



NOTICE OF MEETING

Governance & Audit Committee

Wednesday 31 January 2018, 7.30 pm

**Council Chamber, Fourth Floor, Easthampstead House, Town Square,
Bracknell, RG12 1AQ**

To: Governance & Audit Committee

Councillor Allen (Chairman), Councillor Thompson (Vice-Chairman), Councillors Heydon, Leake, McLean, Ms Miller, Mrs Temperton and Worrall

Independent Member

David St. John Jones

cc: Substitute Members of the Committee

Councillors Mrs Hayes MBE, Dr Hill, McCracken, Mrs McKenzie-Boyle and Peacey

ALISON SANDERS
Director of Resources

EMERGENCY EVACUATION INSTRUCTIONS

- 1 If you hear the alarm, leave the building immediately.
- 2 Follow the green signs.
- 3 Use the stairs not the lifts.
- 4 Do not re-enter the building until told to do so.

If you require further information, please contact: Kirsty Hunt
Telephone: 01344 353108
Email: kirsty.hunt@bracknell-forest.gov.uk
Published: 23 January 2018



Governance & Audit Committee
Wednesday 31 January 2018, 7.30 pm
Council Chamber, Fourth Floor, Easthampstead House, Town
Square, Bracknell, RG12 1AQ

Sound recording, photographing, filming and use of social media at meetings which are held in public are permitted. Those wishing to record proceedings at a meeting are however advised to contact the Democratic Services Officer named as the contact for further information on the front of this agenda as early as possible before the start of the meeting so that any special arrangements can be made.

AGENDA

Page No

1. Apologies for Absence

To receive apologies for absence and to note the attendance of any substitute members.

2. Declarations of Interest

Members are asked to declare any disclosable pecuniary or affected interests in respect of any matter to be considered at this meeting.

Any Member with a Disclosable Pecuniary Interest in a matter should withdraw from the meeting when the matter is under consideration and should notify the Democratic Services Officer in attendance that they are withdrawing as they have such an interest. If the Disclosable Pecuniary Interest is not entered on the register of Members interests the Monitoring Officer must be notified of the interest within 28 days.

Any Member with an affected Interest in a matter must disclose the interest to the meeting. There is no requirement to withdraw from the meeting when the interest is only an affected interest, but the Monitoring Officer should be notified of the interest, if not previously notified of it, within 28 days of the meeting.

3. Minutes of the previous meeting

To approve as a correct record the minutes of the meetings of the Committee held on 20 September 2017.

5 - 8

4. Urgent Items of Business

Any other items which, pursuant to Section 100B(4)(b) of the Local Government Act 1972, the Chairman decides are urgent.

5. 2017/18 External Audit Planning Board Report

To enable the Council's External Auditor to present to the Committee the Audit plan covering the 2017/18 financial year.

9 - 46

6. 2016/17 Grant Certification Report

	To enable the Council's External Auditor to present to the Committee their report on the result of the grant claims audit for 2016/17.	47 - 58
7.	Contract Standing Orders	
	To recommend to Council the proposed changes to Contract Standing Orders to reflect the need to transform procurement processes in line with the approach taken to the Council Wide Support Services review.	59 - 80
8.	Internal Audit Interim Report	
	To note the report providing a summary of Internal Audit activity during the period April to December 2017.	81 - 106
9.	Strategic Risk Register	
	To consider the updated Strategic Risk Register to ensure that it accurately reflects the Council's risks.	107 - 126
10.	Treasury Management Report 2018/19 and the 2017/18 Mid-Year Review	
	To update Members on progress in 2017/18 and to review the Treasury Management Report for 2018/19 to be submitted to Council for approval.	127 - 152
11.	Auditor Appointment	
	To notify to the Committee of the conclusion of the Public Sector Auditor Appointment (PSAA) collective procurement process to appoint an External Auditor from the 2018/19 financial year.	153 - 154

This page is intentionally left blank

**GOVERNANCE & AUDIT COMMITTEE
20 SEPTEMBER 2017
7.30 - 8.05 PM**



Bracknell Forest Borough Council:

Councillors Allen (Chairman), Thompson (Vice-Chairman), Heydon, Leake, McLean, Ms Miller and Mrs Temperton

Independent Members:

David St John Jones

Apologies for absence were received from:

Councillor Worrall

15. Declarations of Interest

There were no declarations of interest.

16. Minutes - 26 July 2017

It was noted that there were two typos in the previous set of minutes and that:

- Minute 13 should read "their thanks" not "there"
- Minute 14 should read "significant movement" not "moment".

RESOLVED that, subject to the amendments above, the minutes of the meeting of the committee held on the 26 July 2017 be approved as a correct record and signed by the Chairman.

17. Urgent Items of Business

There were no urgent items of business.

18. Annual Audit Letter for 2016/17

Malcolm Haines, Manager, Ernst and Young Helen attended the meeting to present the report and answer questions. The Annual Audit Letter covered findings from the 2016/17 financial year.

The External Auditor explained that the Annual Audit Letter replicated some of the Audit Results Report which had been considered by the Committee at its previous meeting but was required under the National Audit Office's 2015 Code of Audit Practice. He highlighted from the letter that the unqualified opinion on the financial statements had been issued on 27 July 2017 and their audit report and audit certificate were issued on the same date.

The Committee received the Annual Audit Letter for the year ended 31 March 2017 from the Council's external auditor Ernst & Young.

19. **Affected interests and related matters**

The Committee considered the proposals from the Code of Conduct Working Group on 27 June 2017 to amend provisions relating to Affected Interests in the Council's Code of Conduct for Members.

It was noted that there existed a level of uncertainty amongst some Members as to the scope and effectiveness of provisions relating to Affected Interests in the Council's Code of Conduct.

The Code of Conduct Member Working Group had reviewed the provisions of the Code and in summary proposed that:

- The existing reference to "Affected Person" in Paragraph 8.1 (a) (i) of the Code be extended to read "Affected Person/Entity" in order to reinforce its application to corporate bodies such as Companies and Partnerships.
- The requirement for Members disclosing Affected Interests to refrain from participating and voting at the meeting be removed.
- It be made clear in the text that the provisions of paragraph 10 requiring non Council nominees on outside bodies does not apply to Council nominees
- A paragraph introducing the role of bias and predetermination be included in the Code
- No changes be made to the existing provisions relating to the registration of gifts and hospitality (Paragraph 11)

The Committee discussed that the extension to the "Affected Person" reference to read "Affected Person/Entity" should be repeated throughout paragraph 8 re. Affected Interests as appropriate.

It was discussed that whilst allowing a Member who declared an affected interest to take part in a meeting would be seen as a 'lighter touch' those members could choose not to take part in the vote and the retention of the category of interest was a demonstration that Bracknell Forest Council take probity seriously.

Members discussed the subjective nature of item m) "a person with whom you have a close association" in the list of "Affected Persons" and considered different examples and circumstances. It was clarified that this was about whether a reasonable member of the public who knows the relevant facts might reasonably think that the close association was so significant that it was likely to prejudice the Councillors' judgement of the Public Interest.

The Monitoring Officer reported that he was reassured by the queries he received on this topic as it demonstrated that elected members were considering their position and taking their responsibility to disclose interests seriously.

The Members discussed the implications of the lack of sanctions and it was reported that Brighton and Hove Council were approaching the Department for Communities and Local Government to request the introduction of a Member recall framework in law, similar to that applying to Members of Parliament. .

A discussion was held on the implications of the new paragraph 12 on predetermination and bias. The Monitoring Officer explained that there had been case law to establish that whilst it is natural for individuals to express a view before a decision was taken this was, however, about demonstrating that you had not 'closed your mind' to the options.

In response to a query about Member training the Monitoring Officer confirmed that sessions had been delivered in 2015 as part of the induction programme and that this would be repeated in 2019 following the next borough elections.

RECOMMENDED TO COUNCIL that subject to the additional references to “Affected Person” being updated to read “Affected Person/Entity” where appropriate the recommendations of the Code of Conduct Working Group as set out in Paragraph 5.16 and the Appendix of the agenda report be adopted.

CHAIRMAN

This page is intentionally left blank

**TO: GOVERNANCE AND AUDIT COMMITTEE
31 JANUARY 2018**

EXTERNAL AUDIT PLAN BOROUGH TREASURER

1 PURPOSE OF REPORT

- 1.1 To enable the Council's External Auditor to present to the Committee the Audit plan covering the 2017/18 financial year.

2 RECOMMENDATION

- 2.1 **That the Committee notes the Audit plan for the 2017/18 financial year.**

3 REASONS FOR RECOMMENDATION(S)

- 3.1 To ensure that the Committee is aware of the External Audit approach for the year 2017/18.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None available.

5 SUPPORTING INFORMATION

- 5.1 The Council's External Auditor Ernst and Young has provided the Committee a report setting out its planned approach to the annual audit for 2017/18. Helen Thompson, Director, Ernst and Young will attend the meeting to present the report and answer questions.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 Nothing to add to the report.

Equalities Impact Assessment

- 6.3 Not applicable

Strategic Risk Management Issues

- 6.4 None arising from this report.

Other Officers

- 6.5 Not applicable

7 CONSULTATION

Principal Groups Consulted

- 7.1 Not applicable

Background Papers

CIPFA Guide to Auditor Panels

Contact for further information

Stuart McKellar, Borough Treasurer - 01344 352180

Stuart.mckellar@bracknell-forest.gov.uk

A photograph of a meeting table with several people's hands pointing at documents. The table is white, and there are several sheets of paper with text on it. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

Bracknell Forest Borough Council

Audit planning report

Year ended 31 March 2018

29 January 2018



Private and Confidential

31 January 2018

Governance and Audit Committee
Bracknell Forest Council
Time Square
Market Street
Bracknell
Berkshire
RG12 1JD

Dear Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

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

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

We welcome the opportunity to discuss this report with you on 31 January 2018 as well as to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson
Associate Partner
For and on behalf of Ernst & Young LLP
Enc

Contents

01

Overview of our 2017/18 audit strategy



02

Audit risks



03

Value for Money Risks



04

Audit materiality



05

Scope of our audit



06

Audit team



07

Audit timeline



08

Independence



09

Appendices



13

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of Management Override	Fraud risk	No change in risk or focus	Under ISA240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
First time preparation of group accounts 15	Significant Risk	New risk for 2017/18	The Council's local housing company has increased its activity to a material value during 2017/18 so the Council is required to prepare group accounts for the first time this year. We will focus on reviewing the Council's group accounts and relevant disclosures for its subsidiary, Downshire Homes Ltd and assess the appropriateness of any significant judgements and assumptions made.
Valuation of Land and Buildings	Other risk	No change in focus of our work	The fair values of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are both subject to valuation changes and impairment reviews. We will review the material judgemental inputs and estimation techniques made by management to calculate the year-end balances recorded in the balance sheet.
Methodology for the calculation of Minimum Revenue Provision (MRP)	Other risk	New risk for 2017/18	For 2017/18, officers will be changing the method of calculating its MRP from the straight line method to the annuity method which they consider to be more appropriate. The statutory guidance provides four options which may be used by the Council to determine MRP. We will review the appropriateness of the Council's revised methodology in calculating its MRP.
Pension Liability Valuation	Other risk	No change in focus of our work	The Council's pension fund liability is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, so management engages an actuary to undertake the calculations on its behalf. We will test that the information disclosed is correctly based on the IAS 19 report issued to the Council by the actuary, Barnett Waddington.

Overview of our 2017/18 audit strategy

Audit scope

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

- Our audit opinion on whether the financial statements of Bracknell Forest Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

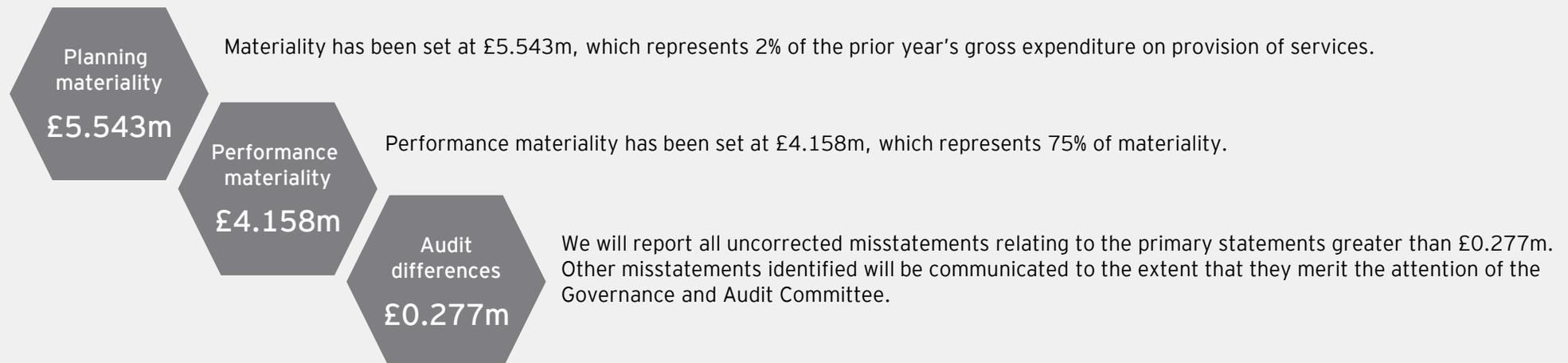
Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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

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

This means that our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Materiality



Overview of our 2017/18 audit strategy

Value for Money Conclusion

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

For 2017/18 this is based on the overall evaluation criterion:

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

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

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

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

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

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

- Delivery of a sustainable medium term financial strategy.



02

Audit risks



Audit risks

Our response to significant risks (continued)

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

Risk of Management Override

Significant risk

19

Financial statement impact

We have assessed that the risk of management override is most likely to affect the estimates in the financial statements, such as year end accruals, provisions and asset valuations. These impact both on the Balance Sheet and Comprehensive Income and Expenditure Statement.

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Enquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determine an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Review the following accounting estimates for evidence of management bias:
 - pensions costs,
 - Valuations,
 - NDR appeals provision,
 - bad debt provision.
- ▶ Evaluate the business rationale for significant unusual transactions.

Audit risks

Our response to significant risks (continued)

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

First time preparation of group accounts

Significant risk

Financial statement impact

We have assessed that the risk around the preparation of first time group accounts will impact on a number of areas in the Balance Sheet and the Comprehensive Income and Expenditure Statement.

What is the risk?

The Council established a local housing company during 2016/17 to help the Council meet rising demand to provide homes for homeless households, households with learning disabilities and/or autism and care leavers. In 2016/17 the budgeted spend was £6.5m which was relatively low and therefore the Council did not prepare group accounts in 2016/17.

For 2017/18, housing activity has increased and an extra £7 million of capital funding was granted to Downshire Homes in March 2017. Given the significant increase in expenditure in 2017/18, the Council are required to prepare group accounts as our planning materiality for the 2017/18 audit is £5.543m.

What will we do?

Our approach will focus on:

- Reviewing the Council's group accounts and relevant disclosures for its subsidiary, Downshire Homes Ltd.
- Assess the appropriateness of any significant judgements and assumptions made.
- Early testing of the 2016/17 comparatives and proposed accounting policies and disclosures as part of our interim audit.
- Year end testing of the 2017/18 transactions and balances generated, the consolidation of the components into the group accounts, and a review the elimination of intra-group transactions and balances.

Audit risks

Other areas of audit focus (continued)

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

What is the risk/area of focus?	What will we do?
<p>Valuation of Land and Buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represents significant balances in the Council's accounts and is subject to valuation changes and impairment reviews. Management is challenged by the work performed by the Council's valuers (Wilks, Head & Eve), make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. building areas to support valuations based on price per square metre). ▶ Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
<p>Methodology for the calculation of Minimum Revenue Provision (MRP)</p> <p>For 2017/18, officers will change the method of calculating MRP from the straight line method to the annuity method which they consider to be more appropriate. The statutory guidance provides four options which may be used by the Council to determine its MRP. The annuity method makes provision for an annual charge to the General Fund which, unlike the straight line method, takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now).</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Review the Council's revised methodology for the calculation of Minimum Revenue Provision. ▶ Assess whether the Council has met its statutory duty "to determine for the current financial year an amount of MRP which it considers prudent". If we need to use our technical specialist to support our assessment we will charge an additional fee for this work.
<p>Pension Asset Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council's pension fund liability is a material estimated balance in the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary Barnett Waddington. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We will:</p> <ul style="list-style-type: none"> ▶ Undertake IAS19 protocol procedures assisted by the pension fund audit team to obtain assurances over the information supplied to the actuary in relation to Bracknell Forest Council; ▶ Assess the work of the Pension Fund actuary (Barnett Waddington) including the assumptions they have used. We do this by relying on the work of PWC, the consulting actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



22

03

Value for Money Risks





Value for Money

Background

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

For 2017/18, this is based on the overall evaluation criterion:

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

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

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

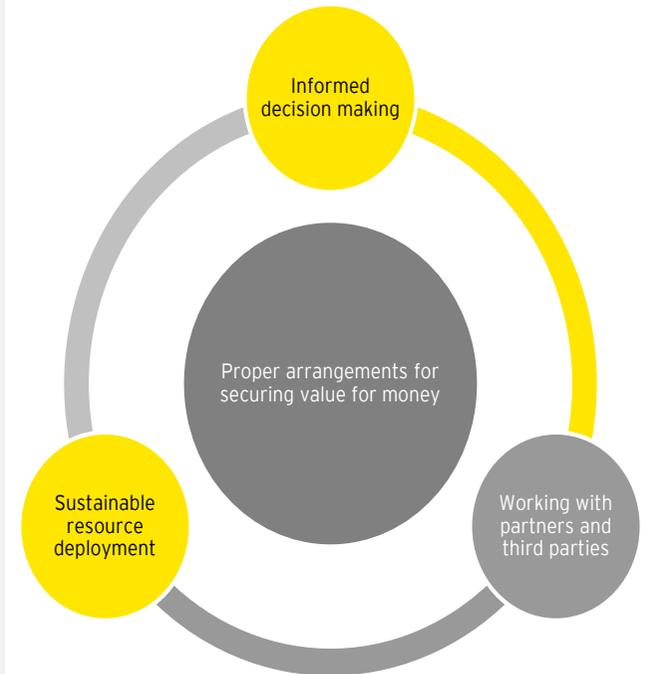
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have, and to report on through documents such as your annual governance statement.

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. Our risk assessment has therefore considered both the potential financial impact of any issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the one following significant VFM risk which we view as relevant to our value for money conclusion:

- Delivery of a sustainable medium term financial strategy.





Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Delivery of a sustainable medium term financial strategy		
<p>The Council's financial planning currently covers two years and is documented in its "Medium Term Financial Strategy (MTFS) 2017/18 to 2019/20" and its four year "Efficiency Plan 2016 to 2020". These both document how the Council intends to cover its £20 million funding gap to March 2020.</p> <p>The Council's significant financial challenge is also recorded in the Council Strategic Risk Register which includes an action to revise the MTFS by the end of Quarter 2. Most councils plan four years in advance. The Council needs to update its MTFS, as one document, to ensure that its financial planning recognises the key risks around financial sustainability over a longer period, taking account of cuts in government funding, fluctuations in income through the business rates retention scheme, uncertainties around the New Homes Bonus, the revenue cost of borrowing and the achievement of efficiency savings required through transformational change. The Council's transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future, however there are no predictions as to what the funding gaps are in 2020/21 and 2021/22 and therefore the savings required to continue to deliver a balanced budget in future years.</p> <p>We therefore intend to review the Council's Medium Term Financial Strategy to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.</p>	<p>Deploy resources in a sustainable manner</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ updating our understanding of how the Council has identified and delivered required savings to date; ▶ reviewing the robustness of the financial planning assumptions in the new MTFS; and ▶ reviewing the robustness of savings plans for 2018/19 and beyond.



25

04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £5.543m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



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

Key definitions

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

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £4.157m which represents 75% of planning materiality. The rationale for using 75% is that we anticipate finding few or no errors during the audit. This expectation arises from our experience of the Council in the previous year.

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

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

Specific materiality - We have set a materiality of £1,000 for remuneration disclosures, related party transactions, members' allowances and exit packages. This is because these areas are perceived to be more sensitive to users of the financial statements.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

- 28.
- Addressing the risk of fraud and error;
 - Significant disclosures included in the financial statements;
 - Council-wide controls;
 - Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
 - Auditor independence.

Procedures required by the Code

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2017/18 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will review the internal audit plan and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year where they raise issues that could have an impact on the financial statements, narrative statement or annual governance statement.



30



06

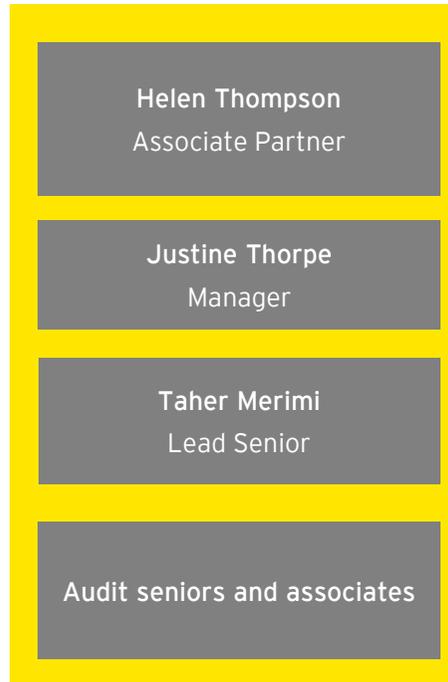
Audit team



Audit team

Audit team structure:

31



Audit team

Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	Wilkes, Head and Eve - RICS Registered Valuers EY Property specialists
Pensions disclosure	Barnett Waddington EY Actuaries PWC Actuary commissioned by NAO

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

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

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



33

07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

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

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

Audit phase	Timetable	Governance and Audit Committee meeting	Deliverables
Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes	December 2017	January 2018	Audit Planning Report
Interim audit testing	January to February 2018	March 2018	Interim audit progress report
Year end audit Audit Completion procedures	June 2018	July 2018	Audit Results Report Audit opinions and completion certificates
Conclusion of reporting	August 2018	September 2018	Annual Audit Letter
Housing Benefit Claim	April to November 2018	January 2019	Certified Claim
Reporting on Certification work	December 2018	January 2019	Annual certification work report

34



35



08

Independence



Introduction

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

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ Any principal threats to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ Any safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and Helen Thompson, Associate Partner, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to consider relationships with the Council, its directors and senior management, its affiliates, and its connected parties and any threats to integrity or objectivity, including those that could compromise independence. We are also required to disclose any safeguards that we have, and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged for them; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

During the audit we are also required to communicate with you whenever we make any significant judgements about threats to objectivity and independence, and the appropriateness of safeguards, e.g. when accepting an engagement to provide non-audit services.

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

We ensure that the total amount of fees that EY and our network firms have charged for the provision of services during the reporting period are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

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

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

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

At the time of writing, no non-audit services have been undertaken. No additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Relationships, services and related threats and safeguards

Other threats

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

Helen Thompson, the audit engagement Associate Partner, has been the Appointed Auditor to the Council since the financial year 2011/12. Her fifth year of appointment was 2015/16 which would complete the normal cycle under the PSAA appointment rules. Following agreement over an extension with the Council, we have obtained PSAA agreement to extend Helen's appointment to the maximum of seven years and the 2017/18 audit will be her final audit.

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

Other communications

EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



40

09

Appendices



Appendix A

Fees

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

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

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
4.1 Total Fee - Code work	104,726	104,726	104,726
Other non-audit services not covered above (Housing Benefits)	25,125	25,125	25,125
Total fees	129,851	129,851	129,851

The audit fee covers:

- ▶ Audit of the financial statements
- ▶ Value for money conclusion
- ▶ Whole of Government Accounts.

For Bracknell Forest Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- ▶ The overall level of risk for the audit of the financial statements is not significantly different from the previous year;
- ▶ Officers meet the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion is unqualified;
- ▶ Appropriate quality documentation is provided by the Council;
- ▶ There is an effective control environment;
- ▶ Prompt responses are provided to our draft reports.

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

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

All fees exclude VAT

Appendix B

Regulatory update

In previous reports to the Licensing and General Purposes Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Bracknell Forest Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held faster close workshops for clients in December 2017 and January 2018 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are working with the Council on ideas arising from the workshop, for example:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts, removing all non-material disclosure notes; • Bringing forward key externally provided information such as IAS 19 pension information, asset valuations; • Early testing of 2016/17 group account comparatives, accounting policies and 2017/18 disclosures; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Rescheduling substantive testing to earlier phases of the audit to reduce year-end pressure; • Establishing and agreeing working materiality amounts with the Council.

42

Appendix C

Required communications with the Governance and Audit Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Governance and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report	

Appendix C

Required communications with the Governance and Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements 44	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> ▶ Ask the Governance and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the Council's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations 	Audit results report

Appendix C

Required communications with the Governance and Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
45 Independence	<p>Communication of all significant facts and matters that bear on the objectivity and independence of EY and all audit team members</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ Any principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Governance and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance and Audit Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report
Representations	Written representations we request from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters included in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report and Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit

As well as the key areas of audit focus outlined in section 2, we must perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline these below.

Our responsibilities as required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements (either from fraud or error), design and perform audit procedures considering those risks, and obtain enough appropriate audit evidence to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining enough appropriate audit evidence on the financial information of the services provided by the Council to express an opinion on the financial statements. Reading other information contained in the financial statements, whether the Governance and Audit Committee reporting appropriately addresses matters communicated by us and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

46

Purpose and evaluation of materiality

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

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

**TO: GOVERNANCE AND AUDIT COMMITTEE
31 JANUARY 2018**

CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17 BOROUGH TREASURER

1 PURPOSE OF REPORT

- 1.1 To enable the Council's External Auditor to present to the Committee their report on the result of the grant claims audit for 2016/17.

2 RECOMMENDATION

- 2.1 **That the Committee notes the External Auditor's Annual Report on grant claims and returns for 2016/17.**

3 REASONS FOR RECOMMENDATION

- 3.1 To ensure that the Committee is aware of the results of the grant claims audit for 2016/17.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None available.

5 SUPPORTING INFORMATION

- 5.1 The Council's External Auditor Ernst and Young has provided the Committee a report setting out its findings in respect of the audit of grant claims for the 2016/17 financial year. Helen Thompson, Director, Ernst and Young will attend the meeting to present the report and answer questions.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 Nothing to add to the report.

Borough Treasurer

- 6.2 Nothing to add to the report.

Equalities Impact Assessment

- 6.3 Not applicable

Strategic Risk Management Issues

- 6.4 None arising from this report.

Other Officers

- 6.5 Not applicable

7 CONSULTATION

Principal Groups Consulted

- 7.1 Not applicable

Background Papers

None

Contact for further information

Stuart McKellar, Borough Treasurer - 01344 352180

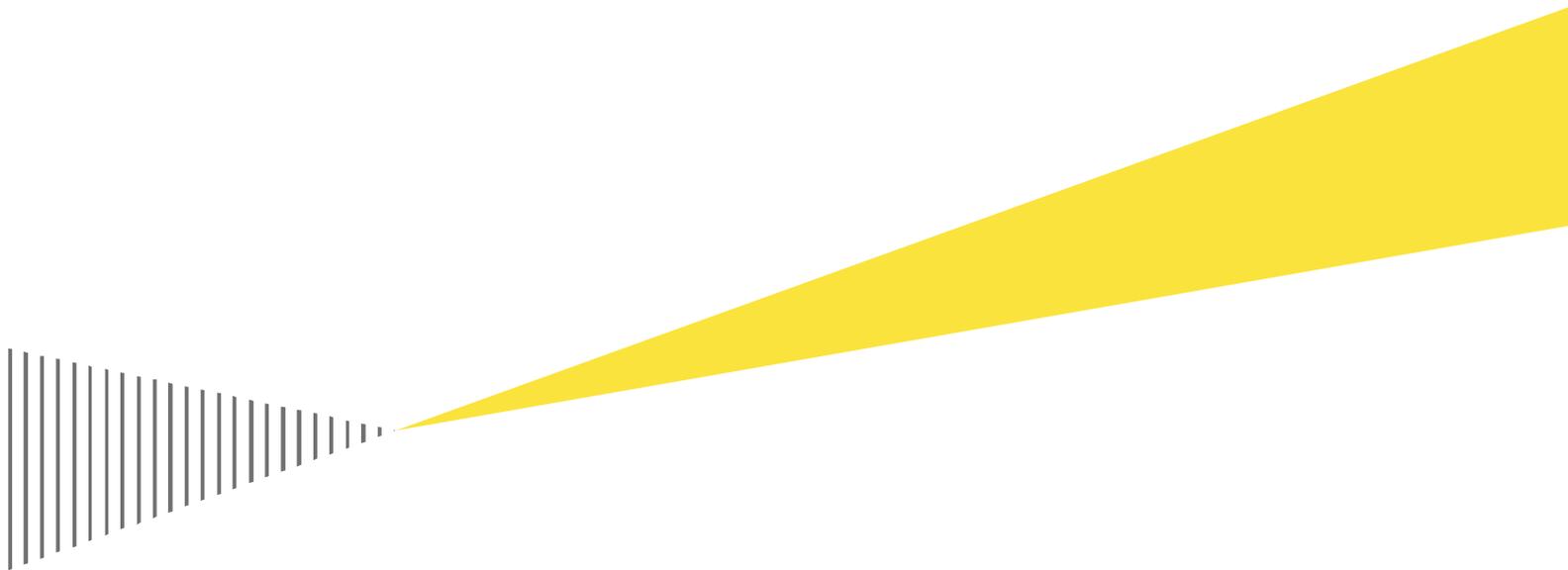
Stuart.mckellar@bracknell-forest.gov.uk

Certification of claims and returns annual report 2016-17

Bracknell Forest Council

January 2018

Ernst & Young LLP



Building a better
working world

The Members of the Governance and Audit Committee
Bracknell Forest Council
Easthampstead House
Town Square
Bracknell
RG12 1AQ

10 January 2018
Ref: BFC/BEN01/16-17

Direct line: + 44 23 8038 2165
Email: HThompson2@uk.ey.com

Certification of claims and returns annual report 2016-17 for Bracknell Forest Council

This report summarises the results of our certification work on Bracknell Forest Council's 2016-17 housing benefit claim.

Scope of work

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

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions (DWP) and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues and those issues reported to the DWP.

We checked and certified the housing benefits subsidy claim with a total value (in terms of subsidy claimed) of £31,313,050. We met the submission deadline of 30 November 2017. We issued a qualification letter on the same date, the details of which are included in section 1. Our certification work found errors which resulted in extra testing and extrapolation in a qualification letter, as per the PSAA's Module 1 guidance. However, no amendments were made to the claim as a result of our work.

The housing benefits subsidy claim fees for 2016-17 were published by the PSAA in March 2015 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 31 January 2018 meeting of the Governance and Audit Committee.



We would also like to express our thanks to the Benefit Services Manager and her team; the Council's claim was again well prepared and, as with previous years, we found a very low number of errors in the cases examined.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Helen Thompson', is centered on a light gray rectangular background.

Helen Thompson
Associate Partner
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim.....	1
2. 2016-17 certification fees.....	3
3. Looking forward.....	4

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£31,313,050
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016-17	£25,125
Fee – 2015-16	£25,075
Recommendations from 2015-16	Findings in 2016-17
We made no recommendations in 2015-16.	N/a

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

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of prior year claims. We found errors and carried out extended testing in a small number of areas.

Extended and other testing identified a small number of errors which, had the Council corrected, would have had only a negligible impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of the errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Rent allowances – incorrectly assessed earned income leading to overpayment and underpayment

Testing of the initial sample of twenty cases found one case where earned income and working tax credits had been input incorrectly leading to both an overpayment and an underpayment on one claimant case. This was an input error from source documentation.

The impact of the error was to overstate Cell 103 (Local Housing Allowance Expenditure) by £20.18 and understate cell 113 (Local Authority error and administrative delay overpayments) by the same amount. The benefit period was two weeks at a rate of £10.09 per week. An extended sample of forty cases was selected with the emphasis on the area of error and no further overpayments or underpayments were found.

No amendments were made to the claim for this error.

Rent allowances - underpaid benefit

Testing of the initial sample of twenty cases identified three cases where benefit had been underpaid as a result of the Council entering incorrect information in such a way that could only ever lead to more underpayments. As there is no eligibility to subsidy for benefit which has not been paid, the three underpayments identified do not affect subsidy and have not, therefore, been classified as errors for subsidy purposes.

No amendments were made to the claim for this error.

Other reporting matters

In Year reconciliation cells

The Housing Benefits claim form contains three pre-filled cells that should automatically reconcile to the detailed system total cells. Claim certification guidance requires that Cell 037, 077 and 130 should agree to the entries in cells 011, 055 and 094 respectively (with cell 55 being a nil entry at Bracknell). The following minor difference was noted which the Council assigned to rounding differences:

Claim cell:	£ Amount:	Claim – Reconciliation cell:	£ Amount:	£ Difference:
011 – Non HRA Rent Rebates	968,336	037	968,336	0
094 – Rent Allowances	30,710,999	130	30,711,046	47

We accepted that this was the case and reported the fact in our qualification letter as required by the certification guidance.

No amendments were made to the claim for this error.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016/17, these scale fees were published by the PSAA in March 2016 and are available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	25,125*	25,125	25,075

*as agreed with Management in April 2017, the Council completed the testing workbooks for the 2016-17 housing benefit work so we will be providing a 20% discount on this figure and reimbursing the Council £5,025. The work has only recently been finalised and the discount has yet to be agreed with PSAA and applied. When it is, the actual figure for the 2016-17 work will be £20,100.

3. Looking forward

2017-18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to PSAA by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017-18 is £25,075. This was set by PSAA and is based on final 2015-16 certification fees. Should the Council decide to take the same approach in 2017-18, whereby Council staff complete the initial workbooks, we will apply a rebate to this fee.

Details of individual indicative fees are available at the following web address:
<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

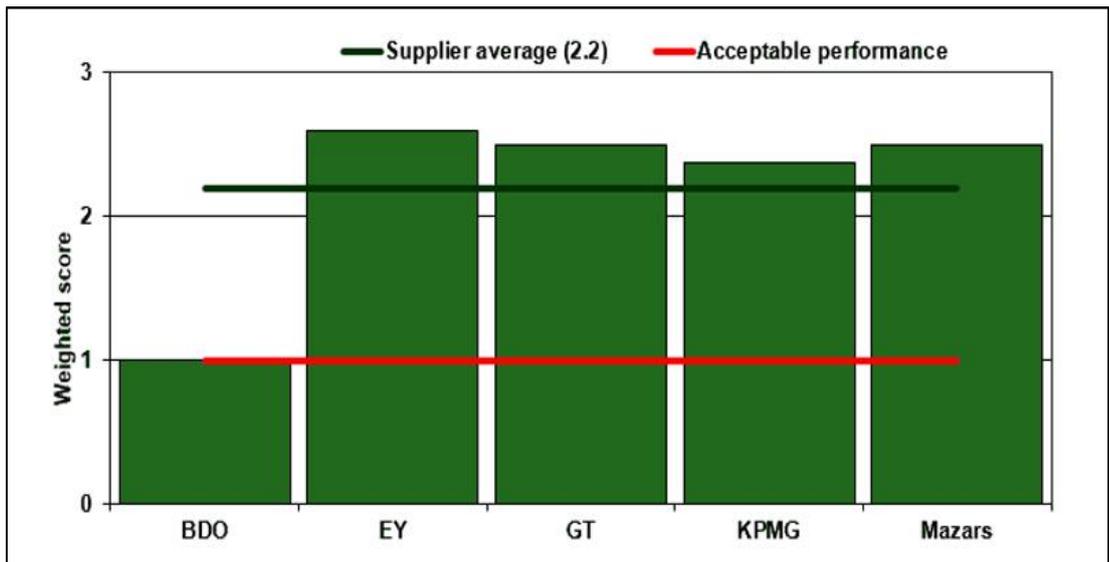
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Borough Treasurer before seeking any such variation.

2018-19

From 2018-19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and we are discussions with officers to provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

This page is intentionally left blank

TO: GOVERNANCE & AUDIT COMMITTEE
31 JANUARY 2018

CHANGES TO CONTRACT STANDING ORDERS **Director of Resources**

1 PURPOSE OF REPORT

- 1.1 This report seeks approval of changes to Contract Standing Orders, which form part of the Council's Constitution. The changes are principally to reflect the need to transform procurement processes in line with the approach taken to the Council Wide Support Services review. Specifically, the aim is to make procurement practices and processes more streamlined and more commercial, though the opportunity has also been taken to make other minor changes.

2 RECOMMENDATION

- 2.1 **That the Committee recommends that Council agrees to adopt the proposed changes to the Contract Standing Orders set out in the report and in Appendices A and B to this report.**

3 REASONS FOR RECOMMENDATION

- 3.1 As part of the Transformation programme, and with the aim of making procurement more streamlined and commercial, the proposed changes to Contract Standing Orders reduce the decision points in the procurement process and increase the thresholds above which decisions must formally be taken to Executive Members and the Executive. This reduces the administrative effort in undertaking a procurement, thereby allowing procurements to be undertaken more quickly to seize opportunities in a dynamic market place. This will facilitate a move to more commercial practices including pre-market engagement, commissioning and contract management.
- 3.2 The changes are designed to ensure that members are still involved appropriately in decisions regarding the larger, more complex or more sensitive procurements and will retain visibility of procurements generally.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Council may decide to retain Contract Standing Orders in their current form, or make only some of the variations proposed.

5 SUPPORTING INFORMATION

- 5.1 All local authorities include in their constitutions a set of rules regarding the approach to be taken to procurement activities, commonly referred to as Contract Standing Orders (CSOs). For large value purchases (contracts for services above around

£160k, social services above around £590k and works above around £4.1m) the approach is standard and is dictated by Public Contract Regulations. For lower value items, local authorities are free to determine their own local rules.

- 5.2 The overall intent of the CSOs is to ensure that “officers always apply procedures that allow a fair and non-discriminatory competitive process and equal treatment of all potential suppliers and contracts”. Responsibility for ensuring compliance with CSO rest with directors, who are also responsible “for all purchase orders and contracts tendered and let by their directorates [and] accountable to the Executive for the performance of their duties in relation to contract letting and management”.
- 5.3 Larger value contracts above £400,000 represent “key decisions” under the constitution and therefore require Member approval at different stages. A range of other thresholds exist for lower value items and there are different requirements in terms of procurement planning, seeking quotes / tenders and awarding contracts dependent on the anticipated contract level.
- 5.4 With the exception of relatively minor amendments and updates to the EU procurement thresholds, the CSOs have been unchanged for many years. The thresholds have not been updated to account for inflationary increases and, at the lowest level in particular, are well below those used in many similar authorities. They were designed primarily to ensure compliance in procurement activity, rather than to promote innovative approaches to secure best value.
- 5.5 The Council's Transformation programme was established to undertake a fundamental review of all services and activities over time. Changes to the Procurement function were introduced as part of the Council Wide Support Services review, which secured a 10% reduction in staffing costs in all support services, including Procurement.
- 5.6 Another key element of the CWSS Transformation programme was to review and streamline processes in order to facilitate wider transformational change and reduce levels of bureaucracy. Officers across the Council have often identified CSOs as being overly onerous, unnecessarily complex and not conducive to securing best value in fast moving, competitive markets (e.g. social care placements). They have therefore been reviewed with a view to addressing those concerns, while continuing to ensure that they provide a clear framework and promote a consistent approach.
- 5.7 The proposed changes are described in detail in the appendices to this report. The main appendix is a copy of Contract Standing Orders with tracked changes evidencing the recommendations. The three charts, commonly known as the “tick sheets”, which form appendices to Contract Standing Orders and are the documents most officers refer to, are appended separately for clarity. Since it not possible to reflect track changes on spreadsheets, the current and proposed versions are attached.
- 5.8 The main areas of change proposed are as described in paragraphs 5.9 to 5.15 below.
- 5.9 The threshold above which a procurement plan must be approved is raised, aligning this threshold in most cases with the threshold required by regulation. The principal decision point for a procurement will be at procurement plan stage. It is at this stage that key award criteria are defined, which cannot then be amended during the procurement. Procurement plans above the thresholds stated in the tick sheets must now be approved by the Executive, bringing greater visibility to this key stage.

- 5.10 Council requirements for advertising will be broader. Below the regulatory thresholds, advertising will be preferred but not compulsory. Officers deciding not to advertise must justify that decision.
- 5.11 The only options at the completion of a procurement are to award to the successful supplier, as evaluated by officers according to the pre-defined criteria, or not to award the contract. Given that the outline evaluation criteria are part of the procurement plan, which is approved by the Executive for significant value items, award of a contract will no longer normally be an Executive decision. Exceptions to this will be a) where the cost as defined in the procurement plan has been significantly exceeded or scope significantly altered or b) the procurement plan as approved specifically states that the award is to be approved by the Executive – typically for complex or sensitive matters.
- 5.12 This will reduce the number of awards presented to members or to Executive for decision, and reduce the often significant time period between tender evaluation and formal award due to the lengthy lead-in time for formal decision making . However, there will be a requirement that awards not so presented must be communicated to members by the responsible director.
- 5.13 Waivers, contract extensions and contract variations will be Director decisions, subject to advice from the Head of Procurement and Borough Solicitor if the resulting total contract value exceeds the regulatory threshold.
- 5.14 The Council must continue to comply with the Public Contract Regulations 2015 and the Concession Contract Regulations 2016. In many areas, these changes re-align Contract Standing Orders with the regulations, simplifying the procurement process.
- 5.15 The regulations apply in full above certain financial thresholds. These thresholds are fixed in sterling by the European Commission every two years on January 1st, and have changed in January 2018. The new values are incorporated for clarity. The Euro values do not have any relevance and have been removed.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The proposed amendments reflect the Authority's need to provide a more commercially relevant procurement framework whilst recognising and adhering to the requirements of EU procurement law where applicable. For sub threshold procurements, the amendments remain faithful to the principles of transparency proportionality and non discrimination.

Borough Treasurer

- 6.2 There are no direct financial implications arising from the proposals in this report, however the proposed changes will both reduce the administrative cost of supporting procurements and help ensure that savings identified through procurement processes can be realised sooner.

Equalities Impact Assessment

- 6.3 None

Strategic Risk Management Issues

6.4 None

7 CONSULTATION

Principal Groups Consulted

7.1 Council Wide Support Services Board, Corporate Management Team, Executive Briefing

Background Papers

None.

Contact for further information

Geoff Reynolds, Head of Procurement 01344 352297

<mailto:geoff.reynolds@bracknell-forest.gov.uk>

Sanjay Prashar, Corporate Services-Legal- 01344 355679

<mailto:sanjay.prashar@bracknell-forest.gov.uk>

PROPOSED AMENDMENTS TO CONTRACT STANDING ORDERS

SECTION 11 – CONTRACT STANDING ORDERS

These Contract Standing Orders are made under section 135 of the Local Government Act 1972.

Guidance regarding the use of these Standing Orders and further explanation as to how they operate can be found in the Procurement Manual.

DEFINITIONS

In these Standing Orders, the following expressions have the following meanings:

“Category Manager”	The officer of the Council to whom the Corporate Management Team has allocated responsibility for the delivery and management of a Category Strategy for a defined category of works, goods or services
“Category Strategy”	The written strategy for a defined Category, which has been formally approved by the Executive in accordance with these Standing Orders.
“Corporate Contract”	A contract relating to the procurement of supplies, works or services that has been tendered and managed by the Council
“Corporate Finance System”	Agresso or its replacement
“Director”	The Chief Executive or the most senior officer in a department of the Council or the Governing Body of a school with delegated responsibilities under the Local Management of Schools Regulations
“Executive Member”	Means the Member of the Executive with responsibility for the service for which a procurement is being carried out
“Executive”	Means a meeting to which the Leader and all those Members that are serving as Executive Members have been invited, or in the case of non-executive functions references to “the Executive” are deemed to be references to the Council or the committee or sub-committee to which the Council has

	delegated responsibility for that function
“Framework Agreement”	Means an agreement or other arrangement between one or more contracting authorities and one or more suppliers which establishes the terms (in particular as to price and, where appropriate, quantity) under which suppliers will enter into one or more contracts with the Council in the period during which the framework agreement applies
“Grant”	Means a grant as defined and described in paragraph 2.4 of these Contract Standing Orders
“Non Commercial Considerations”	<ol style="list-style-type: none"> 1. whether contractors employ self-employed individuals, 2. any involvement of the business activities or interests of the contractor with irrelevant fields of Government policy, 3. the conduct of the contractor in industrial disputes, 4. the country of origin or location of suppliers, 5. any political, industrial or sectarian interest of the contractor, 6. financial support or lack of financial support by the contractor for any institution, 7. use or non use by a contractor of technical or professional services provided by the Council under the Building Act 1984.
“Procurement Plan“	Means the Procurement Plan available from the Procurement pages on the Council’s intranet
“Procurement Manual”	The manual containing guidance and mandatory rules on the procurement of all supplies services and works and any further matters referred to in these Contract Standing Orders
“Public Contracts Regulations”	The Public Contracts Regulations 2015 (SI 2015 No 102) as amended or the Concession Contracts Regulations 2016 (SI 2016 No 273) as amended.
“Responsible Officer”	The Director or a person to whom the Director has given clear written delegated responsibility to exercise a

function which these Contract Standing Orders identify

“Social and Other Specific Services Threshold”

£589,148,615,278 (~~€750,000~~) as at 1st January 20186 or any different figure that may be substituted by European Commission Regulations from time to time

“Supplies and Services Threshold”

£181,302,164,176 (~~€209,000~~) as at 1 January 20186 or any different figure that may be substituted by European Commission Regulations from time to time

“Total Contract Value”

The whole of the estimated value net of value added tax which the Council expects to give under the contract, calculated according to the valuation rules set out in the Procurement Manual

“Threshold”

Means the Supplies and Services Threshold or the Social and Other Specific Services Threshold or the Works Threshold as the case may be

“Works Threshold”

£4,551,413,104,394 (~~€5,225,000~~) as at 1st January 20186 or any different figure that may be substituted by European Commission Regulations from time to time

1. Introduction and application of Standing Orders

These Contract Standing Orders set out the framework for the procurement of supplies, works and services. They are an essential set of rules and compliance with them will ensure that officers both seek and obtain good value for money and that public money is properly spent and accounted for. **These Standing Orders apply to all contracts for the procurement of supplies, the provision of services (including adults and children's care services) or the execution of works by the Council or on its behalf.**

- 1.1 In any procurement where quotations or tenders are required no matter what the value may be, officers must always apply procedures that allow a fair and non-discriminatory competitive process, and equal treatment of all potential suppliers and contractors.
- 1.2 Contracts must not be artificially split to avoid the application of the key thresholds contained in these Standing Orders.
- 1.3 Officers dealing with the procurement of standard or repetitive supplies and services should always consider the use of Framework Agreements and corporate contracts and should seek guidance from the Head of Procurement or from the Borough Solicitor.
- 1.4 These Contract Standing Orders do not apply to the following:
 - A contract for service for the employment of staff by the Council
 - The engagement of Counsel
 - The acquisition disposal or transfer of land or an interest in land and property
 - Hire of premises
 - Grants made by the Council
 - Direct payments to individuals for social care services or services brokered on behalf of individuals in receipt of an individual budget.

2. Roles and responsibilities

- 2.1 Directors are responsible for ensuring that chief officers and all staff with procurement responsibilities within their directorates fully understand and comply with these Standing Orders.
- 2.2 Directors are responsible for all purchase orders and contracts tendered and let by their directorates, are accountable to the Executive for the performance of their duties in relation to contract letting and management and must ensure that all council officers comply with these Standing Orders. The duties set out in paragraph 2.3 also apply to a Responsible Officer (except for paragraphs 2.3.5, and paragraphs 2.3.13 to .15 which are duties to be complied with by a Director personally)
- 2.3 Their duties are as follows:
 - 2.3.1 To seek and obtain value for money and secure continuous improvement in all procurements.
 - 2.3.2 To ensure no contract is entered into by their Directorate without there being adequate and agreed budget provision.

- 2.3.3 To ensure compliance with all applicable UK and EU legislation, seeking advice from the Borough Solicitor or the Head of Procurement at an early stage in the process whenever appropriate.
- 2.3.4 To ensure that Non Commercial Considerations do not influence any decision to seek quotations or tenders or to enter into any contract.
- 2.3.5 To ensure all staff (including any agents or consultants acting on their behalf) dealing with procurement for their directorate are fully aware of and comply with these Standing Orders and those parts of the Procurement Manual which are stated therein as compulsory in accordance with these Standing Orders and to arrange adequate training on their operation.
- 2.3.6 To declare to the council any pecuniary interest whether direct or indirect they personally have in any contract to be let, and to make that declaration in writing to the Borough Solicitor.
- 2.3.7 In the event of any breach of these Standing Orders to take immediate action and report it to the Borough Solicitor and/or the Borough Treasurer.
- 2.3.8 To ensure every contract over ~~£100,000~~[the Supplies and Services threshold](#) has a named officer with responsibility for it.
- 2.3.9 To keep securely proper records of all purchase orders, signed contracts and copies of all relevant documentation so as to provide a full audit trail of actions taken.
- 2.3.10 To comply with the Council's arrangements for the obtaining and opening of quotations and tenders as set out in the Procurement Manual.
- 2.3.11 To ensure that the council's seal is affixed to any contract where this is required to give the contract legal efficacy or to reflect established industry practice and to ensure that all other contracts are signed by a Director or by a person authorised under delegated powers to act on his or her behalf or placed through the Corporate Finance System.
- 2.3.12 To keep a record of any waivers of these Standing Orders.
- 2.3.13 To keep a written record of any delegations they make of their powers under these Standing Orders and ensure these are published on the Council's Intranet.
- 2.3.14 To ensure that records are kept in a manner that ensures reviews of contracts are undertaken in good time ideally at least one year in advance of termination dates and that appropriate action is taken.
- 2.3.15 To make arrangements for the publication of tenders and of contracts awarded as the Council may require from time to time.
- 2.3.16 To assist and support Category Managers in the preparation of Category Strategies and to comply with the provisions of Category Strategies approved by the Executive in accordance with these Contract Standing Orders
- 2.3.17 To ensure that all reports recommending the award of a contract for the procurement of works, supplies or services within a category, which are the subject of an approved Category Strategy, contain the comments of the relevant Category Manager.

2.4 These Standing Orders do not apply to grants awarded by the Council. A grant is an arrangement where money is given for the benefit of all or for a section of the local community for a stated purpose other than for the procurement of services whether the services are to be given to the Council or to third parties. An arrangement where payments are made to secure the provision of services whether to the Council or to some third party is a contract for services to which these Contract Standing Orders apply.

3. Consultation and approvals prior to advertising a procurement

3.1 Officers must take advice from the Head of Procurement or the Borough Solicitor on the relevance of the Public Contract Regulations for any procurement where the Total Contract Value is estimated to be more than ~~£100,000~~[the Supplies and Services Threshold](#), including advice on the classification of a procurement as Supplies and Services, Works or Social and Other Specific Services [or as a concession](#).

3.2 When it can reasonably be anticipated that the Total Contract Value might exceed ~~£100,000~~[the Supplies and Services Threshold](#) the Director must ensure that an estimate of the anticipated Total Contract Value is prepared and recorded in writing. The estimate should not be more than twelve months old when tenders or quotations are invited and is to be exclusive of Value Added Tax.

3.3 For all procurements of supplies and services with an estimated Total Contract Value in excess of ~~£100,000~~[the Supplies and Services Threshold](#), and procurement of works with an estimated Total Contract Value in excess of £400,000, a Procurement Plan in the form set out in the Procurement Manual and incorporating comments from the Borough Treasurer, Borough Solicitor and Head of Procurement, must be prepared for the approval of the Director and, if appropriate, the Executive Member [or the Executive](#) (see Appendices 1, 2 and 3). In all cases the Procurement Plan must be approved before the contract is advertised.

[3.4 The Council's Constitution defines Executive Decisions and Key Decisions and the procedure for making these, for example publication for 28 days before decision and call-in for 5 days afterwards. Planning of a procurement must take into account these procedures in consultation with Democratic Services.](#)

4. Obtaining quotations and tenders

4.1 (a) Subject to paragraph 4.1(b) below, for any procurement of supplies or services the required number of quotations or tenders must be sought in accordance with the financial limits and procedures set out in the Procurement Manual and Appendix 1 or Appendix 3 as the case may be.

(b) Procurements of residential care placements, care and or support provided in the person's home or for the special educational or other needs of younger people (including fostering) shall be carried out in accordance with procedures authorised by the relevant Director in consultation with the Executive Member with the advice of the Borough Treasurer, the Borough Solicitor and the Head of Procurement and published in the Procurement Manual

[4.X Where advertising is preferred, but not required by these Contract Standing Orders, officers choosing not to advertise must record the reasons for their decision.](#)

- 4.2 Where any works contract is to be let the required number of quotations or tenders must be sought in accordance with the financial limits and procedures set out in Appendix 2.
- 4.3 The Responsible Officer must ensure that the selection of suppliers from whom tenders or quotations are sought is carried out openly, fairly and transparently. The requirements for advertising, which are made to ensure compliance with legal requirements for transparency and freedom from discrimination, are set out in Appendices, 1, 2 and 3 and must always be followed.

5. Contract documentation and standard contract conditions

5.1 The provisions of any Statute, Regulation, [Treaty or Directive of the European Union](#) take precedence over anything said in these Standing Orders, and all contracts entered into by the Council must comply with all of those requirements.

5.2 The Council's standard conditions of contract shall always be employed unless,

(1a) Leasing arrangements are involved, or

(1b) the requirement is particularly complex and the use of the standard conditions is inappropriate

AND in each such case the formal advice of the Borough Solicitor has been given, or

(2) the supplier requires the Council to contract on terms supplied by it, and the total value is no more than £35,000.

In all cases where the Total Contract Value is expected to exceed the Threshold, the advice of the Borough Solicitor must be sought on any appropriate additions to the Council's standard terms.

6. Approval and acceptance of quotations and tenders

6.1 All requests for quotations and tenders for works, services or supplies must be carried out according to the procedures set out in the Procurement Manual.

6.2 The evaluation of written quotations and tenders and any pre-qualification of bidders must be carried out according to the procedures set out in the Procurement Manual, clearly documented and, if above the Threshold, advice must be sought from the Head of Procurement.

6.3 Where the estimated Total Contract Value is more than ~~£100,000~~ [the Supplies and Services Threshold](#) and only one tender is received the Director must take advice from the Head of Procurement and the Borough Solicitor on the appropriate action.

6.4 The Responsible Officer may accept a tender or quotation for **works, supplies or services** where the Total Contract Value is not more than £400,000. Where the tender is above ~~£100,000~~ [the Supplies and Services Threshold](#), a report should be submitted by officers to the Director, but if a Director has not delegated power to a Responsible Officer to accept a quotation the Director must prepare a report on the acceptance of the tender or quotation –and keep it available for auditing.

6.5 The Director shall not accept tenders for supplies, services or works where the Total Contract Value is more than £400,000 ~~and less than £1,000,000~~ without securing the written agreement of the Executive Member.

6.X Where a procurement has been the subject of an approved procurement plan, further approval at contract award stage is only required

- a) where cost as defined in the procurement plan has been significantly exceeded or scope significantly altered,
- b) the procurement plan as approved specifically states that the award is to be approved by the Executive – for complex or sensitive matters

Except in these circumstances, no further approval is required, clause 6.5 does not apply, and the Responsible Officer may accept a tender or quotation. The result should be recorded and communicated to the Director and Executive Member.

~~6.6 For all contracts where the Total Contract Value is greater than £1,000,000 acceptance of the tender must be approved by the Executive upon a report by the Director.~~

6.7 Where the Director wishes to accept a tender other than the lowest acceptable tender, full supporting documentation must be kept to evidence why the lowest acceptable tender was not accepted. If the tender is one to which paragraphs 6.5 or ~~6.6-X~~ applies, the Director shall report the values of all tenders received and the reasons for selecting the preferred tender.

6.8 All contracts entered into by the Council shall be completed (subject to delegated financial limits) in accordance with the following requirements.

Total Value	Method of Completion	Signed By
Up to and including £5,000	Council's official written order <u>Purchase order or oral</u>	Responsible Officer
£5,000 to £100,000 <u>the Supplies and Services Threshold</u>	Acceptance Letter or Council's official order <u>Purchase order or contract</u>	Responsible Officer
Over £100,000 <u>the Supplies and Services Threshold</u>	Signed contract or execution under seal if required to give the contract legal efficacy or to reflect established industry practice	Responsible Officer or executed under seal by Borough Solicitor

6.9 It is advised that all contracts should as a matter of good practice be signed or sealed before the supply, service or ~~construction~~ work begins.

7. Waiver of Contract Standing Orders

7.1 If there are special circumstances to waive or suspend any section or sections of Contract Standing Orders, the following approvals must be obtained depending on contract value:

1. for all contracts up to ~~and including £35,000~~ the relevant Threshold, the Director may approve.

2. for contracts in excess of ~~£35,000~~ the relevant Threshold ~~but up to and including contracts for £400,000~~ the Borough Solicitor and the ~~Chief Executive~~ Director (taking advice from the Head of Procurement) may approve.
3. ~~for contracts over £400,000 a report must be made to the Executive, incorporating advice from the Head of Procurement, for approval save that where the Borough Solicitor and Chief Executive have confirmed that there is genuine urgency and it is not possible to obtain approval from the Executive in time, the Leader may approve, but shall report his decision to the next meeting of the Executive for information~~

7.2 The standard Waiver form is to be used ~~unless reporting to the Executive in accordance with 7.1 above and the approval must be retained by the Director.~~

7.3 The Director must ensure that a record of all cases where Contract Standing Orders have been waived is sent to the Head of Procurement, ~~including those authorised under the Director's own delegated powers~~, recording the reasons for waiver and the approvals obtained. The Head of Procurement shall maintain a full record, sequentially numbered, of all Waivers granted.

8. **Contract extensions and variations**

8.1 ~~Where a contract, which was not required to be advertised by the Public Contracts Regulations or any preceding Regulations, does not have any provision for an extension, one extension, where similar terms and conditions will apply, may be agreed for a maximum period of one year, but the written approval of the Director, who must consult with the Borough Solicitor and the Treasurer, must be given.~~

8.2 ~~Any extension specifically provided for in the contract may be implemented, subject to the prior written approval of the Director being given.~~

8.3 ~~If a contract has been extended in accordance with 8.1 or 8.2 above any further request for an extension must be approved by the Executive Member on a written report, with advice from the Borough Solicitor and the Treasurer.~~

~~Any contract may be extended or varied by the prior written approval of the Director.~~

~~Where an extension or variation is not clearly provided for in the original contract and, once the extension or variation is included, the contract has a total contract value which exceeds the relevant Threshold, advice must be taken from the Borough Solicitor.~~

~~Subject to the above, any contract may be extended or varied by the prior written approval of the Director.~~

Contract variations

8.4 ~~A contract variation can be only be approved where the proposed variation does not materially alter the terms of the contract. Guidance on what constitutes a material alteration is given in the Procurement manual. The Director must obtain advice from the Borough Solicitor before proceeding to agree to a variation and must ensure there is an adequate budget for the variation.~~

9. Framework Agreements

- 9.1 Framework Agreements let by other contracting authorities may only be used in accordance with the requirements set out in the Procurement Manual.

10. Category Management

- 10.1 The Council has adopted the principles of category management in order to provide a more strategic approach to procurement and to help increase efficiencies and value for money through better coordination and aggregation of requirements across the Council.
- 10.2 A Category Manager shall be responsible for the preparation of a Category Strategy for the commissioning and procurement of any works, supplies or services relevant to the category in consultation with any Director who holds a budget that will be affected by the Category Strategy.
- 10.3 A Category Strategy shall identify responsibility for contract awards for contracts of up to £1 million that are in compliance with the strategy, but if no responsibility for such contract award is allocated, the Director to whom the Category Manager usually reports shall be responsible for making the decision. Corporate Contracts which are not within a Category Strategy shall be the responsibility of the Director of Resources.

PROPOSED CHANGES TO CONTRACT STANDING ORDERS 'TICK SHEETS'

Services – current

Appendix 1								
Supplies and Services			Minimum Requirements			✓	= Mandatory	
	Total Contract Value	Up to £5K	>£5K to £10K	>£10K to £35K	>£35K to £100K	>£100K to £400K	>£400K to £1m	>£1m
Procurement Plan	Director* to approve, with advice from Head of Procurement					✓	✓	✓
	Executive Member to approve						✓	✓
Format	Request for Quotation (RFQ)	✓ oral	✓	✓	✓			
	Invitation to Tender (ITT)				Optional	✓	✓	✓
Specification		✓ oral	✓ outline	✓ outline	✓	✓	✓	✓
Terms	BFC terms and conditions	Preferred	Preferred	Preferred	✓			
	Special terms - contact Legal Services				Optional	✓	✓	✓
Competition	Minimum 1 quote	✓ oral	✓					
	Seek a minimum of 3 quotes			✓	✓			
	Formal Tender - seek a minimum of 5 tenders					✓	✓	✓
	Order under a Framework Agreement	Mini competition of all suppliers able to meet the requirement - or otherwise as defined in the Framework Agreement						
Advertising	SE Business Portal and Contracts Finder**				✓	✓	✓	✓
	European website (TED)					Mandatory above Threshold***	✓	✓
Contract SO Waiver	Director to record reasons on file	✓	✓	✓				
	Chief Executive and Borough Solicitor to approve				✓	✓		
	The Executive to approve						✓	✓
Contract Award	Director*	✓	✓	✓	✓			
	Report to Director* for approval					✓		
	Report to Director and Executive Member for approval						✓	
	Report to the Executive for approval							✓
Contract Award Notice	SE Business Portal and Contracts Finder**				✓	✓	✓	✓
	European website (TED)					Mandatory above Threshold***	✓	✓
Form of Contract	Purchase Order	✓ oral	✓	✓	✓			
	Contract signed by Director*					✓	✓	✓
	Deed signed under seal by Borough Solicitor	Where required to give the contract legal efficacy or if requested, for example to comply with industry practice.						
* Or as delegated, or Governing Body for Schools								
** Schools don't have to use Contracts Finder								
*** Threshold is £164,176 as of 1st January 2016.								

Services – proposed

Appendix 1							
Supplies and Services			Minimum Requirements				✓ = Mandatory
	Total Contract Value	Up to £5K	>£5K to £35K	>£35K to £181K**	>£181K** to £400K	>£400K to £1m	>£1m
Strategic Procurement Plan	Director* to approve				✓	✓	✓
	Executive Member to approve					✓	✓
	Executive to approve						✓
Format	Request for Quotation (RFQ)	✓ oral	✓	✓			
	Invitation to Tender (ITT)			Optional	✓	✓	✓
Specification		✓ oral	✓ outline	✓	✓	✓	✓
Terms	BFC terms and conditions	Preferred	Preferred	✓			
	Special terms - contact Legal Services			Optional	✓	✓	✓
Competition	Seek a minimum of 3 quotes	Preferred.	✓	✓			
	Formal Tender - seek a minimum of 5 tenders				✓	✓	✓
	Order under a Framework Agreement	Mini competition of all suppliers able to meet the requirement - or otherwise as defined in the Framework Agreement					
Advertising	SE Business Portal (or equivalent) and Contracts Finder (except schools)			Preferred.	✓	✓	✓
	European website (TED)				✓	✓	✓
Approval of Contract Award	Director*	✓	✓	✓			
	Where a procurement has been the subject of an approved procurement plan, further approval at contract award stage is only required where cost and scope as stated in the procurement plan are not met or where the procurement plan states that such approval is required.						
	Report to Director*				✓		
	Report to Director and Exec Member					✓	✓
Contract Award Notice	SE Business Portal and Contracts Finder			Where advertised.	✓	✓	✓
	European website (TED)				Where advertised on TED.		
Form of Contract	Purchase Order	✓ oral	✓	✓			
	Contract signed by Director*				✓	✓	✓
	Deed signed under seal by Borough Solicitor	Where required to give the contract legal efficacy or if requested, for example to comply with industry practice.					
Waivers and extensions beyond those written into the contract. Based on total resulting contract value.	Director* to approve	✓	✓	✓			
	Specific action to be agreed with Borough Solicitor.				✓	✓	✓
* Or as delegated							
** Threshold is £181,302 as of 1st January 2018.							

Works – current

Appendix 2										
Works		Minimum Requirements							✓	= Mandatory
	Total Contract Value	Up to £5K	>£5K to £10K	>£10K to £35K	>£35K to £100K	>£100K to £400K	>£400K to £1m	>£1m		
Procurement Plan	Director* to approve, with advice from Head of Procurement						✓	✓		
	Executive Member to approve						✓	✓		
Format	Request for Quotation (RFQ)	✓ oral	✓	✓	✓					
	Invitation to Tender (ITT)					✓	✓	✓		
Specification		✓ oral	✓ outline	✓ outline	✓	✓	✓	✓		
Terms	BFC terms and conditions	Preferred	Preferred	Preferred	✓					
	Special terms - contact Legal Services				Optional	✓	✓	✓		
Competition	Minimum 1 quote	✓ oral	✓							
	Seek a minimum of 3 quotes			✓	✓					
	Formal Tender - seek a minimum of 5 tenders					✓	✓	✓		
	Order under a Framework Agreement	Mini competition of all suppliers able to meet the requirement - or otherwise as defined in the Framework Agreement								
Advertising	SE Business Portal and Contracts Finder**						✓	✓		
	European website (TED)								Mandatory above Threshold***	
Contract SO Waiver	Director to record reasons on file	✓	✓	✓						
	Chief Executive and Borough Solicitor to approve				✓	✓				
	The Executive to approve						✓	✓		
Contract Award	Director*	✓	✓	✓	✓					
	Report to Director* for approval					✓				
	Report to Director and Executive Member for approval						✓			
	Report to the Executive for approval								✓	
Contract Award Notice	SE Business Portal and Contracts Finder**				✓	✓	✓	✓		
	European website (TED)								Mandatory above Threshold***	
Form of Contract	Purchase Order	✓ oral	✓	✓	✓					
	Contract signed by Director*					✓	✓	✓		
	Deed signed under seal by Borough Solicitor	Where required to give the contract legal efficacy or if requested, for example to comply with industry practice.								
* Or as delegated, or Governing Body for Schools										
** Schools don't have to use Contracts Finder										
*** Threshold is £4,104,394 as of 1st January 2016.										

Works – proposed

Appendix 2								
Works		Minimum Requirements					✓ = Mandatory	
	Total Contract Value	Up to £5K	>£5K to £35K	>£35K to £181K**	>£181K** to £400K	>£400K to £1m	>£1m	
Strategic Procurement Plan	Director* to approve					✓	✓	
	Executive Member to approve					✓	✓	
	Executive to approve						✓	
Format	Request for Quotation (RFQ)	✓ oral	✓	✓				
	Invitation to Tender (ITT)				✓	✓	✓	
Specification		✓ oral	✓ outline	✓	✓	✓	✓	
Terms	BFC terms and conditions	Preferred	Preferred	✓				
	Special terms - contact Legal Services			Optional	✓	✓	✓	
Competition	Seek a minimum of 3 quotes	Preferred.	✓	✓				
	Formal Tender - seek a minimum of 5 tenders				✓	✓	✓	
	Order under a Framework Agreement	Mini competition of all suppliers able to meet the requirement - or otherwise as defined in the Framework Agreement						
Advertising	SE Business Portal (or equivalent) and Contracts Finder (except schools)					Preferred	✓	
	European website (TED)						Mandatory above Threshold***	
Approval of Contract Award	Director*	✓	✓	✓				
	Report to Director*				✓			
	Where a procurement has been the subject of an approved procurement plan, further approval at contract award stage is only required where cost and scope as stated in the procurement plan are not met or where the procurement plan states that such approval is required.							
	Report to Director and Exec Member					✓	✓	
Contract Award Notice	SE Business Portal and Contracts Finder					Where advertised.	✓	
	European website (TED)						Where advertised on TED.	
Form of Contract	Purchase Order	✓ oral	✓	✓				
	Contract signed by Director*				✓	✓	✓	
	Deed signed under seal by Borough Solicitor	Where required to give the contract legal efficacy or if requested, for example to comply with industry practice.						
Waivers and extensions beyond those written into the contract. Based on total resulting contract value.	Director* to approve	✓	✓	✓	✓	✓		
	Specific action to be agreed with Borough Solicitor.						Mandatory above Threshold***	
* Or as delegated								
** Threshold is £181,302 as of 1st January 2018.								
*** Threshold is £4,551,413 as of 1st January 2018								

Social and Other Specific Services – current

Appendix 3		Social and Other Specific Services							Minimum Requirements	✓	= Mandatory
	Total Contract Value	Up to £5K	>£5K to £10K	>£10K to £35K	>£35K to £100K	>£100K to £400K	>£400K to £1m	>£1m			
Procurement Plan	Director* to approve, with advice from Head of Procurement					✓	✓	✓			
	Executive Member to approve						✓	✓			
Format	Request for Quotation (RFQ)	✓ oral	✓	✓	✓						
	Invitation to Tender (ITT)				Optional	✓	✓	✓			
Specification		✓ oral	✓ outline	✓ outline	✓	✓	✓	✓			
Terms	BFC terms and conditions	Preferred	Preferred	Preferred	✓						
	Special terms - contact Legal Services				Optional	✓	✓	✓			
Competition	Minimum 1 quote	✓ oral	✓								
	Seek a minimum of 3 quotes			✓	✓						
	Formal Tender - seek a minimum of 5 tenders					✓	✓	✓			
	Order under a Framework Agreement	Mini competition of all suppliers able to meet the requirement - or otherwise as defined in the Framework Agreement									
Advertising	SE Business Portal and Contracts Finder**				✓	✓	✓	✓			
	European website (TED)							Mandatory above Threshold***	✓		
Contract SO Waiver	Director to record reasons on file	✓	✓	✓							
	Chief Executive and Borough Solicitor to approve				✓	✓					
	The Executive to approve						✓	✓			
Contract Award	Director*	✓	✓	✓	✓						
	Report to Director* for approval					✓					
	Report to Director and Executive Member for approval						✓				
	Report to the Executive for approval								✓		
Contract Award Notice	SE Business Portal and Contracts Finder**				✓	✓	✓	✓			
	European website (TED)							Mandatory above Threshold***	✓		
Form of Contract	Purchase Order	✓ oral	✓	✓	✓						
	Contract signed by Director*					✓	✓	✓			
	Deed signed under seal by Borough Solicitor	Where required to give the contract legal efficacy or if requested, for example to comply with industry practice.									
* Or as delegated, or Governing Body for Schools											
** Schools don't have to use Contracts Finder											
*** Threshold is £589,148 as of 1st January 2016.											

Social and Other Specific Services – proposed

Appendix 3								
Social and Other Specific Services		Minimum Requirements					✓ = Mandatory	
	Total Contract Value	Up to £5K	>£5K to £35K	>£35K to £181K**	>£181K** to £400K	>£400K to £1m	>£1m	
Strategic Procurement Plan	Director* to approve				✓	✓	✓	
	Executive Member to approve					✓	✓	
	Executive to approve						✓	
Format	Request for Quotation (RFQ)	✓ oral	✓	✓				
	Invitation to Tender (ITT)			Optional	✓	✓	✓	
Specification		✓ oral	✓ outline	✓	✓	✓	✓	
Terms	BFC terms and conditions	Preferred	Preferred	✓				
	Special terms - contact Legal Services			Optional	✓	✓	✓	
Competition	Seek a minimum of 3 quotes	Preferred.	✓	✓				
	Formal Tender - seek a minimum of 5 tenders				✓	✓	✓	
	Order under a Framework Agreement	Mini competition of all suppliers able to meet the requirement - or otherwise as defined in the Framework Agreement						
Advertising	SE Business Portal (or equivalent) and Contracts Finder (except schools)			Preferred.	Preferred	✓	✓	
	European website (TED)					Mandatory above Threshold***	✓	
Approval of Contract Award	Director*	✓	✓	✓				
	Where a procurement has been the subject of an approved procurement plan, further approval at contract award stage is only required where cost and scope as stated in the procurement plan are not met or where the procurement plan states that such approval is required.							
	Report to Director*				✓			
	Report to Director and Exec Member					✓	✓	
Contract Award Notice	SE Business Portal and Contracts Finder			Where advertised.	Where advertised.	✓	✓	
	European website (TED)					Where advertised on TED.		
Form of Contract	Purchase Order	✓ oral	✓	✓				
	Contract signed by Director*				✓	✓	✓	
	Deed signed under seal by Borough Solicitor	Where required to give the contract legal efficacy or if requested, for example to comply with industry practice.						
Waivers and extensions beyond those written into the contract. Based on total resulting contract value.	Director* to approve	✓	✓	✓	✓			
	Specific action to be agreed with Borough Solicitor.					✓	✓	
* Or as delegated								
** Threshold is £181,302 as of 1st January 2018.								
*** Threshold is £615,278 as of 1st January 2018.								

This page is intentionally left blank

**TO : GOVERNANCE AND AUDIT COMMITTEE
31 JANUARY 2018**

**INTERNAL AUDIT INTERIM REPORT
April – December 2017
(Head of Audit and Risk Management)**

1 PURPOSE OF REPORT

- 1.1 This report provides a summary of Internal Audit activity during the period April to December 2017.

2 EXECUTIVE SUMMARY

- 2.1 The report summarises progress and outcome of work carried out by both internal audit contractors and the in-house team in accordance with the Annual Internal Audit Plan approved by the Governance and Audit Committee. Any significant developments since the time of writing will be reported verbally to the Committee and included in future assurance reports

3 RECOMMENDATION

- 3.1 **The Governance and Audit Committee are asked to note the attached report.**

4 REASONS FOR RECOMMENDATION

- 4.1 To ensure that the Governance and Audit Committee are aware of the internal audit work performed and conclusions reached.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 No alternative options available.

6 SUPPORTING INFORMATION

- 6.1 Under the Council's Constitution and Scheme of Delegation the Borough Treasurer is responsible for the administration of the financial affairs of the Council under Section 151 of the Local Government Act 1972. Professional guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) requires the provision of an effective Internal Audit function to partly fulfil his responsibilities under Section 151.
- 6.2 The provision of Internal Audit services is largely outsourced to Mazars Public Sector Internal Audit. Mazars are responsible for delivering approximately two thirds of the audits set out in the Annual Internal Audit Plan approved by the Governance and Audit Committee in March 2017. IT audits are undertaken by TIAA Limited. The remaining audits are delivered by Wokingham internal audit team under an agreement under Section 113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. The attached report summarises delivery to date on the audits approved under the Plan and other assurance activities carried out in-house within Audit and Risk Management.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 7.1 There are no specific legal implications arising from this report”

Borough Treasurer

- 7.2 There are no direct financial implications arising from the report. The work of Internal Audit is key to fulfilment of the section 151 responsibilities by identifying weaknesses in internal control arrangements that can then be rectified

Equalities Impact Assessment

- 7.3 Not applicable.

Strategic Risk Management Issues

- 7.4 Internal Audit provides assurance on the Council’s control environment based on the work undertaken and areas audited. Internal control is based upon an ongoing process designed to identify and prioritise risks and to evaluate the likelihood of those risks being realised and the impact should they arise. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure altogether. No system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance

Other Officers

- 7.5 Not applicable.

8 CONSULTATION

- 8.1 Not applicable.

Background Papers

Annual Internal Plan 2017/18
Strategic Risk Register

Contact for further information

Sally Hendrick – 01344 352092
sally.hendrick@bracknell-forest.gov.uk



HEAD OF AUDIT AND RISK MANAGEMENT REPORT

APRIL – DECEMBER 2017

1. BACKGROUND

- 1.1 The Council is required under the Accounts and Audit (Amendment) (England) Regulations to “maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper practices in relation to internal control.” This report summarises the activities of Internal Audit for the period April to December 2017 drawing together progress on the Annual Internal Audit Plan, risk management and other activities carried out by Internal Audit.

2. INTERNAL AUDIT

- 2.1 The basic approach adopted by Internal Audit falls broadly into four types of audit:
- System reviews provide assurance that the system of control in all activities undertaken by the Council is appropriate and adequately protects the Council’s interests.
 - Regularity (financial) checking helps ensure that the accounts maintained by the Council accurately reflect the business transacted during the year. It also contributes directly towards the external auditor’s audit of the annual accounts.
 - Computer/IT audits, carried out by specialist audit staff, provide assurance that an adequate level of control exists over the provision and use of computing facilities
 - Certification as required by relevant Government departments that grant monies have been spent in accordance with grant terms and conditions.
- 2.2 Recommendations are made after individual audits, leading to an overall assurance opinion for the system or establishment under review and building into an overall annual assurance opinion on the Council’s operations. The different categories of recommendation and assurance opinion are set out in the following tables.

Recommendation Classifications

PRIORITY	DESCRIPTION
1	Essential – recommendation addresses a fundamental control weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk that must be brought to the specific attention of senior management and resolved.
2	Important – recommendation addresses weakness in the design of controls or inconsistency in compliance with controls putting the achievement of systems objectives at risk that should be resolved by management in their area(s) of responsibility.
3	Best practice – Recommended best practice to improve overall control

Assurance Opinion Classifications

ASSURANCE LEVEL	DEFINITION
Significant	There is a sound system of internal controls to meet the system objectives and testing performed indicates that controls are being consistently applied
Satisfactory	There is basically a sound system of internal controls although there are some minor weaknesses in controls and/or there is evidence that the level of non-compliance may put some minor systems objectives at risk.
Limited	There are some weaknesses in the adequacy of the internal control system which put the systems objectives at risk and/or the level of compliance or non-compliance puts some of the systems objectives at risk.
No Assurance	Control is weak leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

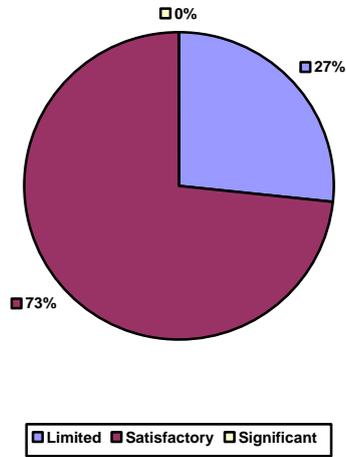
- 2.3 Internal Audit provides the relevant Director and the Borough Treasurer with copies of the draft report where a limited (or no) assurance opinion is given. This ensures that the senior management and the Section 151 Officer are informed at the earliest opportunity of any potential significant weaknesses or problem areas. Where satisfactory or significant assurance opinions are given, Directors receive copies of the final agreed report.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

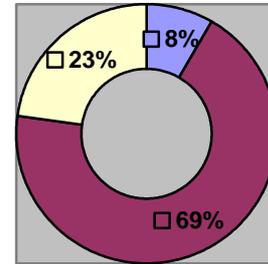
- 3.1 The Annual Internal Audit Plan for 2017/18 was considered and approved by the Governance and Audit Committee on 29th March 2017. The delivery of the individual audits is largely undertaken by our contractors Mazars Public Sector Internal Audit. In addition, IT audit is undertaken by TIAA Ltd and 11 reviews will be carried out under the Section 113 arrangement with Wokingham Borough Council's Internal Audit Team. In addition six reviews and all grants are scheduled to be audited in house.
- 3.1 During the period April to December 2017, 4 grants were certified, 18 memos and reports without an opinion were finalised, 25 reports were finalised, 8 memos and 3 reports had been issued in draft awaiting management responses and in 8 cases audit work was in progress. A summary of performance to date is set out below. Details on the status and outcome of all audits are attached at Appendix A.

SUMMARY OF OUTCOMES APRIL – DECEMBER 2017

ASSURANCE OPINIONS



ANALYSIS OF RECOMMENDATIONS



■ Priority 1 ■ Priority 2 □ Priority 3

■ Limited ■ Satisfactory □ Significant

ASSURANCE	FINAL AND DRAFT APRIL- DECEMBER 2017	FINAL AND DRAFT 2016/17
Significant	-	1
Satisfactory	22	42
Limited	8	23
Total for Audits Including an Opinion	30	66
Grant Claim Certifications	4	4
Reports/Memos with Priority 1 Recommendation and no Opinion	4	-
Other Memos/Reports with no Opinion	25	14
Total	63	84

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
April to December 2017	15	100%	82%
2016/17	30	100%	77%

- 3.2 As noted above and at Appendix A, delivery against the planned programme is on track with the bulk of quarter 1- 3 audits finalised, issued in draft, or already in progress. The majority of assurance opinions given were satisfactory.

Significant Control Issues

- 3.3 Audits which have identified significant weaknesses will generally be revisited in 2018/19, to ensure successful implementation of agreed recommendations. The key weaknesses identified during audits with a limited assurance opinion to date are as follows:

DIRECTORATE	AUDITS WITH SIGNIFICANT ISSUES IDENTIFIED
COUNCIL WIDE AUDITS	<u>AGRESSO OFFICERS EXPENSES [(ALSO LIMITED IN 2016/17)</u> A priority 1 recommendation was raised due to an unexplained weakness in the IT system where for one of the sample there was no workflow on the system and it was not possible to confirm whether the claim had been checked and approved and by whom prior to payment
CHILDREN, YOUNG PEOPLE AND LEARNING	<u>SEN RESOURCE PROVISIONS</u> Three priority recommendations were raised on the absence of formal agreements, lack targets and outcomes and ambiguity in the calculation of funding.
	<u>PERSONAL EDUCATION PLANS</u> Three priority recommendations were raised on the absence of PEPs for pre-school and post 16 children, lack of manager quality review checks and weaknesses in monitoring allocation and use of pupil premium.
CORPORATE SERVICES	<u>HOME TO SCHOOL TRANSPORT (FOLLOW UP MEMO ISSUED. ALSO LIMITED IN 2016/17)</u> A priority 1 recommendation was raised again on DBS checks.
	<u>DISASTER RECOVERY (FOLLOW UP MEMO ISSUED. ALSO LIMITED IN 2016/17)</u> Audit found that the original priority 1 recommendation on Dr documentation had been partially implemented as this was still in draft and one priority 2 recommendation on the scheduling of recovery testing had not been implemented and has been escalated to a priority one finding.
	<u>CYBER SECURITY GAP ANALYSIS INCLUDING VOIP</u> Two priority 1 recommendations were raised on identification of risks and review and update of the Acceptable Use Policy.
	<u>BUSINESS RATES</u> One priority one recommendation raised to address non compliance with write off authorisation procedures.
	<u>COUNCIL TAX</u> One priority one recommendation raised to address non compliance with write off authorisation procedures.
ADULT SOCIAL CARE , HEALTH AND HOUSING	<u>FORESTCARE</u> Three priority 1 recommendations raised on direct debit rejections, contract management information and timesheet checks.

SCHOOL AUDITS IDENTIFYING SIGNIFICANT CONTROL ISSUES FOR GOVERNING BODIES TO ADDRESS

SCHOOL AUDITS	<p><u>SCHOOL 1 (FOLLOW UP MEMO ISSUED. -ALSO LIMITED IN 2016/17)</u> The priority one recommendation relating to invoice approval had not been implemented and was re-raised. However as part of the desk exercise to follow up recommendations in December 2017, the School advised that the priority one recommendation had now been implemented.</p> <p><u>SCHOOL 2</u> Five priority one recommendations have been raised relating to weaknesses in budget monitoring, authorisation of invoices, maintenance of an inventory, control over iPads and the audit of the private fund.</p>
----------------------	--

- 3.4 In addition, during quarter 2, a memo was produced on gap analysis undertaken to review the Council’s preparedness for the new General Data Protection Regulations which come into effect in May 2018. Whilst three priority one recommendations were raised, these were only in relation to the administrative implementation process itself and the review identified that the Council already has robust processes currently in place for its data protection responsibilities and is well placed to implement the requirements of the new regulations. .The priority 1 recommendations raised related to putting adequate monitoring meetings in place, developing a compliance plan and the use of the government’s 12 step guide. Actions to address gaps identified are being monitored through the Information Management Group as noted in 5.2.

Update of 2016/17 Audits with Limited Assurance Opinions and/or Priority 1 Recommendations

- 3.5 An update on the limited assurance opinions given in 2016/17 is shown at Appendix B. This shows that as at December 2017, follow up audits had been finalised in 12 cases and in 8 out of 12 cases this established that the significant issues previously found had been addressed. had resulted in a satisfactory opinion. In four cases, priority 1 recommendations were raised again.as detailed in section 3.4.

Update of 2016/17 and 2017/18 Audits with Satisfactory Assurance Opinions and/or Priority 1 Recommendations

- 3.6 A further follow up exercise has been completed on audits where satisfactory opinion was given to identify progress on implementation of agreed recommendations. This was based on management being asked to provide feedback on the status of recommendations. This identified that 98 out of 148 recommendations had been implemented.

Quality Assurance and Improvement Programme

- 3.7 As shown above in section 3.2, 100% of the client questionnaires indicated the auditees were satisfied with the service. All grants were certified in accordance with Government departments' deadlines. In 82% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

4. RISK MANAGEMENT

- 4.1 During 2017/18 a major overhaul of the Strategic Risk Register was undertaken and the new format was agreed with the Corporate Management Team (CMT) in May. The new format including risk appetite is being rolled out across all directorates for their directorate risk registers and is also being adopted at another Berkshire authority.
- 4.2 Between April and December 2017, the Strategic Risk Register was reviewed three times by the Strategic Risk Management Group (SRMG) and CMT and once by the Governance and Audit Committee in June 2017. A review of progress on actions to address strategic risks was carried out in Quarter 3. Directorate risk registers continue to be monitored regularly at Departmental Management Teams.

5. GOVERNANCE

- 5.1 The General Data Protection Regulation (GDPR) (Regulation (EU) 2016/679) is an EU regulation intended to strengthen and unify data protection for individuals within the European Union. It replaces the Data Protection Directive 95/46/EC and is due to come into effect on 25 May 2018. The GDPR requires changes to be made by organisations and breaches associated with non-compliance can be up to 4% of turnover or €20M whichever is greater. The Government has confirmed the UK will adopt the GDPR despite Brexit.
- 5.2 In response to this, a gap analysis review was undertaken by TIAA Ltd to assess the Council's preparedness for the changes being introduced. This identified that the Council already has robust processes currently in place for its data protection responsibilities and is well placed to implement the requirements of the new regulations. An action plan to address the gaps to be addressed has been produced and is being monitored at the Information Management Group together with the risk register for the implementation.

6. COUNTER FRAUD ACTIVITIES

National Fraud Initiative (NFI)

- 6.1 The NFI is a biennial data matching exercise first introduced in 1996 and conducted by the Audit Commission to assist in the prevention and detection of fraud and error in public bodies. Bracknell Forest Council is obliged to participate in this. The core mandatory data for submission for the 2016 round was:

- payroll
- pensions
- trade creditors
- housing benefits
- Council Tax
- electoral register
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- insurance claimants
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)
- housing waiting list

Data was submitted to the Audit Commission during the third quarter of 2016/17.

6.2 Matches have been returned for investigation by the relevant teams and to date the following has been identified

- To date the Welfare Service have reviewed 51 of the matches relating to housing benefits and Council Tax Reduction and found errors in 7 or 13.7% of these cases. In 6 cases these resulted in reductions to housing benefit and identified £4,172.70 of housing benefit overpayments which have been recovered or are in the process of being recovered. In three of these cases and one further case investigations also resulted in a decrease in Council Tax Reduction.”
- One person has been removed from the housing waiting list. This match was identified in the waiting list to in-country immigration matches which identifies instances where a waiting list applicant appears not to be entitled to reside in the UK. Confirmation of immigration status has been requested from the person but they have not responded so have been removed from the list.

Benefits Investigations

6.3 On 1st December 2014, the Council's Benefit Fraud Investigation Officers transferred to the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP) as part of the national government programme of centralising the investigation of welfare benefit fraud. The Welfare Service passes cases of overpayments in excess of £3k and cases where fraud is suspected to SFIS for investigation. Members of the public are directed to contact the DWP directly where fraud is suspected and so SFIS receives further fraud information requests where fraud has been reported from another source. During the period April 2017 to 15 December 2017 there were 56 referrals to SFIS. We have so far been notified of 2 administrative penalties relating to these cases. During the financial year 2016/17, 52 cases were referred and outcomes are still coming through this financial year. The Welfare Service have so far been notified of 6 administrative penalties by SFIS.

- 6.4 From 1st April 2014, if a claimant is notified that they have been overpaid Housing Benefit by £250 or more, which must have occurred wholly after 1st October 2012, Bracknell Forest Borough Council has been able to impose a set Civil Penalty of £50. The £50 Civil Penalty applies if benefit is overpaid because the claimant negligently gave incorrect information and didn't take reasonable steps to correct their mistake or failed to tell the Council about a change or failed to give them information without a reasonable excuse. Between April 2017 and 15 December 2017 the service applied 353 Civil Penalties. From April 2016 Bracknell Forest Council can now apply penalties of £70 in respect of Council Tax. Between April 2017 and 15 December 2017 the service applied 33 Council Tax Penalties.
- 6.5 DWP carries out an exercise matching HM Revenue and Customs Real Time Information (RTI) against data held on six social security benefits; (Income Support, Jobseekers Allowance, Housing Benefit, Employment and Support Allowance, Pension Credit and Carers Allowance) to identify cases where claimants have either failed to declare or have under declared earnings and Non State Pension. The project commenced in October 2014 and has resulted in referrals being issued to local authorities where DWP has information that earnings or Non State Pension have not been correctly declared for the purposes of Housing Benefit. From April 2017 to 15 December 2017 Bracknell Forest Council received 1,521 referrals of which approximately 50.1% of referrals resulted in a reduction to Housing Benefit and approximately 7.4% resulted in an increase to Housing Benefit. Approximately 46.5% resulted in a reduction to Council Tax Reduction and 6.3% resulted in an increase to Council Tax Reduction. The Service also made the decision to opt in to optional RTI referrals for local authorities on a monthly basis starting June 2016. These are delivered with the existing RTI.

2016/17 AUDITS

* Draft report produced within 15 working days of exit meeting to discuss audit findings

Audit	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
CORPORATE SERVICES Construction and Maintenance Follow Up- additional audit	6/3/17	13/4/17	Yes			X	2	2		Final (already reported to G&A as issued in draft in June 2017)t
ECC Coral Reef Project	13/3/17	12/5/17	Yes		X			3		Final I (already reported to G&A as issued in draft in June 2017)
SCHOOLS College Town Junior	13/3/17	3/5/17	Yes			X	1	8	1	Final (already reported to G&A as issued in draft in June 2017)

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
CORPORATE SERVICES Creditors including Controcc transactions	6/11/17									Work in progress
Debtors including Controcc transactions	30/10/17	16/11/17	Yes		X			4	3	Final
Main Accounting including reconciliations	7/8/17	22/11/17	No		X			2	4	Final
Treasury Management	31/7/17	17/11/17	No		X				4	Final
Payroll and pre employment checks										Qtr 4 audit
Cash Management										Qtr 4 audit
Council Tax	6/11/17	29/11/17	Yes			X	1	4	2	Final
Business Rates	6/11/17	29/11/17	Yes			X	1	6	2	Final
Registration services										Qtr 4 audit
Members Expenses and Allowances	22/5/17	12/6/17	Yes		X			2	2	Final
Home to School Transport Follow Up (Ltd 2016/17)	11/7/17	18/8/17	Yes	N/A follow up memo with no opinion			1	2		Final
New Commercial Properties										Qtr 4 audit
IT AUDIT	4/7/17	25/8/17	Yes	N/A follow up memo with no opinion			1	3	1	Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
Tree Services										Work in progress
Building Control and land charges										Qtr 4 audit
IT AUDITS Leisure Management System										Audit cancelled
Library self service and stock purchasing systems										Audit deferred to 2018/19
COUNTER FRAUD Whitegrove Library cash and income spot checks	21/7/17	25/7/17	Yes	N/A follow up memo with no opinion						Final
Ascot Heath Library cash and income spot checks	30/3/17	20/11/17	No	N/A follow up memo with no opinion						Final
Bracknell Leisure Centre cash spot checks	11/10/17	9/11/17	No	N/A follow up memo with no opinion but 3 recommendations						Final
Downshire Golf Complex cash spot checks	3/10/17	9/11/17	No	N/A follow up memo with no opinion						Final
Easthampstead Park Conference Centre cash spot checks	3/10/17	9/11/17	No	N/A follow up memo with no opinion but 2 recommendations						Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status	
				Significant	Satisfactory	Limited	1	2	3		
ADULT SOCIAL CARE, HEALTH AND HOUSING Social care journey <ul style="list-style-type: none"> • RAS assessment • Care package approval • Financial assessment • Direct payment • Contracting • Brokerage 										Qtr 4 audit	
ASCHH Debt Management Follow Up (Ltd 16/17)											Qtr 4 audit
Mental Health Follow Up (Ltd 15/16)				N/A follow up memo with no opinion				2			Final
Bridgewell Follow Up (Ltd 15/16)	8/11/17	27/11/17	No	N/A closure memo with no opinion							Final
Glenfield House Support Team	17/8/17	20/9/17	Yes		X			4			Final
Emergency Duty			Yes		X			5	2		Draft issued

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
excl PRU										progress
IT AUDITS ONE system- review of new module to support assessment of eligibility for extension of early years funding to 30 hours										Audit cancelled
THEMED SCHOOL AUDITS SEN – cross cutting audit of the 4 units at Garth Hill, Meadow vale , GT Hollands and Ranelagh	9/5/17	20/7/17	Yes			X	3	3		Final
Pupil Premium – overall report	1/10/17	10/1/18	Yes		X			6	1	Draft issued
Meadow Vale Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			2			Final
College Town Junior Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			6			Draft issued
Owlsmoor Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			1			Draft issued
New Scotland Hill Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			1			Draft issued
Easthampstead Park Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			6			Draft issued
Binfield Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			2			Draft issued
Crown Wood Pupil Premium Memo	1/10/17	10/1/18	Yes	N/A – memo issued			2			Final

FOLLOW UP OF AREAS PREVIOUSLY AUDITED WITH SIGNIFICANT CONTROL ISSUES

DIRECTORATE	AREA	
COUNCIL WIDE AUDITS	<u>OFFICERS EXPENSES</u>	Re-audited in full in quarter 1 and a limited assurance opinion was given. See section 3.4.
	<u>BUDGET SAVINGS</u>	No follow up planned.
CHILDREN, YOUNG PEOPLE AND LEARNING	<u>MOSAIC IT SYSTEM</u>	Follow up deferred to 2018/19
CORPORATE SERVICES	<u>CONSTRUCTION AND MAINTENANCE</u>	As reported to the June 2016 Governance and Audit Committee, the issues have been raised with management at the last 3 audits and no further audit work will be undertaken
	<u>CREDITORS</u>	Audit in progress
	<u>IT EQUIPMENT</u>	No follow up planned
	<u>HOME TO SCHOOL TRANSPORT (2015/16 AUDIT)</u>	A follow up was carried out in quarter 1 and priority 1 recommendation was raised. See section 3.4.
	<u>CRM SYSTEM</u>	A follow up was carried out in quarter 2 and all priority 1 issues previously raised had been addressed.
	<u>DISASTER RECOVERY</u>	A follow up was carried out in quarter 2 and a priority 1 recommendation was raised. See section 3.4.
	<u>BACK UPS</u>	A follow up was carried out in quarter 2 and the priority 1 issue previously raised had been addressed.
ENVIRONMENT CULTURE AND COMMUNITIES	<u>LED</u>	No follow up planned
	<u>HIGHWAYS NETWORK ASSETS</u>	Since the audit CIPFA have withdrawn the proposed accounting changes hence no

DIRECTORATE	AREA	
		further audit work will be carried out in this area.
ADULT SOCIAL CARE , HEALTH AND HOUSING	<u>MENTAL HEALTH (2015/16 AUDIT)</u>	This was followed up in quarter 2 and the audit concluded that the priority 1 issues had been addressed although it was noted that there was a need to improve recording of reviews on the LAS system.
	<u>BRIDGEWELL</u>	The centre has now closed so no further audit work was taken on the recommendations although an audit was carried out on the controls over assets during the close down process.
	<u>ADULT SOCIAL CARE DEBT MANAGEMENT</u>	This will be audited in quarter 4.

FOLLOW UP OF SCHOOL 2016/17 AUDITS IDENTIFYING SIGNIFICANT CONTROL ISSUES FOR GOVERNING BODIES TO ADDRESS		
SCHOOL ESTABLISHMENT AUDITS	<u>SCHOOL A</u>	Followed up in quarter 1 and a priority 1 recommendation was raised again. See section 3.4. As part of the desk exercise to follow up recommendations in December, the School advised that 4 recommendations raised in quarter 1 have now been implemented including the priority one recommendation and the remaining priority 2 recommendation is in progress
	<u>SCHOOL B</u>	Followed up in quarter 1 when it was established that the significant issue identified on expenditure approval identified had been partially addressed. The School advised in December that this matter had now been fully addressed.
	<u>SCHOOL C</u>	Follow up to be carried out in quarter 4.
	<u>SCHOOL D</u>	Followed up in quarter 1. One priority 1 recommendation has been fully implemented and the other priority 1 recommendation on expenses had been partially implemented.
	<u>SCHOOL E</u>	Followed up in quarter 1. The issues that had resulted in the two priority 1 recommendations had been addressed.

FOLLOW UP OF SCHOOL 2016/17 AUDITS IDENTIFYING SIGNIFICANT CONTROL ISSUES FOR GOVERNING BODIES TO ADDRESS

	<u>SCHOOL F</u>	A follow up was undertaken before the school became an academy and it was found that the priority 1 recommendation had been addressed.
THEMED SCHOOL AUDIT	<u>PROCUREMENT IN SCHOOLS</u>	Consideration will be given as the most appropriate timing for re-auditing this area to ensure that there is a meaningful sample to test as there are only a very limited number of large procurements in schools.

FOLLOW UP OF RECOMMENDATIONS

2016/17 AUDIT REPORTS

Audit	Recommendations Priority			Outcome
	1	2	3	
ECC Downshire Golf	0	11	0	8 implemented and 3 in progress
Easthampstead Park Conference Centre	0	10	0	One recommendation and part of another recommendation were disagreed. One recommendation is ongoing re the sound equipment and seven recommendations have been completed.
IT AUDITS CONFIRM	0	6	4	Four priority 2 and three priority 3 rec implemented. Two priority 2 and one priority 3 recommendation in progress.
CYPL Pupil Places	0	8	2	One priority 2 and one priority 3 recommendation has been implemented. Three priority 2 recommendations are outstanding. One priority 2 and one priority 3 recommendation not agreed. Two priority 2 recommendations are not yet due as they will be addressed at the time of the new contract although one has been taken into account in drafting the specification.
New Scotland Hill	0	8	0	All implemented
Sandy Lane Primary (Ltd 15/16)	0	7	2	Four priority 2 and one priority 3 recs implemented, Rest are in progress.
St Michael's Hampstead CE Prim (Ltd 15/16)	0	3	1	All implemented except for the priority 3 rec which will go to the fin Committee in Feb 18
Wildridings Primary	0	7	1	All implemented except for one priority 2 and one priority three recommendation.
SEND	0	10	2	All implemented
Residential placements	0	1	2	All implemented
ASCHH Better Care Fund-	0	3	3	One priority three and two priority recommendations implemented and the rest are in progress.
Financial Assessments and Benefits Checks	0	0	3	One not agreed and two implemented
Regalement and Hospital Discharge	0	6	0	One superseded, three implemented and two in progress
Discretionary Housing Payments and Social Fund Payments	0	2	2	One priority 2 and one priority 3 recommendation implemented. The rest are in progress
	0	82	22	

2017/18 AUDIT REPORTS

Audit	Recommendations Priority			Outcome
	1	2	3	
CORPORATE SERVICES Members Expenses and Allowances	0	2	2	All implemented
ICT Back Ups (Ltd 2016/17)	0	0	3	Implemented
ADULT SOCIAL CARE, HEALTH AND HOUSING Matrix –Agency system	0	6	4	Two priority 2 recommendations implemented. The other recommendations are outstanding.
Housing Applications and Allocations	0	0	2	Implemented
SCHOOLS Whitegrove	0	7	2	All implemented except one priority 2 rec on completing the fraud health checklist due by the end of the year
Ascot Heath Infants follow up	0	3	0	All implemented
Eathampstead Park follow up	0	6	2	No response received
Winkfield St Mary follow up	0	4	1	All recommendations implemented.
	0	28	16	

**TO: GOVERNANCE AND AUDIT COMMITTEE
31 JANUARY 2018**

STRATEGIC RISK UPDATE Head of Audit and Risk Management

1 PURPOSE OF REPORT

- 1.1 This report presents the updated Strategic Risk Register.

2 EXECUTIVE SUMMARY

- 2.1 The Strategic Risk Register is updated and reviewed by the Strategic Risk Management Group (SRMG) on a quarterly basis and by the Corporate Management Team (CMT) at least twice a year in accordance with the Risk Management Strategy. Given the Register was still at an embryonic stage following reformatting to include risk appetite, CMT have been reviewing the Register quarterly to date this year. The last update was at SRMG in November and CMT in December.

3 RECOMMENDATION

- 3.1 **To provide feedback on the completeness of risks and appropriateness of risk scores including the score for risk appetite in the Register attached at Appendix 1.**

4 REASONS FOR RECOMMENDATION

- 4.1 To ensure the Strategic Risk Register accurately reflects the Council's risks.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 There are no alternatives.

6 SUPPORTING INFORMATION

Update of Strategic Risk Register

- 6.1 The Register was reviewed by SRMG on 27th November 2017 and by CMT on 20th December 2017.
- 6.2 Key changes in the updated Register are:
- A reduction in the Finance risk to reflect reduced budget pressures, making this now an amber rather than red risk.
 - The combining of risks that a) jobs in the town centre impact on Council and Council contractors ability to recruit and b) loss of key staff
 - Reducing the risk on school places as proposals are now being put forward hence reducing this from red to amber.
 - To remove the risk on the Coral Reef project which has now been delivered
 - Reducing the safeguarding risk following the outcome of the OFSTED inspection hence reducing this from red to amber.

- The risk on IT has been reframed to focus on the IT Strategy implementation and now incorporates cyber risks.
- With respect to the risk on the Binfield Learning Village, it is expected that the next monthly report on the programme will indicate it is no longer a red risk. If this is confirmed, CMT's view is that the project will continue to be closely monitored by CMT acting as the Programme Board but should not be included in the Strategic Risk Register.

6.3 Risk owners will be asked to provide an update on action to address risks once the risks have been agreed by CMT.

7 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

7.1 There are no specific legal implications arising from the recommendations in this Report.

Borough Treasurer

7.2 No direct financial implications

Equalities Impact Assessment

7.3 Not applicable.

Strategic Risk Management Issues

7.4 A robust Strategic Risk Register that is a complete and up to date record of the significant corporate risks is essential for effective risk management, enabling the Council to prioritise resources to identify and implement actions to address the threats to the achievement of the Council's objectives and make informed decisions

8 CONSULTATION

Principal Groups Consulted

8.1 SRMG and CMT.

Method of Consultation

8.2 At the SRMG and CMT meetings on 27 November and 20th December 2017 respectively.

Representations Received

8.3 Not applicable.

Contact for further information

Sally Hendrick – 01344 352092
sally.hendrick@bracknell-forest.gov.uk

STRATEGIC RISK REGISTER DECEMBER 2017

Strategic Theme 1: Value for money: Performance Measures : Spending is within budget

Risk 1: Significant pressures on the Council’s ability to balance its finances whilst maintaining satisfactory service standards

Risk Owner: Borough Treasurer

Risk Rating (Likelihood x Impact)

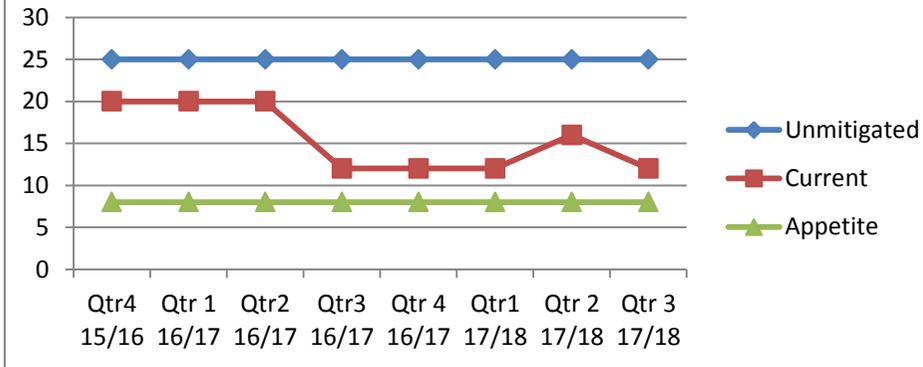
Unmitigated 5 x 5

Current Residual 3 x 4

Appetite 2 x 4

Potential Impact

Strategic objectives and statutory duties not met
Increased insurance claims/ legal costs/penalties.



Rationale for current score:

Projected overspend due to adult and children social care pressures.

Rationale for risk appetite

Achieving a sustainable financial position is a core responsibility.

Current RAG rating Amber

Current Actions (*What we are currently doing about the risk*)

- 4 year financial settlement in place
- Efficiency plan in place signed off by full Council.
- Transformation Board to deliver significant savings over the medium term.
- Continuous engagement with Members regarding priorities
- Medium term financial strategy will need to be continually monitored and reviewed
- CIL governance processes and procedures established and prioritising spend in accordance with BFC Regulation 123 infrastructure list. Regular dialogue with Town and Parish Councils to come to an agreed accord on spending of CIL monies.
- Approved capital spending plans are in place e.g. for Binfield Learning Village at Blue Mountain, the Commercial Property Investment programme.. These are built in to the Council’s capital programme and are monitored. Regular updates going to CMT.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Medium Term Financial Planning	Borough Treasurer	Ongoing

Strategic Theme 1: Value for money: Performance Measures :The cost, quality and delivery mechanism of all services will be reviewed by 2019

Risk 2: Council unable to deliver the transformation programme due to:

- Difficulties in delivering individual projects
- Difficulties in tracking transformation changes
- Benefits/savings not being achieved
- Linkages between individual transformation projects and knock on effects across transformation projects not adequately identified and taken into consideration.

Risk Owner: Chief Executive

Risk Rating (Likelihood x Impact)

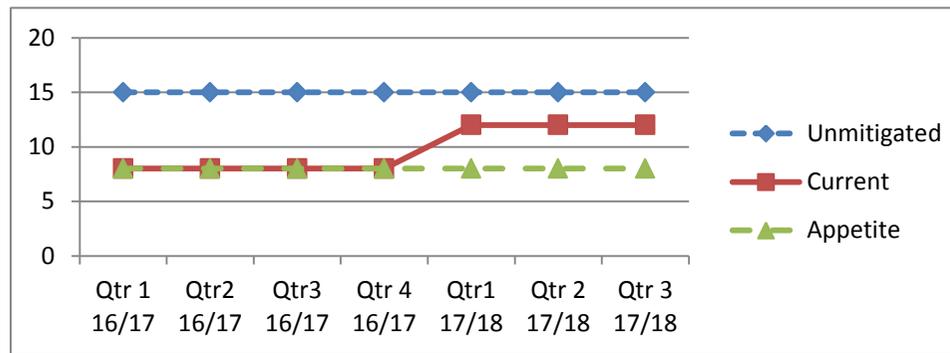
Unmitigated 3 x 5

Current Residual 3 x 4

Appetite 2 x 4

Potential Impact

Conflicting pressures between elements of the programme Core objectives/benefits not achieved. Statutory responsibilities not met



Rationale for current score:

Governance arrangements around the projects are robust and projects are generally on track but the consequences of failing to achieve the anticipated benefits would be critical ..

Rationale for risk appetite

Transformation process is in response to the need to make radical changes to service delivery to be sustainable moving forward and hence a high level impact is accepted but mitigated by a low tolerance for likelihood.

Current RAG rating Amber

Current Actions (What we are currently doing about the risk)

- Transformation Board and regular Transformation Board meetings
- Programme Manager
- Transformation Risk Register in place
- Separate risk registers set up for the significant transformation projects
- Regular Transformation team meetings include monitoring of dependencies
- Key dependencies escalated to the Board

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Clear map of programme of benefits of adults and children achieving targets	Directors of ASCHH/CYPL	Qtr 3 17/18
Development and implementation of dashboard report for complex transformation projects	Head of Transformation and Engagement	Qtr 4 17/18

Strategic Theme 1: Value for money: Performance Measure; Spending is within budget

Strategic Theme 6: Strong, safe, supportive and self reliant communities : Performance Measure: Safeguarding structures to safeguard children and vulnerable adults are well established.

Risk 3: Council and its outsourced providers are unable to recruit and retain staff at all levels together with loss of key Council staff through redundancy, retirements, etc. and managing services with reduced capacity and with staff resources re-allocated to the transformation programme

Risk Owner: CMT

Risk Rating (Likelihood x Impact)

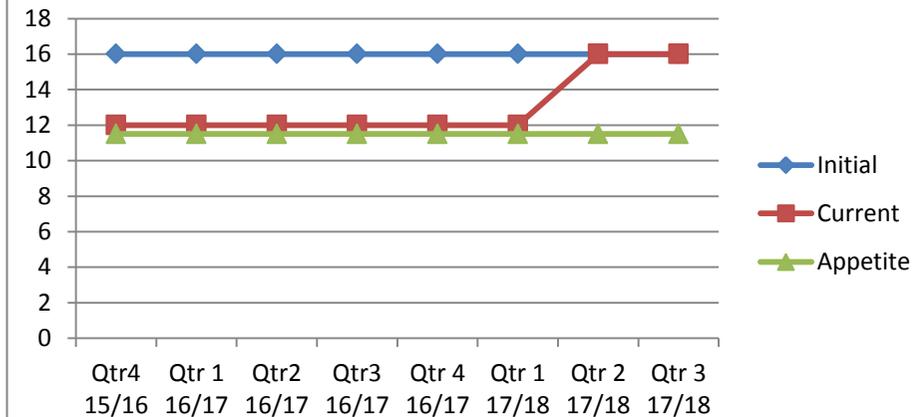
Unmitigated 4 x 4

Current Residual 4 x 4

Risk Appetite 3 x 3

Potential Impact

Disruption to services. Failure to meet statutory duties



Rationale for current score:

Significant difficulties in retaining staff and recruiting to posts across the Council.

Rationale for risk appetite

Staff are the key resource in delivering key services and providing support to front line services.

Current RAG rating Red

Current Actions(What we are currently doing about the risk)

- For BFC staff monitor the impact and review our reward and recognition approach as necessary to ensure that BFC remains seen as an attractive employer
- Introduce staff retention plans and measures and succession planning arrangements

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Highlight risks for each directorate sites	CMT	Qtr 2
Monitor recruitment for Coral Reef and other leisure sites	Director ECC	Qtr 2
Monitor service delivery through providers of domiciliary care as town centre opens	Director of ASCHH	Qtr3
Monitor financial impact	Borough Treasurer	Ongoing
Mitigation required re apprenticeship levy requirements	CMT	Ongoing
Sub-group of Transformation working group of workforce focusing on care in the community	Sub-group	Ongoing

Strategic Theme 2: A Strong and Resilient Economy

Performance Measures : The borough is regarded as an excellent business location

Risk 4 Impact of the national and global economy on economic activity in the Borough including potential for businesses to relocate following Brexit and other international business decisions.

Risk Owner: Director of ECC

Risk Rating (Likelihood x Impact)

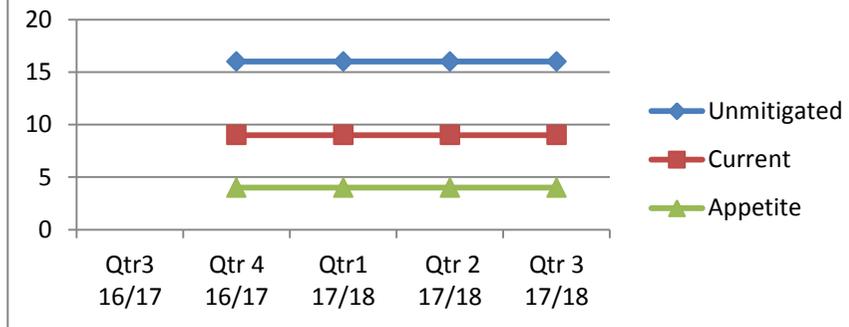
Unmitigated 4 x 4

Current Residual 3 x 3

Appetite 2 x 2

Potential Impact

Economic prosperity not sustained



Rationale for current score:

Current uncertainty means that the risk is relatively high.

Rationale for risk appetite

Given potential financial consequences risk appetite is low.

Current RAG rating Amber

Current Actions *(What we are currently doing about the risk)*

- Implement annual inward investment plan and exploit trade links outside the UK with emerging economies in collaboration with key partners (DIT, TVB LEP, TVCC and commercial agents and facility managers)
- Continue with business liaison programme

Further Mitigation *(what more should we do to reduce risk to our risk appetite level) and opportunities*

	Officer responsible	Target date
Promote investment opportunities from London and international organizations including those from growth economies	Chief Executive	

Strategic Theme 3: People have the life skills and education opportunities they need to thrive

Performance Measures : School places are available in all localities

Risk 5: The Council Policy of providing local school places for local children results in overprovision and a surplus of school places across the borough.

Risk Owners: Director of CYPL

Risk Rating (Likelihood x Impact)

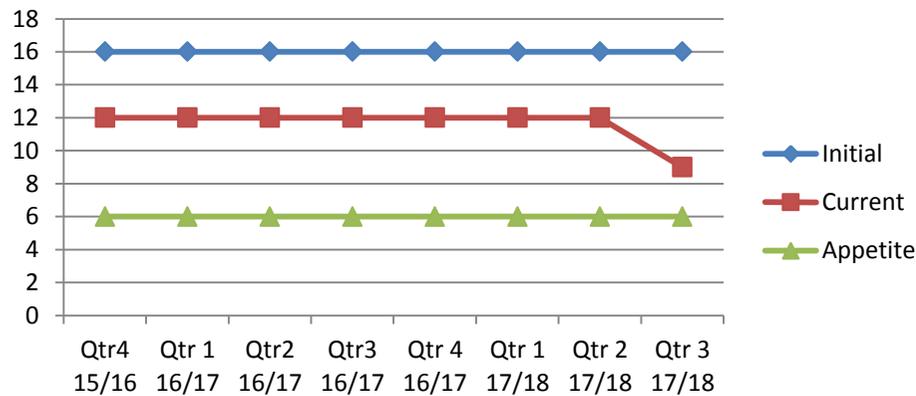
Initial underlying 4 x 4

Current Residual 3 x 3

Appetite 2 x 3

Potential Impact

Cost overruns/ pressure on the capital budget
Late delivery . Core objective to deliver required additional school places not delivered



Rationale for current score:

There is currently surplus of places and difficulties in attracting pupils to certain schools but a Plan geared to addressing this is being put forward to the Executive.

Rationale for risk appetite

Risk appetite is fairly low given the Council's statutory responsibilities to educate

Current RAG rating Amber

Current Actions (What we are currently doing about the risk)

- Pupil Places Planning Board in place
- Annual school place planning based on a review of future housing plans, numbers on roll and demographic data provides data on
 - ⇒ 'pupil data and statistics
 - ⇒ forecasts of pupil numbers for the next five years
 - ⇒ commentary on the need to add or remove school capacity
 - ⇒ estimates of future housing growth

Further Mitigation (what more should we do to reduce risk to our risk appetite level)

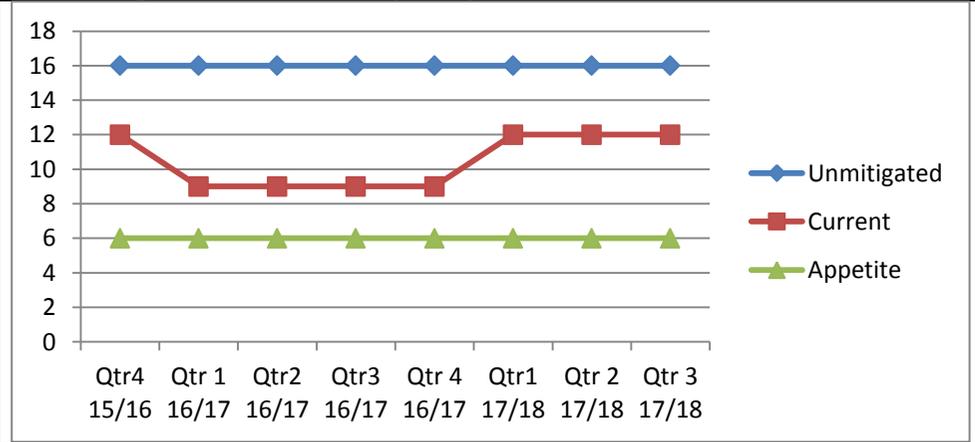
	Officer responsible	Target date
School Places Plan and Capital Strategy to go to the Executive	Director of CYPL	January 2017

Strategic Theme 3: People have the life skills and education opportunities they need to thrive
 Performance Measures :Children have access to high quality early years provision /School places are available in all localities /All young people who have left school go on to further education, find employment or undertake some form of training

Strategic Theme 4: People live active and healthy lifestyles
 Performance Measures:Comprehensive public health programmes aimed at adults and young people/Personal choices available to allow people to live at home are increased///Integration of council and health services care pathways for long term conditions is increased /Accessibility and availability of mental health services for young people and adults is improved

Risk 6: Council unable to predict and plan for or respond to future changes in demands for services arising from demographic changes and national policy initiatives. **Risk Owners:** Directors of CYPL and ASCHH

Risk Rating (Likelihood x Impact)
 Unmitigated 4 x 4
 Current Residual 4x 3
 Appetite 2 x 3
Potential Impact
 Failure to meet demand.
 Statutory duties not met



Rationale for current score:
 Increasing pressure on children’s social care and adult social care.

Rationale for risk appetite
 Tolerance in forecasting relatively low due to knock on effect on financial planning

Current RAG rating Red

Current Actions (What we are currently doing about the risk)

CYPL

- Continuous monitoring of demand levels for children’s social care
- Monitoring impact of SEND reform and implementation of Education, Health and Care Plans.
- Block contracts for high cost placements e.g. contract let for independent fostering agencies

ASCHH

- Domiciliary care – to move away from spot purchasing from a high number of providers through the use of the framework agreement of providers which will reduce pressure of a high number of providers competing for limited staffing resources in the local area. .
- New Three Conversations approach for incoming cases and new RAS model introduced

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Monitoring rise in demand in children’s social care to assess if this temporary or permanent	Director of CYPL	Qtr 3

- | | |
|--|--|
| <ul style="list-style-type: none">• Early intervention and small budget available per team to use in preventative ways• An asset based approach to assessment by social care staff• Development of digital platform to support customers to use their direct payments creatively and greater use of community resources and technology in support packages• A community model of intermediate care and reablement• Plans to develop up step up and step down beds in partnership with the Frimley Acute Trust• Increasing the number of personal assistants on the PA register that offer personal care | |
|--|--|

Strategic Theme 4: People live active and healthy lifestyles

Performance Measures: Comprehensive public health programmes aimed at adults and young people/Personal choices available to allow people to live at home are increased///Integration of council and health services care pathways for long term conditions is increased /Accessibility and availability of mental health services for young people and adults is improved

Risk 7: Council unable to sustain delivery of services to support adult social care needs due to external providers of adult social care withdrawing from the market for local authority funded care as a result of factors impacting on financial viability.

Risk Owners: Directors of ASCHH

Risk Rating (Likelihood x Impact)

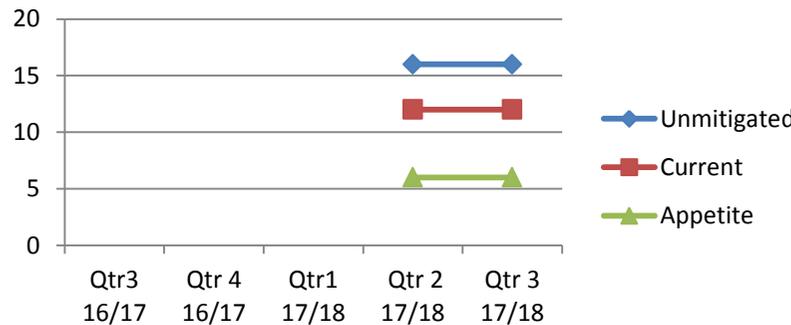
Unmitigated 4 x 4

Current Residual 4x 3

Appetite 2 x 3

Potential Impact

Failure to meet demand.
Statutory duties not met.
Increased budget pressures



Rationale for current score:

Court ruling on pay rates for sleep-over cover and HMRC pursuit of providers for taxes on backdated pay.

Rationale for risk appetite

Appetite is low due to the potential impact for vulnerable individuals.

Current RAG rating Red

Current Actions *(What we are currently doing about the risk)*

- Develop in-house contingency arrangements to direct deliver services in the event of market failure
- Actively developing the local market, particularly universal services, community groups and recruitment of Personal Assistants
- Monitor contracts and implementation of quality assurance process
- Gather intelligence through ADASS South East Commissioning network and from neighbouring authorities
- Working with CCGs, and other local authorities to actively create additional supply in the care home market
- Monitor financial standing of significant providers using internal intelligence and through the ADASS commissioning network
- Robust contingency planning where risks are identified
- Negotiating favourable block contracts to provide leverage on costs with other external providers in place

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

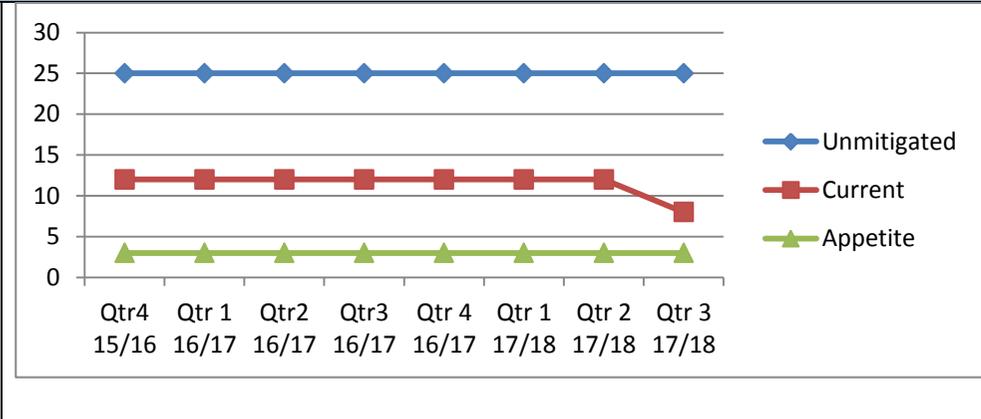
	Officer responsible	Target date
Re-use of the Heathlands site to deliver further social care provision	Director ASCHH	Ongoing

Strategic Theme 6: Strong, safe, supportive and self-reliant communities
 Performance Measure: Safeguarding structures to safeguard children and vulnerable adults are well established.

Risk 8: Factors outside the control of the Council may result in the injury, death or sexual exploitation of a vulnerable child or adult in the community.

Risk Owners: Directors of CYPL and ASCHH

Risk Rating (Likelihood x Impact)
 Unmitigated 5 x 5
 Current Residual 2 x 4
 Appetite 1 x 3
Potential Impact
 Loss or reputation.
 Fines/penalties. Insurance claims



Rationale for current score:
 Whilst the impact of failure would be critical, the likelihood has been reduced following the favourable outcome of the OFSTED inspection into children's services.

Rationale for risk appetite
 Given the risk relates to the safeguarding of vulnerable individuals the risk appetite will be low.

Current RAG rating Amber

Current Actions (What we are currently doing about the risk)

CYPL

- Local Safeguarding Children's Board brings together senior and operational staff within local organisations to help co-ordinate services and make certain they work together to keep children safe from harm. The Board has a role in monitoring and overseeing the contribution partnership organisations make towards safeguarding children
- Ongoing social media campaign which focuses on the 'Nine Signs of CSE. In the autumn a media operation was launched on safety on line to help engage parents on what their children may potentially be accessing on the internet.'
- S11 Audits
- Proactive strategies for recruitment of social workers being implemented
- Proactive parenting projects now in place e.g. family group conferencing, Symbol project supporting parents with learning disabilities
- Multi Agency Safeguarding Hub
- Transformation project around early intervention and prevention.
- Monitoring children vulnerable to CSE and going missing via the multi-agency CSE/Missing operational group.

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Action plans in response to external inspection and points of continual improvement	Director CYPL	Ongoing

ASCHH

- Joint Safeguarding Adults Board (with W.A.M.) brings together key partners to work together to mitigate risks to vulnerable adults and prevent harm. Serious Adult Reviews provide learning that is shared across organisations to reduce risks. Safeguarding training is mandatory for staff within all of the member organisations and there is a continual focus on safeguarding awareness raising in the public.
- Commissioners and operational staff are involved in quality assurance monitoring of commissioned services together with the statutory body, CQC.
- Adult Safeguarding Board in place with independent chair.
- S11 audit completed. Action identified to log safeguarding training.
- Changes to deprivation of liberty safeguards has resulted in increase in demand as expected hence dealing only with urgent cases which is the approach supported by DOH

Strategic Theme 1: Value for money
 Strategic Theme 2: A Strong and Resilient Economy
 Strategic Theme 3: People have the life skills and education opportunities they need to thrive
 Strategic Theme 4: People live active and healthy lifestyles
 Strategic Theme 5: A clean, green growing and sustainable place
 Strategic Theme 6: Strong, safe, supportive and self-reliant communities

Risk 9: IT Strategy and digital infrastructure fails to meet the needs of the organisation. Pressure on ICT resources to deliver substantial and complex changes introduced under the Enterprise Agreement (EA) and potential end user resistance to both disruption during implementation and the changes being introduced. IT controls or staff vulnerabilities fail to prevent a cyber attack and/or unable to respond effectively to an attack to enable IT services to be sustained.

Risk Owners: Director Resources

Risk Rating (Likelihood x Impact)

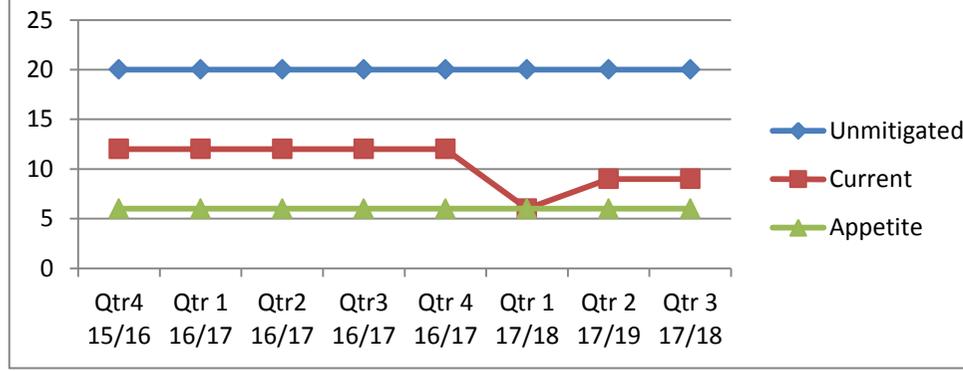
Unmitigated 4 x 5

Current Residual 3 x 3

Appetite 2 x 3

Potential Impact

Disruption to services. Failure to meet statutory duties. Removal of access to external databases and systems e.g. DWP



Rationale for current score:

Interim chief officer and new Strategy in place

Rationale for risk appetite

Appetite is low due to dependency on IT for delivery of all services

Current RAG rating Amber

Current Actions (What we are currently doing about the risk)

- Paper to Resources DMT and CMT in November to help get buy in to the EA project from the Directors
- EA Project being implemented module by module and communication will be made with teams affected at each stage
- Use PSN and N3 accreditation process to test for vulnerabilities
- Members of government early warning groups such as CISP (Cyber-Security Information Sharing Partnership) and WARP (Warning, Advice and reporting point)
- Communication to raise staff awareness to risks
- Disaster Recovery Plan and Action Plan for the systematic recovery of systems.
- Disaster Recovery contract with a provider to get systems up and running and an Action Plan for the systematic recovery of systems

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Reminders on risks will be issued to staff after PSN accreditation issued	Acting Chief Officer: Information Services	Qtr4 2017/18
Develop a cyber security action plan following the audit of this area.	Acting Chief Officer: Information Services	Qtr4 2017/18
New ASCH&H ICT business partner to be invited to attend one meeting of the 'Local Digital Record' and 'Connected Care' projects and then receive minutes and be co-opted as	Director ASCHH	Qtr4 2017/18

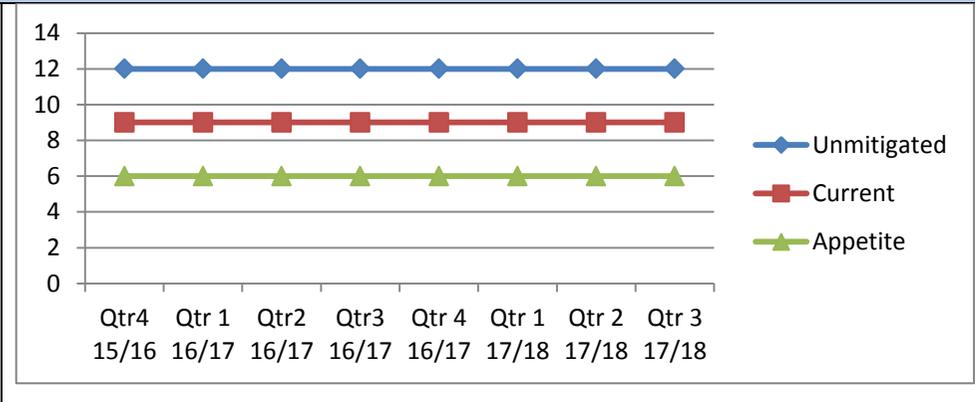
	necessary. ICT business partner to be invited to ASCH&H Adult Leadership Team meetings. DASS to brief new Head of ICT when in post.			
--	---	--	--	--

Strategic Theme 1: Value for money
 Strategic Theme 2: A Strong and Resilient Economy
 Strategic Theme 3: People have the life skills and education opportunities they need to thrive
 Strategic Theme 4: People live active and healthy lifestyles
 Strategic Theme 5: A clean, green growing and sustainable place
 Strategic Theme 6: Strong, safe, supportive and self-reliant communities

Risk 10: Council unable to comply with data protection/security requirements to secure data resulting in inappropriate disclosure, loss or theft of sensitive data. Uncertainty of impact of placing more responsibility on end users by changing IT controls to meet business needs (E.g. changes to protective marking, access to Windows 10 and removal of Endpoint). Failure to meet requirements of GDPR.

Risk Owners: Director Resources

Risk Rating (Likelihood x Impact)
 Initial underlying 3 x 4
 Current Residual 3 x 3
 Appetite 2 x 3
Potential Impact
 Fines/penalties. Disruption to services. Failure to meet statutory duties. Removal of access to external databases and systems e.g. DWP



Rationale for current score:
 The likelihood remains high as incidents tend to be due to human errors rather than weakness in control. The new GDPR comes into effect 9 months time. Fines are increasing and hence potential impact remains high.

Rationale for risk appetite
 In addition to the financial risk, financial penalties are now very high and will be increasing further hence the Council will seek to minimise the risk of these being incurred.

Current RAG rating Amber

Current Actions (What we are currently doing about the risk)

- E-learning for information security and data protection.
- Monitoring of information security breaches at Information Governance Group, SRMG and at CMT.
- Information Asset Register. IT systems holding information assets are now being identified. Data mapping to be undertaken as part of GDPR implementation
- GDPR compliance action plan in place

Further Mitigation (what more should we do to reduce risk to our risk appetite level) and opportunities

	Officer responsible	Target date
Working with HR on policies for users and communication strategies	Acting Chief Officer: Information Services	Qtr4 2017/18
E-Learning to be updated as part of GDPR implementation	Lawyer (Information Management and Security)	Qtr4 2017/18
New ASCH&H ICT business partner to be invited to attend one meeting of the 'Local Digital Record' and 'Connected Care' projects and then receive minutes and be co-opted as necessary. ICT business partner	Director ASCHH	Qtr4 2017/18

	to be invited to ASCH&H Adult Leadership Team meetings. DASS to brief new Head of ICT when in pos			
--	---	--	--	--

Strategic Theme 3: People have the life skills and education opportunities they need to thrive

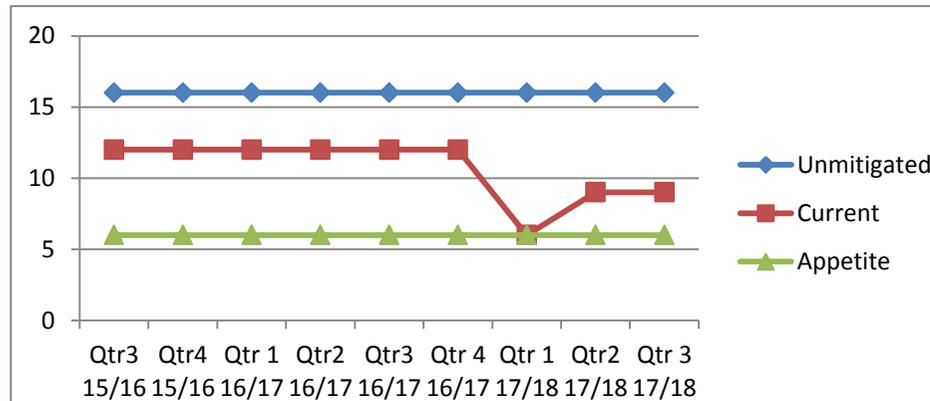
Performance Measures : School places are available in all localities

Risk 11: Council unable to monitor and control implementation of the Binfield Learning Village project to ensure delivered on time and within budget.

Risk Owners: Director of CYPL

Risk Rating (Likelihood x Impact)
 Unmitigated 4 x 4
 Current Residual 3 x 3
 Appetite 2 x 3

Potential Impact
 Cost overruns/ pressure on the capital budget
 Late delivery . Core objective to deliver required additional school places not delivered



Rationale for current score:
 Latest Project Management report to CMT indicates an increase in overall risk rating of red.

Rationale for risk appetite
 Major project for delivering community needs

Current RAG rating Red

Current Actions *(What we are currently doing about the risk)*

- CMT acting as strategic project board for Binfield Learning Village
- Programme manager provides regular updates to CMT on Binfield Learning Village
- Task specific sub-groups established for Binfield Learning Village
- Risks identified in highlight report

Further Mitigation *(what more should we do to reduce risk to our risk appetite level) and opportunities*

	Officer responsible	Target date
Actions to identify factors contributing to current risk score are identified in highlight report and being monitored by CMT	CMT	Ongoing

RISK MATRIX

5					
---	--	--	--	--	--

Likelihood:
5 Very High

LIKELIHOOD

4					
3					
2					
1					
	1	2	3	4	5

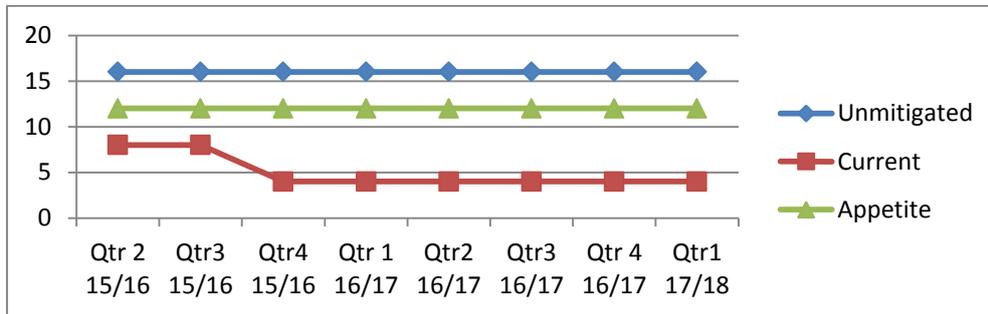
IMPACT

4 High
3 Significant
2 Low
1 Almost Impossible

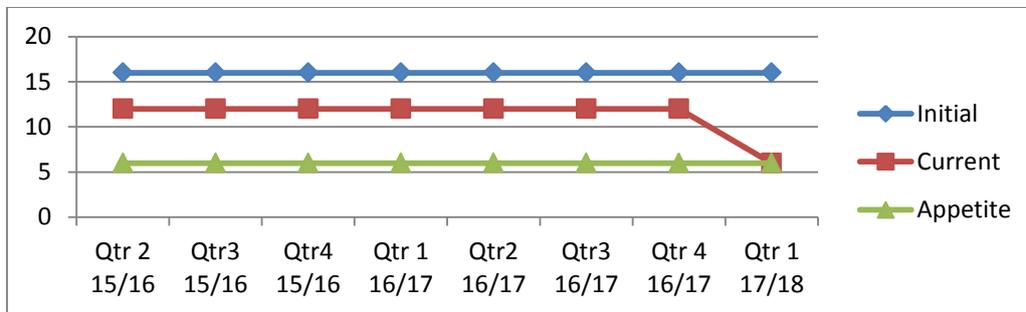
Impact:
5 Catastrophic
4 Critical
3 Major
2 Marginal
1 Negligible

RISKS REMOVED

Town Centre



Schools' Backlog Maintenance



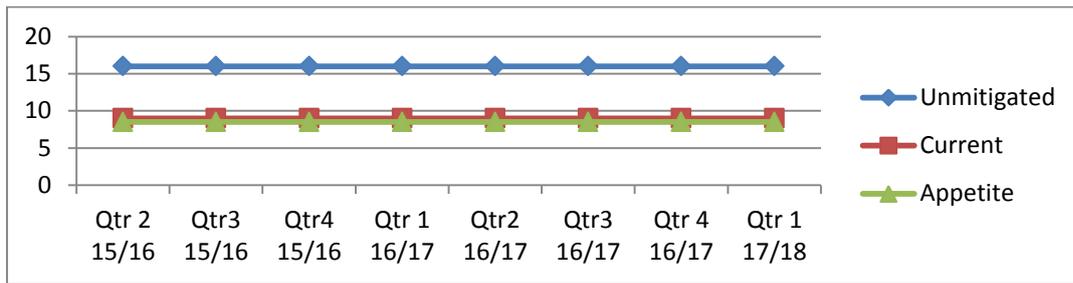
Buildings and Infrastructure



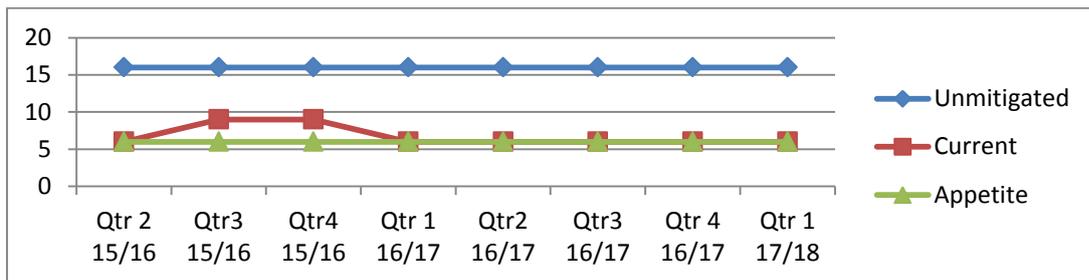
Working with Partners



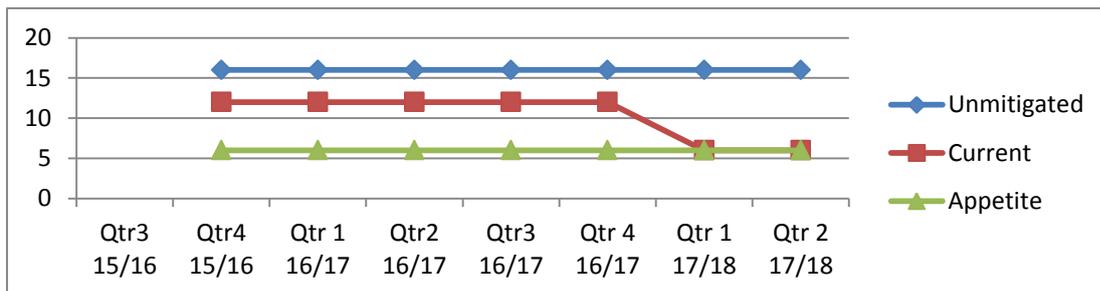
Business Continuity



Legislative Changes



Cyber risks



**TO: GOVERNANCE AND AUDIT COMMITTEE
31 JANUARY 2018**

TREASURY MANAGEMENT REPORT 2018/19 AND 2017/18 MID-YEAR REVIEW Borough Treasurer

1 PURPOSE OF DECISION

- 1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity before considering maximising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.
- 1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 1.4 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.
- 1.5 This report seeks to achieve both these requirements of updating Members on progress in 2017/18 and to review the Treasury Management Report for 2018/19.

2 RECOMMENDATIONS

- 2.1 **That the Committee consider and review the Mid-Year Review Report.**
- 2.2 **That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.**
- 2.3 **That the Committee review the Treasury Management Report for 2018/19 prior to its approval by Council.**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress

of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2017/18
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2017/18
- A review of compliance with Treasury and Prudential Limits for 2017/18

Economic Update

5.2 After the UK surprised on the upside with strong economic growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.8% y/y), quarter 2 was +0.3% (+1.5% y/y) and quarter 3 was +0.4% (+1.5% y/y). The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 80% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year while robust world growth has also been supportive. However, this sector only accounts for around 10% of GDP so expansion in this sector will have a much more muted effect on the overall GDP growth figure for the UK economy as a whole.

5.3 At Its 2 November meeting, the MPC duly delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020. This is, therefore, not quite the 'one and done' scenario but is, nevertheless, a very relaxed rate of increase prediction in Bank Rate in line with previous statements that Bank Rate would only go up very gradually and to a limited extent.

5.4 However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. In addition, a strong export performance will compensate for weak services sector growth. If this scenario was indeed to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

5.5 One key area of risk is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up after Bank Rate had been unchanged at 0.50% since March 2009 until falling further to 0.25% in August 2016. This is why forward

guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

- 5.6 Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two to three years will actually pan out.

Treasury Management Strategy Statement Review

- 5.7 The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by the Council on 24th February 2017. There are no policy changes to the TMSS.

Review of Investment and Debt Portfolio 2017/18

- 5.8 The Council held £12.197m of investments as at 31 December 2017 and the investment portfolio yield for the first nine months of the year is 0.25% against a benchmark (Local Authority 7-Day Rate) of 0.16%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Standard Life Liquidity Fund	1 Day	5,000	0.25
Black Rock Sterling Liquidity	1 Day	100	0.21
Federated Prime Rate	1 Day	6,997	0.25
Goldman Sachs	1 Day	100	0.18
Total Investments		12,197	

- 5.9 The 2017/18 interest budget assumed that an average interest rate of 0.25% would be earned on the Council's investment portfolio. As such the interest earned on the years surplus cash should be in line with target

- 5.10 As at 31 December 2017 the Council's debt portfolio was as follows

Short Term Market Loans

Loan Ref	Principal	Rate	Start	End
GLA	10,000,000	0.70%	19/12/2017	19/09/2018
Derby	5,000,000	0.60%	15/01/2018	16/07/2018
15,000,000				

PWLB Loans

Loan Ref	Principal	Rate	Start	End
505711	10,000,000	2.60%	09/02/2017	31/03/2062
505712	10,000,000	2.60%	09/02/2017	31/03/2066
506137	10,000,000	2.42%	20/06/2017	31/03/2063
506138	10,000,000	2.41%	20/06/2017	31/03/2064
506638	20,000,000	1.85%	21/11/2017	21/11/2024
506639	10,000,000	2.50%	21/11/2017	21/11/2062
70,000,000				

Compliance with Treasury and Prudential Limits for 2017/18

- 5.11 The Borough Treasurer can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2017/18 and no changes to these limits are proposed for the remaining 3 months.

Revised CIPFA Treasury Management and Prudential Codes 2017

- 5.12 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances.
- 5.13 There continues to be much debate as to how to interpret and apply the codes, due in large to the lack of clarity that exists. The revised codes have clarified CIPFA's position from that in the initial draft codes produced for the consultation exercise in that it has now drawn a clearer separation between treasury and non-treasury investments and on the role of the treasury management team. Accordingly, in as much as the treasury management team are now clearly recognised as being unlikely to have specialist skills in such areas as property investment, periodic reporting by the treasury management team to members will focus solely on treasury, (financial), investments. The TMSS, and this template report, will not therefore include any level of detail on non-treasury investments as in our opinion, the TMSS is intended to deal with treasury, (financial), investments.
- 5.14 CIPFA has issued a statement that accepts that the issue of revised codes at this late stage in the current 2018-19 budget cycle will make it very difficult for most authorities to fully implement both codes. Accordingly, full implementation is not expected until 2019-20. The Council believes that its Commercial Property Investment Strategy along with a new Capital Strategy (to be published once full guidance is received) will ensure that the Council adheres to the new codes.
- 5.15 The codes require all local authorities to produce detailed Capital Strategies, though CIPFA accepts that authorities may not be able to implement this in the 2018-19 budget cycle. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of a Capital Strategy allows flexibility to engage with full council to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.
- 5.16 The Council believes that its Commercial Property Investment Strategy along with a new Capital Strategy (to be published once full guidance is received) will ensure that the Council adheres to the new codes.

Treasury Management Report 2018/19

- 5.17 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee

as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

- 5.18 The attached Treasury Management Report 2018/19 (annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 19 December 2017 and outlines the Council's Prudential Indicators for 2018/19 to 2020/21 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 28 February 2018.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 None.

Borough Treasurer

- 6.2 The financial implications are contained within the report.

Equalities Impact Assessment

- 6.3 None.

Strategic Risk Management Issues

- 6.4 The Treasury Management Report deals directly with the strategic management of risk associated with the Council's treasury management activities

7 CONSULTATION

Principal Groups Consulted

- 7.1 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in December.

Background Papers

None

Contact for further information

Stuart McKellar -01344 352180

stuart.mckellar@bracknell-forest.gov.uk

Calvin Orr – 01344 352125

calvin.orr@bracknell-forest.gov.uk

This page is intentionally left blank

TREASURY MANAGEMENT REPORT

- 1.1 The Local Government Act 2003 requires the Council to “have regard to” the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
- 1.2 This report outlines the Council’s prudential indicators for 2018/19 – 2020/21 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements:
- The reporting of the prudential indicators setting out the expected capital activities at Annex E(i) (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities).
 - The Council’s Minimum Revenue Provision (MRP) Policy at Annex E(ii), which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
 - The Treasury Management Strategy Statement which sets out how the Council’s treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, set out in Annex E(iii), the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term.
 - The Annual Investment Strategy which sets out the Council’s criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the DCLG Investment Guidance and is shown in Annex E(iv).

The Capital Prudential Indicators 2018/19 – 2020/21

The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. Each indicator either summarises the expected capital activity or introduces limits upon that activity, and reflects the outcome of the Council's underlying capital appraisal systems. Within this overall prudential framework there is an impact on the Council's treasury management activity – as it will directly impact on borrowing or investment activity and as such the Treasury Management Strategy for 2018/19 to 2020/21 complements these indicators. Some of the prudential indicators are shown in the Treasury Management Strategy to aid understanding.

The Capital Expenditure Plans

The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. A certain level of capital expenditure is grant supported by the Government; any decisions by the Council to spend above this level will be considered unsupported capital expenditure. This capital expenditure needs to have regard to:

- Service objectives (e.g. strategic planning);
- Stewardship of assets (e.g. asset management planning);
- Value for money (e.g. option appraisal);
- Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
- Affordability (e.g. implications for the council tax);
- Practicality (e.g. the achievability of the forward plan).

The revenue consequences of capital expenditure, particularly the unsupported capital expenditure, will need to be paid for from the Council's own resources. This capital expenditure can be paid for immediately (by applying capital resources such as capital receipts, capital grants, or revenue resources), but if these resources are insufficient any residual capital expenditure will add to the Council's borrowing need.

The key risks to the plans are that the level of Government support has been estimated and is therefore maybe subject to change. Similarly some estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale. For instance anticipated asset sales may be postponed due to external factors, similarly the proceeds from the Right-to-Buy sharing agreement with Bracknell Forest Homes will also be impacted on by the wider economy.

The Council is asked to approve the summary capital expenditure projections below.

Capital Expenditure	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Expenditure	58,071	17,948	2,598
Financed by:			
Capital receipts	8,000	3,000	3,000
Capital grants & Contributions	17,330	8,685	1,475
Net financing need for the year	30,941	6,263	-1,877

The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR. Due to the nature of some of the capital expenditure identified above (ie grant), an element will be immediately impaired or will not qualify as capital expenditure for CFR purposes. As such the net financing figure above may differ from that used in the CFR calculation.

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP). No additional voluntary payments are planned.

The Council is asked to approve the CFR projections below:

	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Financing Requirement			
Opening CFR	204,295	244,981	243,073
Movement in CFR	40,686	-1,908	-2,354

Movement in CFR represented by			
Net financing need for CFR purposes #	42,858	563	223
Less MRP/VRP and other financing movements	-2,172	-2,471	-2,577
Movement in CFR	40,686	-1,908	-2,354

2018/19 includes impact of carry-forward from 2017/18 in addition to 2018/19 Capital Programme

CLG Regulations have been issued which require full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the MRP Statement attached in Annex E(ii)

Minimum Revenue Provision (MRP) Policy Statement

The concept of the Minimum Revenue Provision (MRP) was introduced when the Local Government Capital Finance System was changed on 1 April 1990. This required local authorities to assess their outstanding debt and to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP)

Department for Local Government & Communities (DCLG) issued regulations in 2008 which require a local authority to calculate for the current financial year an amount of MRP which it considers “prudent”. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits or in the case of borrowing supported by government, reasonably commensurate with the period implicit in the determination of the grant. The Council can choose to charge more than the minimum.

In order to minimise the impact on the revenue budget whilst ensuring that prudent provision is made for repayment of borrowing, the Council moved from the equal instalments method to the annuity method in calculating the annual charge over the estimated life of the asset from 1st April 2017. 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

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 annuity basis, in accordance with the regulations. Repayments included in annual PFI or finance leases are applied as MRP.

- For other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts and there is a strong likelihood that this will happen, the MRP policy will be:

Deferral method - MRP will be deferred and the liability repaid through future capital receipts from disposing of the asset

There will be a presumption that capital receipts will be allocated to the appropriate assets in relation to the constraints of the medium term financial strategy.

The actual charge made in the year will be based on applying the above policy to the previous year's actual capital expenditure and funding decisions. Therefore the 2018/19 charge will be based on 2017/18 capital out-turn.

TREASURY MANAGEMENT STRATEGY STATEMENT

The Treasury Management service is an important part of the overall financial management of the Council's affairs. The prudential indicators in Annex E(i) consider the affordability and impact of capital expenditure decisions, and set out the Council's overall capital framework. The Treasury Management service considers the effective funding of these decisions. Together they form part of the process which ensures the Council meets its balanced budget requirement under the Local Government Finance Act 1992.

The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice - 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). This Council has adopted the revised Code.

As a result of adopting the Code the Council also adopted a Treasury Policy Statement. This adoption is the requirement of one of the prudential indicators.

The Code of Practice requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year, and a new requirement of the revision of the Code of Practice is that there is a mid-year monitoring report.

This strategy covers:

- The Council's debt and investment projections;
- The Council's estimates and limits on future debt levels;
- The expected movement in interest rates;
- The Council's borrowing and investment strategies;
- Treasury performance indicators;
- Specific limits on treasury activities;

Debt and Investment Projections 2018/19 – 2020/21

The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed. As a result of the significant investment planned by the Authority over the next three years the Council will be borrow externally on an ongoing basis.

	2017/18 Estimated	2018/19 Estimated	2019/20 Estimated	2020/21 Estimated
External Debt				
Debt at 31 March	£90m	£130m	£130m	£130m
Investments				
Investments at 31 March	£10m	£10m	£10m	£10m

Limits to Borrowing Activity

Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits. For the first of these the Council needs to ensure that its total borrowing net of any investments, 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 2018/19 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 Borough Treasurer reports that the Council has 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.

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 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.

The Council is asked to approve the following Authorised Limit:

Authorised limit	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	£250m	£248m	£246m
Other long term liabilities	£16m	£16m	£15m
Total	£266m	£263m	£261m

Operational Boundary for External Debt

The Authority is also recommended to approve the Operational Boundary for external debt for the same period. The proposed Operational Boundary is based on the same estimates as the Authorised Limit but reflects directly the estimate of the most likely but not worst case scenario, without the additional headroom included within the Authorised Limit to allow for unusual cash movements.

Operational Boundary	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Borrowing	£235m	£233m	£231m
Other long term liabilities	£15m	£15m	£15m
Total	£250m	£248m	£246m

Borrowing in advance of need.

The Borough Treasurer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough

Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

Expected Movement in Interest Rates

The Council's treasury advisor, Link Asset Services (formerly known as Capita Asset Services), has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November 2017. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

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

The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

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

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

Investment and borrowing rates

Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may

not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

Borrowing Strategy 2018/19

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Borough Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Executive at the next available opportunity.

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.

Investment Strategy 2018/19 – 2020/21

Investment Policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Key Objectives

The Council's investment strategy primary objectives are safeguarding the repayment of the principal and interest of its investments on time first and ensuring adequate liquidity second – the investment return being a third objective. Following the economic background outlined in the Treasury Management Strategy, the current investment climate has one over-riding risk consideration that of counterparty security risk. As a result of these underlying concerns officers are implementing an operational investment strategy which maintains the tightened controls already in place in the approved investment strategy.

Investment Counterparty Selection Criteria

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

After this main principle the Council will ensure:

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

In accordance with the Investment Guidance, the Council will, in considering the security of proposed investments, follow different procedures according to which of two categories, Specified or Unspecified, the proposed investment falls into.

Specified Investments offer high security and high liquidity and are:

- ◆ Denominated, paid and repaid in sterling;
- ◆ Not long term investments, i.e. they are due to be repaid within 12 months of the date on which the investment was made;
- ◆ Not defined as capital expenditure; and
- ◆ Are made with a body or in an investment scheme which has been awarded a high credit rating by a credit rating agency or are made with the UK Government or a Local Authority in England, Wales, Scotland or Northern Ireland.

Non-Specified Investments are those which do not meet the definition of Specified Investments.

In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings,

watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using Capita's ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour codings which show the varying degrees of suggested creditworthiness.

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.

The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

Investment instruments identified for use in the financial year are listed in appendix under the 'specified' and 'non-specified' investments categories.

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 maturities .

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
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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money and/or % Limit	Time Limit
Banks	orange	£7m	1 yr
Banks – part nationalised	blue	£7m	1 yr
Banks	red	£7m	6 months
Banks	green	£7m	100 days
Banks	No colour	£0m	0 days
Debt Management Account Deposit Facility	AAA	£7m	6 months
Local authorities	n/a	£7m	1 yr
Money market funds	AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.25	Dark pink / AAA	£7m	liquid
Enhanced money market funds with a credit score of 1.5	Light pink / AAA	£7m	liquid

Our creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence 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 short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1 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 in real time. The Council is alerted to changes to ratings of all three agencies through its use of our 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 weekly basis. 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 government support for banks and the credit ratings of that supporting government

In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded however the current investment limits for 2018/19 restrain all investments to less than 1 year. Any amendment to this strategy will require the credit-criteria to be amended to include a long-term rating. This will be addressed through the formal approval by Council of a revised Treasury Management Strategy and Annual Investment Strategy.

Country and Sector Considerations

Due care will be taken to consider the country, group and sector exposure of the Council's investments. The current investment strategy limits all investments to UK Banks, Building Societies and Local Authorities, in addition to Sterling denominated AAA Money Market Funds.

Economic Investment Considerations

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates. The criteria for choosing counterparties set out above provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Borough Treasurer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to "normal" conditions. Similarly the time periods for investments will be restricted.

Examples of these restrictions would be the greater use of the Debt Management Deposit Account Facility (a Government body which accepts local authority deposits), Money Market Funds, and strongly rated institutions. The credit criteria have been amended to reflect these facilities.

Sensitivity to Interest Rate Movements

Future Council accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% change in interest rates to the estimated treasury management costs for next year. However as all borrowing is fixed any increase in rates will only impact on new borrowing

	2018/19 Estimated + 1%	2018/19 Estimated - 1%
Revenue Budgets	£'000	£'000
Borrowing costs	400	400

Treasury Management Limits on Activity

There are four further treasury activity limits, which were previously prudential indicators. The purpose of these are to contain 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 variable interest rate exposure – This identifies a maximum limit for variable interest rates based upon the debt position net of investments

Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.

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

Total principal funds invested for greater than 364 days – These limits are set with regard to the Council's liquidity requirements and are based on the availability of funds after each year-end.

The Council is asked to approve the limits:

	2018/19	2019/20	2020/21
Interest rate Exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	£266m	£263m	£261m
Limits on variable interest rates based on net debt	£266m	£263m	£261m
Maturity Structure of fixed interest rate borrowing 2017/18			
	Lower	Upper	
Under 12 months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years and above	0%	100%	
Maximum principal sums invested > 364 days			
Principal sums invested >	£m	£m	£m

364 days	0	0	0
----------	---	---	---

Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. For 2018/19 the relevant benchmark will relate only to investments and will be the "7 Day LIBID Rate". The results of these indicators will be reported in the Treasury Annual Report.

Treasury Management Advisers

The Council uses Link Asset Services as its treasury management consultants. The Council recognises that responsibility for treasury management decision 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 subject to regular review.

Member and Officer Training

The increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and kept up to date requires a suitable training process for Members and officers. Following the nomination of the Governance and Audit Committee to examine and assess the effectiveness of the Treasury Management Strategy and Policies, initial training was provided and additional training has been undertaken as necessary. Officer training is carried out in accordance with best practice and outlined in TMP 10 Training and Qualifications to ensure that all staff involved in the Treasury Management function are fully equipped to undertake the duties and responsibilities allocated to them

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Debt Management Agency Deposit Facility* (DMADF) * this facility is at present available for investments up to 6 months	No	Yes	Govt-backed	In-house	364 Days
Term deposits with the UK government or with Local Authority in England, Wales, Scotland or Northern Ireland with maturities up to 364 Days	No	Yes	High security although LAs not credit rated.	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 364 Days	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	364 Days
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) : up to 364 Days. <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days
Gilts : up to 364 Days	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	364 Days

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating **	Circumstance of use	Maximum period
Money Market Funds CNAV, LVNAV, and VNAV <i>These funds do not have any maturity date</i>	No	Yes	<i>AAA Rating by Fitch, Moodys or S&P</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	The period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	1 year in aggregate
Commercial paper <i>[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]</i> <i>Custodial arrangement required prior to purchase</i>	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value] Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	1 year

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Deposits with Authority's Banker where credit rating has dropped below minimum criteria	Where the Council's bank no longer meets the high credit rating criteria set out in the Investment Strategy the Council has little alternative but to continue using them, and in some instances it may be necessary to place deposits with them, these deposits should be of a very short duration thus limiting the Council to daylight exposure only (i.e. flow of funds in and out during the day, or overnight exposure).	No	Yes	n/a	In-House	364 Days
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	5 Years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Although in theory tradable, are relatively illiquid. (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD.	No	Yes	<i>As per list of approved Counterparties</i>	To be used by external fund managers only subject to the guidelines and parameters agreed with them	5 years

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum Credit Rating?</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	<i>5 years</i>
UK government gilts with maturities in excess of 1 year <i>Custodial arrangement required prior to purchase</i>	(A) (i) Excellent credit quality. (ii) Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	Govt backed	To be used by external fund managers only subject to the guidelines and parameters agreed with them	<i>10 years including but also including the 10 year benchmark gilt</i>

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/ Loan Capital?</u>	<u>Repayable/ Redeemable within 12 months?</u>	<u>Security / Minimum credit rating **</u>	<u>Circumstance of use</u>	<u>Maximum maturity of investment</u>
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	(A) (i) Known rate of return over period the monies are invested ~ aids forward planning. (B) (i) Credit risk is over the whole period, not just when monies are actually invested. (ii) Cannot renege on making the investment if credit rating falls or interest rates rise in the interim period.	No	No	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them. Tracking of all forward deals to be undertaken and recorded.	<i>5 years</i>
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution : any maturity	(A) Credit standing of parent will determine ultimate extent of credit risk	No	Yes	<i>As per list of approved Counterparties</i>	In-house and by external fund managers subject to the guidelines and parameters agreed with them	<i>1 year</i>

**TO: GOVERNANCE AND AUDIT COMMITTEE
31 JANUARY 2018**

APPOINTMENT OF LOCAL EXTERNAL AUDITORS BOROUGH TREASURER

1 PURPOSE OF REPORT

- 1.1 To notify to the Committee of the conclusion of the Public Sector Auditor Appointment (PSAA) collective procurement process to appoint an External Auditor from the 2018/19 financial year.

2 RECOMMENDATION

- 2.1 **The Committee notes that Ernst & Young LLP has been appointed as the Council's External Auditor from the 2018/19 financial year through the collective procurement process run by PSAA.**

3 REASONS FOR RECOMMENDATION

- 3.1 To inform the Committee of the outcome of the PSAA collective procurement process that Bracknell Forest Council agreed to be part of, along with virtually all other local authorities.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options available.

5 SUPPORTING INFORMATION

Background

- 5.1 At its meeting on 27 January 2017 the Committee agreed to recommend to Council that Bracknell Forest join the Public Sector Auditor Appointments collective procurement arrangement to appoint an External Auditor from the 2018/19 financial year. The Committee concluded that this approach would be most likely to achieve best value in a relatively restricted market and would avoid the need and cost of the Council itself undertaking a complex and time consuming procurement process and establishing and administering a new independent Auditor Panel.
- 5.2 In [October?] the PSAA wrote to Chief Executives and Chief Finance Officers to inform them of the preliminary results of their procurement process and invite any feedback around possible impediments to their draft conclusions. As it was notified that the process had concluded that Ernst and Young should be re-appointed as the Council's auditor, there was no reason to object, given that the relationship with the firm is a constructive one.
- 5.3 Members will note that a report from the External Auditor to this meeting identifies that Ernst and Young are proposing a managed transition of their senior managers working on the Council's account in order to ensure that an appropriate level of independence is maintained over time, which is normal practice.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The Local Audit and Accountability Act 2014 Act creates a legal framework enabling the Government to nominate a 'person' to act as a joint procurement body for local audit and to give that body the powers and duties to operate collective procurement arrangements. Such a body is required to appoint auditors to those local authorities which 'opt in' to the collective procurement arrangement.

Borough Treasurer

- 6.2 The fee levels for the audit are prescribed by the PSAA, meaning the Council will benefit from the economies of scale associated with being part of a collective procurement arrangement.

Equalities Impact Assessment

- 6.3 Not applicable

Strategic Risk Management Issues

- 6.4 None

Other Officers

- 6.5 Not applicable

7 CONSULTATION

Principal Groups Consulted

- 7.1 Not applicable

Background Papers

None

Contact for further information

Stuart McKellar, Borough Treasurer - 01344 352180
stuart.mckellar@bracknell-forest.gov.uk