely manner could also affect reputation.	Amount of customer contact. External factors.	2	4	8	Mitigate	Project group are meeting weekly and the operational plan is supported by a communications plan. Additional staff are included in the customer contact/case management plan.	2	2	4	N/a

Appendix 2 - Risk Scoring Matrix

Likelihood	Impact
1- Unlikely to occur under normal circumstances	1 - Very low impact to delivery
2- Potenial to occur however likelihood remain low	2 - Minor impact to service delivery with potential for some financial / reputational implications
3- Likely to occur	3 - Impact on service delivery and financial / or reputational implications
4- Most likely to occur	4 - High impact on service delivery resulting in services / resources being unavailable for a long period
5 - Almost certainly will occur	5 - Severe impact on service delivery resulting in closure of some services / ceasing of project and / or significant financial and/or reputational implications



Green - These risks have low impact and/or low likelihood of occuring. Have a plan to prevent them escalating but only light touch monitoring required

Amber - These risks need to be managed to prevent them causing an impact on the business or project. Clear plans with owners need to be in place and they should be managed by the project team or service leads on a regular basis

Red - These risks can have a significant impact on the business or project and must be managed by the project board or service management team. Mitigations must be in place and managed to ensure that the risk is not realised or can be controlled

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Report to:	**Audit Committee**		
Date:	**15 March 2016**		
Title:	**Update on Progress on the 2015-16 Internal Audit Plan**		
Portfolio Area:	**Support Services**		
Wards Affected:	**All**		

Relevant Scrutiny Committee: Overview and Scrutiny

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Author:	**Brenda Davis**	Role:	**Audit Manager**
	Robert Hutchins		**Head of Partnership**
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	Robert.hutchins@swdevon.gov.uk	**01392 383000**	

Recommendations:

It is recommended that:

1. The progress made against the 2015/16 internal audit plan, and any key issues arising are noted.

1. Executive summary

1) The purpose of this report is to inform members of the principal activities and findings of the Council's Internal Audit team for 2015/16 to the 31 January 2016, by:

   - Providing a summary of the main issues raised by completed individual audits; and
   - Showing the progress made by Internal Audit against the 2015/16 annual internal audit plan, as approved by this Committee in February 2015.

2. Background

The Audit Committee, under its Terms of Reference contained in West Devon Borough Council's Constitution, is required to consider the Head of the Internal Audit Partnership's audit reports, to monitor and review the internal audit programme and findings, and to monitor the progress and performance of Internal Audit.

The Accounts and Audit (Amendment) (England) Regulations 2015 require that all Authorities need to carry out an annual review of the effectiveness of their internal audit system, and need to incorporate the results of that review into their Annual Governance Statement (AGS), published with the annual Statement of Accounts.

The Internal Audit plan for 2015/16 was presented to and approved by the Audit Committee in April 2015. Overall, good progress has been made against the 2015/16 audit plan. Progress in the period up to 31 January 2016 has included the finalisation of work carried out in 2014/15 and in completing assignments in accordance with timescales agreed with management.

3. Outcomes/outputs

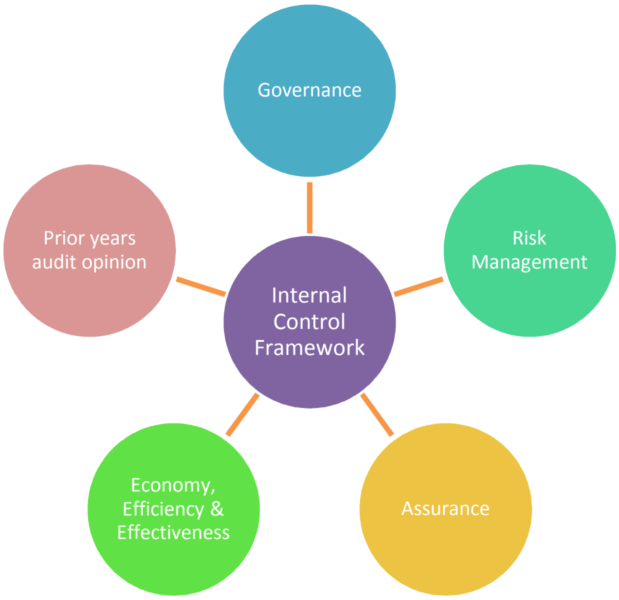
The Public Sector Internal Audit Standards require the Head of Internal Audit to provide a report providing an opinion that can be used by the organisation to inform its governance statement.

In carrying out our work, Internal Audit assess whether key, and other, controls are operating effectively within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an agreed action plan with responsible officers and target dates to address any control issues or recommendations for efficiencies identified.

Overall, based on work performed during 2015/16 and our experience from the current year progress and previous year's audit, the Head of Internal Audit's Opinion is of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.

This assurance statement is in line with the definitions below and will provide Members with an indication of the direction of travel for their consideration for the Annual Governance Statement

The above statement of opinion is underpinned by our consideration of:



Full Assurance	Risk management arrangements are properly established, effective and fully embedded, aligned to the risk appetite of the organisation. The systems and control framework mitigate exposure to risks identified & are being consistently applied in the areas reviewed.
Significant Assurance	Risk management and the system of internal control are generally sound and designed to meet the organisation's objectives. However, some weaknesses in design and / or inconsistent application of controls do not mitigate all risks identified, putting the achievement of particular objectives at risk.
Limited Assurance	Inadequate risk management arrangements and weaknesses in design, and / or inconsistent application of controls put the achievement of the organisation's objectives at risk in a number of areas reviewed.
No Assurance	Risks are not mitigated and weaknesses in control, and /or consistent non-compliance with controls could result / has resulted in failure to achieve the organisation's objectives in the areas reviewed, to the extent that the resources of the Council may be at risk, and the ability to deliver the services may be adversely affected.

The Authority's internal audit plan for the current year includes specific assurance, risk, governance and value added reviews which, together with prior years audit work, provide a framework and background within which we are able to assess the Authority's control environment. These reviews have informed the Head of Internal Audit's Opinion on the internal control framework.

In carrying out systems and other reviews, Internal Audit assesses whether key, and other, controls are operating satisfactorily within the area under review, and an opinion on the adequacy of controls is provided to management as part of the audit report. All final audit reports include an action plan which identifies responsible officers, and target dates, to address control issues identified during a review. Implementation of action plans rests with management and these are reviewed during subsequent audits or as part of a specific follow-up process.

The 2015/16 Internal Audit Plan is attached at **Appendix A**. This has been extended to show the final position for each audit.

The reporting of individual key recommendations is set out at **Appendix B**. This is an ongoing part of the report to advise the Audit Committee in detail of significant findings since the last report and confirm that the agreed action has been implemented or what progress has been made.

Appendix C provides a summary of unplanned work carried out by the team. This work is by definition unexpected work, which ranges from advice to managers on control issues, to the investigation of potential irregularities. Tasks are budgeted from the 'Contingency' line of the audit plan.

Non Compliance with Contract or Financial Procedure Rules - there are no significant issues to bring to the attention of the Committee so far this year. Four applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

Fraud Prevention and Detection and the National Fraud Initiative
Counter-fraud arrangements are a high priority for the Council and assist in the protection of public funds and accountability. The Cabinet Office runs a national data matching exercise (The National Fraud Initiative - NFI) every two years and the Council are in the process of concluding its review of the data matches that were received as part of the 2014/15 exercise. The NFI exercise identifies potentially erroneous or fraudulent payments in areas such as housing benefits, awards of council tax single persons discounts and creditor payments.

Irregularities – there are no irregularities to report in the year to date.

4. Options available and consideration of risk
No alternative operation has been considered as the failure to maintain an adequate and effective system of internal audit would contravene the Accounts and Audit Regulations, 2003, 2006, 2011 and 2015.

5. Proposed Way Forward
We continue to be flexible in our approach and with the timetabling of audits to ensure that resources are assigned to specific areas of the plan to enable our work to be delivered at the most effective time for the organisation.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Accounts and Audit Regulations 1996 issued by the Secretary of State for the Environment require every local authority to maintain an adequate and effective internal audit. The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

Annual Internal Audit Plan 2015/16 as approved by the Audit Committee on 24 February 2015.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	**N/A**

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final		Opinion				Comments
							High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
MAS & Budgetary Control	4	■	■					■			Draft report issued.
Creditor Payments	4	■									
Payroll	4	■	■					■			Draft report issued.
Council Tax	4	■									
Business Rates (NNDR)	4	■									
Benefits Payments	6	■									
VAT	4	■	■	■	■			■			Summary in App B below.
Main Financial Systems	**30**										
Cash Collection and Banking	3	■	■	■	■				■		Summary to Audit Committee – September 2015
Partnership Management	-										Deferred to 2016/17. The 3 days used for Procurement & Contract Management review below.
Procurement and Contract Management	3	■	■	■	■				■		This review was brought forward from 2016/17 plan. Summary in App B below.
ICT Service Operation	4										
Internet Monitoring	1	■	■	■	■			■			Issued as a combined report, summary to Audit Committee - September 2015.
Email Monitoring	1	■	■	■	■			■			
Performance Management - PIs	5										
Risk Management	5										
T18 Transformation Programme	4										
Leisure Centres	3	■									

APPENDIX A

Projects agreed in the Audit Plan	Planned Number of Days	Fieldwork started	Issued in draft	Management comments received	Final		Opinion (final reports only)				Comments
							High Standard	Good Standard	Improvements Required	Fundamental Weaknesses	
Waste Management	3	■									
Car Parking	4	■	■					■			Draft report issued.
Building Regulations	3										
Commercial Enforcement	4	■	■	■	■			■			Summary in App B below.
Corporate Governance Annual Governance Statement (AGS)	3	-	-	-	-		-	-	-	-	Review of the Code of Corporate Governance presented to June 2015 Audit Committee under separate cover.
Counter Fraud Work	5	■	■					■			Draft report issued.
Follow Up of Previous Year's Audits	4	■					-	-	-	-	
Contingency (Unplanned) & Advice	8	-	-	-	-		-	-	-	-	
Audit Management, including • Audit Planning • Partnership audit Management • Monitoring against the plan • Reports to management and audit	7	■	-	-	-		-	-	-	-	Includes attendance at Audit Committee – Annual Report presented to Audit Committee on 7 July 2015, progress report on 29 September.
Other Systems & Audit Work)	**70**										
Overall Total	**100**										

Planned Audit 2015/16 – Final Reports

The following tables provide a summary of the audit opinion and main issues raised in the reports issued to managers.
In all cases (unless stated) an action plan has been agreed to address these issues.

Definitions of Audit Assurance Opinion Levels

High Standard
The system and controls in place adequately mitigate exposure to the risks identified. The system is being adhered to and substantial reliance can be placed upon the procedures in place. We have made only minor recommendations aimed at further enhancing already sound procedures.

Good Standard
The systems and controls generally mitigate the risk identified but a few weaknesses have been identified and / or mitigating controls may not be fully applied. There are no significant matters arising from the audit and the recommendations made serve to strengthen what are mainly reliable procedures.

Improvements Required
In our opinion there are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Recommendations have been made to ensure that organisational objectives are not put at risk.

Fundamental Weaknesses Identified
The risks identified are not being controlled and there is an increased likelihood that risks could occur. The matters arising from the audit are sufficiently significant to place doubt on the reliability of the procedures reviewed, to an extent that the objectives and / or resources of the Council may be at risk, and the ability to deliver the service may be adversely affected. Implementation of the recommendations made is a priority.

Planned Audit 2015/16 – Final Reports

Subject	Audit Findings	Management Response
VAT	**Audit Opinion** **Good Standard -** The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified. **Conclusions** There are a small number of areas where action could be taken to strengthen those controls already in place. These include ensuring that: • There is sufficient experienced cover in the absence of the VAT Accountant; • The Partial Exemption calculation for each authority is calculated on a regular basis; • Officers provide valid VAT invoices for payments made by purchase card to allow VAT to be recovered; and • Bad debts are written off on a timely basis, allowing any output tax to be recovered.	The Council has recently recruited to a Level 6 Specialist Accountant post and arrangements will be put in place for training in VAT for this postholder, so that they are able to provide sufficient cover. The Level 5 Specialist Accountant has recently attended a course on the Partial Exemption calculation and regular calculations will be undertaken. External assistance from a VAT advisor on Partial Exemption is also being procured. The Level 5 Specialist Accountant will address this issue with staff to ensure VAT invoices are received. The Level 5 Specialist Accountant will address this issue to ensure bad debts are written off on a timely basis, allowing output tax to be recovered.

Procurement	**Audit Opinion** **Improvements Required** - There are a number of instances where controls and procedures do not adequately mitigate the risks identified. Existing procedures need to be improved in order to ensure that they are fully reliable. Fairly extensive recommendations have been made to ensure that organisational objectives are not put at risk. **Conclusions** We are aware that the Corporate Procurement Officer has recently taken a report to the Executive Director, making recommendations as to the future direction of the procurement function, at both a strategic and an operation level and it is acknowledged that that report addresses a number of issues raised in our audit report. Recommendations include the need to ensure that:	
	• The electronic tendering system is used as an end to end audit trail of procurement activity, as well as a tool to monitor contracts, with consideration given to the benefits of purchasing the contracts management module;	Target is to roll the tendering system out for the start of the new financial year 16-17.
	• The contracts register is brought up to date;	The Corporate Procurement Officer has confirmed that work is underway to update the Contracts Register.
	• Planned training is delivered to officers with responsibility for awarding contracts;	Courses have been delivered in 4th quarter 2015 and more will be planned in during 2016 and ongoing thereafter.
	• A contract review is initiated to ensure that any services currently being supplied by a contractor who has not been engaged via the correct process are procured in line with Contract Procedure Rules and legislative requirements and any risks are mitigated;	Support Services will review and prioritise based on duration and value of these contracts and the services they are delivering. The target for the completion of this exercise is end of Q1 16/17.
	• The Councils' Corporate Procurement Strategy which is currently being worked on by the Devon Districts Procurement Group is updated.	The Corporate Procurement Strategy has been completed and is currently being adopted and implemented by the Councils.

Commercial Enforcement	**Audit Opinion** **Good Standard -** The majority of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified. **Conclusions** At the request of the Environmental Health COP Lead, the audit focussed on the Food Safety element of Commercial Enforcement. Following the restructure of the Council as part of the T18 programme, the Environmental Health COP has reviewed the delivery of the Food Safety service in an effort to ensure that its statutory duties are met with less staff resource than previously.	
	Generally the Food Safety service meets the requirements of the FSA, for example: • The expected policies and procedures are in place, although we have made some recommendations where minor amendments could be made; • There is regular managerial review of inspections carried out by Food Safety officers and of all enforcement action; • There is peer review to ensure the consistency of interventions, both internally and with other authorities; and • The service participates in external sampling programmes both regionally and nationally.	Policies and procedures are to be reviewed and updated by the end of 2015/16.
	Some areas were identified where action could be taken to strengthen those controls already in place. These have largely arisen due to limited staff resource and changes of responsibility following the aforementioned restructure:	
	• Ensure that the Food Safety service plan is updated annually and approved by members;	The Service Plan is to be updated for 2016/17 and presented to members for approval.
	• Ensure that it is possible to produce the LAEMs data required by the FSA on a timely basis;	Officers were to submit a test data set to the FSA in December 2015 to confirm that the required data can be provided in the correct format from the new software.
	• Ensure that sufficient staff resource is available to complete the programmed food premises interventions;	Capacity is expected to increase as administrative tasks are passed to Case Managers under the new model. Also the benefits of technological assistance are to be investigated.
		These are to be considered and included in the service

	• Consider whether any service performance indicators may be of benefit; and • Arrange for relevant policies to be published, e.g. Complaints policy and Food Safety Enforcement policy.	plan. The policies are to be published as they are reviewed and updated.

Planned Audit 2015/16 – Work Complete (No Audit Report)

Subject	Comments
System of Internal Control (SIC), and Annual Governance Statement (AGS)	Included within the Internal Audit Annual Report presented to the June Audit Committee was the internal audit opinion providing assurance that the Council's systems contain a satisfactory level of internal control. In addition, there is a requirement for the Council to prepare an AGS statement. Internal Audit provided support and challenge, as appropriate, to the Senior Leadership Team as they drafted the statement in respect of the 2014/15 financial year. The S151 Officer presented the 2014/15 AGS to the Audit Committee on 30 July 2015 with the draft accounts.
Exemptions to Financial Procedure Rules	Four applications for Contract / Financial Procedure Rules have been received in the year to date, all were accepted.

Report to:	**Audit Committee**
Date:	**15 March 2016**
Title:	**2016/17 Internal Audit Plan**
Portfolio Area:	**Support Services**
Wards Affected:	**All**
Relevant Scrutiny Committee:	**Overview & Scrutiny**

Urgent Decision:	**N**	Approval and clearance obtained:	**Y**

Date next steps can be taken:
(e.g. referral on of recommendation or implementation of substantive decision)

Author:	**Brenda Davis**	Role:	**Audit Manager**
	Robert Hutchins		**Head of Partnership**
Contact:	**Brenda.davis@swdevon.gov.uk**		**01803 861375**
	Robert.hutchins@swdevon.gov.uk		**01392 383000**

Recommendations:

It is recommended that:

1. **The report be noted, and**
2. **The proposed Internal Audit Plan for 2016/17 at Appendix A be approved.**

1. Executive summary

1.1 The purpose of this report is to provide Members with the opportunity to review and comment upon the proposed internal audit plan for 2016/17.

1.2 The report provides information on the legislative requirement for local authorities to provide an Internal Audit (IA) service in accordance with the Accounts and Audit Regulations and Public Sector Internal Audit Standards; the need for an annual risk-based IA plan to be prepared; and the methodology of identifying the audit needs for the Authority.

1.3 The 2016/17 audit plan sets out the proposed audit resource allocated to each audit area, although the plan needs to remain flexible to be able to respond to any changing risks and priorities of the Authority given the significant changes across the public sector.

2. Background

2.1 All principal Local Authorities, including West Devon Borough Council, are subject to the Accounts and Audit (England) Regulations 2015, which state:

> "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".

2.2 The Public Sector Internal Audit Standards require that the Head of Internal Audit must "establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals". When completing these plans, the Head of Internal Audit should take account of the organisation's risk management framework. The plan should be adjusted and reviewed, as necessary, in response to changes in the organisation's business, risk, operations, programs, systems and controls. The plan must take account of the requirement to produce an internal audit opinion and assurance framework.

2.3 This audit plan has been drawn up, therefore, to enable an opinion to be provided at the end of the year in accordance with the above requirements.

3. Outcomes/outputs

3.1 We employ a risk based priority audit planning tool to identify those areas where audit resources can be most usefully targeted. This involves scoring a range of systems, services and functions across the whole Authority, known as the "Audit Universe" using a number of factors/criteria. The final score, or risk factor for each area determines an initial schedule of priorities for audit attention.

The audit plan for 2016/17 has been created by:

- **Consideration of risks identified in the Authority's risk registers**.
- **Review and update of the audit universe**.
- **Discussions and liaison with SLT and CoP Leads regarding the risks which threaten the achievement of corporate or service objectives, including changes and / or the introduction of new systems, operation, programs and corporate initiatives**
- **Taking into account results of previous internal audit reviews**
- **Taking into account Internal Audit's knowledge and experience of risks facing the Authority, including factors and systems that are key to successful achievement of the Council's dellivery plans**

3.2 The overall percentage of internal audit coverage proposed for each area of the audit plan is represented in the chart at figure 1 below. The planned audit coverage for 2016/17 totals 100 days which is unchanged from 2015/16, see Appendix A for the proposed detailed plan. It should be borne in mind that, in accordance with the Public Sector Internal Audit Standards, the plan needs to remain flexible to be able to respond to the changing risks and priorities of the Authority with any changes reported back to this Committee. To provide for some flexibility, the Internal Audit Plan includes a small contingency to allow for unplanned work.

Figure 1

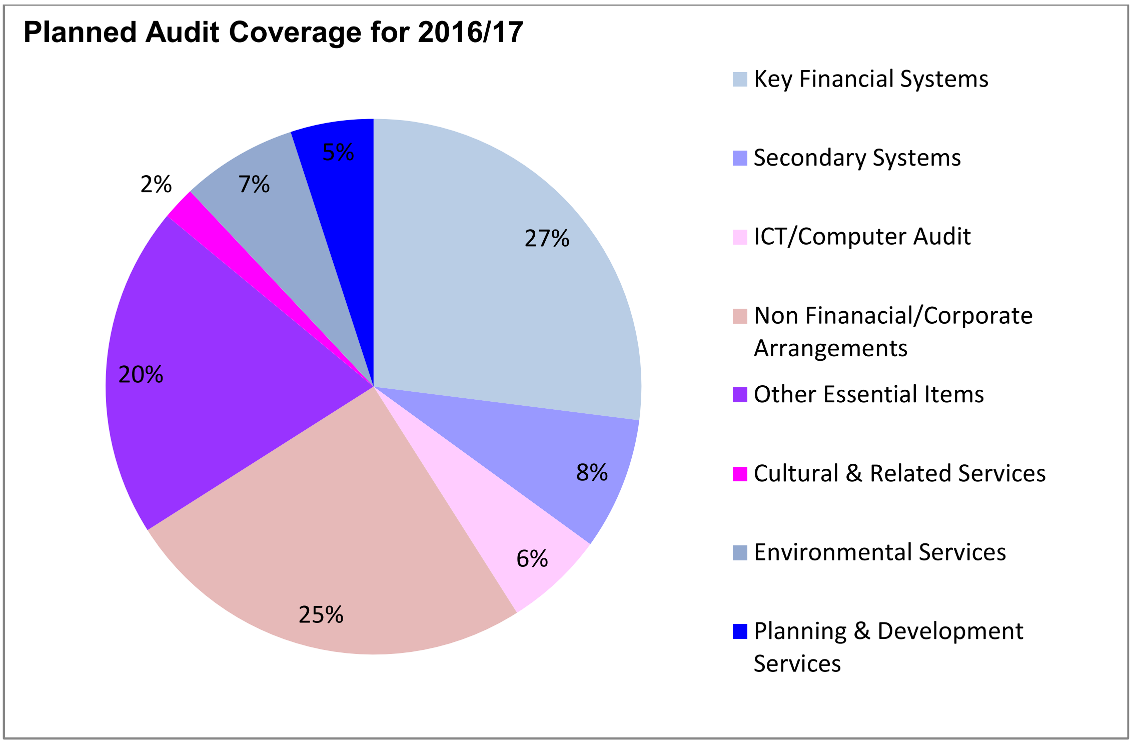


Figure 2

4. Options available and consideration of risk

4.1 No alternative approach has been considered as the failure to develop a risk-based plan to determine the priorities of internal audit activity which is consistent with the priorities of the organisation would be in contravention of the Public Sector Internal Audit Standards and the Accounts and Audit Regulations 2015.

5. Proposed Way Forward

5.1 We will be flexible in our approach to ensure that the audit plan continues to reflect the changing risks and corporate priorities of the Council with the timetabling of audits agreed with management to ensure our work is delivered at the most effective time for the organisation.

6. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address

Legal/Governance	Y	The Accounts and Audit Regulations 2015 issued by the Secretary of State require every local authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards. The work of the internal audit service assists the Council in maintaining high standards of public accountability and probity in the use of public funds. The service has a role in promoting robust service planning, performance monitoring and review throughout the organisation, together with ensuring compliance with the Council's statutory obligations.
Financial	Y	There are no additional or new financial implications arising from this report. The cost of the internal audit team is in line with budget expectations.
Risk	Y	The work of the internal audit service is an intrinsic element of the Council's overall corporate governance, risk management and internal control framework.
Comprehensive Impact Assessment Implications		
Equality and Diversity	N	There are no specific equality and diversity issues arising from this report.
Safeguarding	N	There are no specific safeguarding issues arising from this report.
Community Safety, Crime and Disorder	N	There are no specific community safety, crime and disorder issues arising from this report.
Health, Safety and Wellbeing	N	There are no specific health, safety and wellbeing issues arising from this report.
Other implications	N	There are no other specific implications arising from this report.

Supporting Information

Appendices:

There are no separate appendices to this report.

Background Papers:

None.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	**Yes**
SLT Rep briefed	**Yes**
Relevant Exec Director sign off (draft)	**Yes**
Data protection issues considered	**Yes**
If exempt information, public (part 1) report also drafted. (Cabinet/Scrutiny)	**N/A**

Appendix A

Proposed 2016/17 Audit Plans for West Devon Borough Council		
FUNDAMENTAL SYSTEMS		
MAIN ACCOUNTING SYSTEM (INC BUDGETARY CONTROL)	H	4
PAYMENTS	M	2
PAYROLL (INC TRAVEL & SUBSISTENCE)	H	4
COUNCIL TAX	H	4
NNDR	M	4
HOUSING BENEFITS	M	5
TREASURY MANAGEMENT	L	4
FUNDAMENTAL SYSTEMS		**27**
SECONDARY SYSTEMS		
VAT	H	4
SHARED SERVICES - recharging	L	2
MEMBERS ALLOWANCES	L	2
SECONDARY SYSTEMS		**8**
COMPUTER AUDIT	H	6
Including Security (inc. Penetration testing), Applications (new, version control) Back up and resilience Database Management Environment Controls Access control Back up and resilience Disaster recovery and ICT Policies (inc internet & email).		
COMPUTER AUDIT WORK		**6**
NON FINANCIAL/CORPORATE ARRANGEMENTS		
PERFORMANCE MANAGEMENT – Performance Indicators PERFORMANCE MANAGEMENT - Data Quality	Annual	5
ANNUAL GOVERNANCE STATEMENT	Annual	2
RISK MANAGEMENT	Annual	5
T18 PROJECT	H	4
PARTNERSHIPS AND PARTNERSHIP MANAGEMENT	H	3
CULTURE AND ETHICS	New	2
FRAUD AND CORRUPTION	Annual	4
NON FINANCIAL/CORPORATE ARRANGEMENTS		**25**
CULTURAL & RELATED SERVICES		
LEISURE CENTRE CLIENT	M	2
CULTURAL & RELATED SERVICES		**2**
ENVIRONMENTAL SERVICES		
PUBLIC CONVENIENCES incl Disabled Toilet Keys	L	3
STREET CLEANING	L	4
ENVIRONMENTAL SERVICES		**7**

PLANNING & DEVELOPMENT SERVICES		
DEVELOPMENT CONTROL – ENFORCEMENT	M	5
DEVELOPMENT CONTROL - PLANNING APPLICATIONS	M	
PLANNING & DEVELOPMENT SERVICES		**5**
OTHER ESSENTIAL ITEMS		
FOLLOW UP OF PREVIOUS YEAR'S AUDITS		4
AUDIT MANAGEMENT e.g.		
- Audit planning		3
- Attendance at Committee		5
- Monitoring Report / Annual Report		2
CONTINGENCY & ADVICE (min 20 days)		6
OTHER ESSENTIAL ITEMS		**20**
TOTAL AUDIT PLAN		**100**