Notice of Meeting

Governance & Audit Committee
Councillor Allen (Chairman),
Councillor Wade (Vice-Chairman),
Councillors Gbadebo, Mrs Hayes MBE, Heydon, Leake, Neil and Tullett
David St John Jones, Indepedent Member

Wednesday 29 January 2020, 7.30 - 9.30 pm
Council Chamber - Time Square, Market Street, Bracknell, RG12 1JD

Bracknell Forest Council

Agenda

Item	Description	Page
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 previous meeting**	3 - 6
	To approve as a correct record the minutes of the meetings of the Committee held on 18 September 2019.	
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.	**External Audit - Audit Results Report**	7 - 54
	To receive the report of the Council's external auditor summarising the work carried out to discharge their statutory audit responsibilities.	

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6.	**Treasury Management Report 2020/21 and the 2019/20 Mid-Year Review**	55 - 86
	To consider and review the 2019/20 Mid-Year Review Report and to review the Treasury Management Report for 2020/21	
7.	**Strategic Risk Update**	87 - 114
	To receive the updated Strategic Risk Register.	

Exclusion of the Press and Public

Agenda item 8 is supported by an annex containing exempt information as defined in Schedule 12A of the Local Government Act 1972. If the Committee wishes to discuss the content of this annex in detail, it may choose to move the following resolution:

That pursuant to Regulation 4 of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2012 and having regard to the public interest, members of the public and press be excluded from the meeting for the consideration of item 8 which involves the likely disclosure of exempt information under the following category of Schedule 12A of the Local Government Act 1972:

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

8.	**Interim Internal Audit Report**	115 - 142
	To provide a summary of Internal Audit activity during the period April to December 2019.	

Sound recording, photographing, filming and use of social media is permitted. Please contact Hannah Stevenson, 01344 352308, Hannah.stevenson@bracknell-forest.gov.uk, so that any special arrangements can be made.

Published: 22 January 2020

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GOVERNANCE & AUDIT COMMITTEE
18 SEPTEMBER 2019
7.32 - 8.48 PM

Present:
Councillors Allen (Chairman), Gbadebo, Heydon, Leake, Neil, Tullett, Green (Substitute) and Mrs McKenzie-Boyle (Substitute)

Apologies for absence were received from:
Councillors Wade and Mrs Hayes MBE

16. **Apologies**

The Committee noted the attendance of the following Substitute Members:

Councillor Mrs McKenzie-Boyle was substituting for Councillor Wade.
Councillor Mrs Green was substituting for Councillor for Councillor Mrs Hayes.

17. **Declarations of Interest**

There were no declarations of interest.

18. **Minutes of previous meeting**

RESOLVED that, subject to the amendments above, the minutes of the meeting of the committee held on the 24 July 2019 be approved as a correct record and signed by the Chairman.

Justine Thorp from Ernst and Young provided an update on the assurance letter from Berkshire Pension Scheme auditors. Deloitte were the overall auditor for the scheme and had communicated that they were unlikely to be able to provide their assurance letter until the end of September, but no specific date had been confirmed. All the other Berkshire Authorities would be in a similar position and the draft accounts had been uploaded to the Bracknell Forest website with an covering note.

19. **Urgent Items of Business**

There were no urgent items of business.

20. **Strategic Risk Update**

The Governance and Audit Committee had requested at its meeting on the 26 June 2019 that an update be provided on both the business continuity and cyber security items included in the Council's Strategic Risk Register

Kevin Gibbs, Executive Director: Delivery provided an update on the Cyber Attack risk.

The key points covered included:

- The business continuity risk underpinned the cyber attack risk.
- All public Local Authorities were subject to cyber attack, this had been well publicised with the Lincolnshire attack and the NHS disable a few years ago.
- There was a high likelihood of attack, as the authority relied heavily on IT systems to undertake day to day work. It was important to do everything possible to keep up to date with system developments.
- Keeping staff up to date an aware of issues was very important. For example fishing emails used to be easy to identify, now they were more crisp and often could fool electronical systems.
- To help combat and lower the likelihood of the risk actions that had been undertaken so far included ensuring that proper security arrangements were in place an ensuring that staff were trained to a high standard.
- All staff had undertaken mandatory GDPR training.
- The Council was a Member of various government early warning groups.
- Microsoft SCP ATP II License had been acquired for advanced security on Office 365- Outlook, Office, SharePoint and Teams as well as security and compliance on all Council data.
- As Microsoft was a global player, it added a level of assurance.
- The move to cloud was expected to happen by the end of 2020. The email system had already moved to Office365.
- The national infrastructure around cyber security sees the UK as a soft target for attack. The risk appetite didn't corollate with the national picture but related to the local picture and what was happening around us.
- The risk appetite was what the Council wanted and what could be foreseen. There was no benchmarking data available to compare the risk scoring to.
- The appetite score was low as this is where the Council wanted to aim towards.
- It was important steps were taken to make sure that the Council wouldn't be impacted.
- The unmitigated risk had increased due to the sophisticated environment we were living in.

Kevin Gibbs, Executive Director: Delivery provided an update on the Business Continuity Management risk.

The key points covered included:

- The risk appetite had decreased. The spike in the graph had been investigated and a review of arrangements was undertaken and as a result work was undertaken to elevate gaps.
- Service Business Continuity Liaison Officers and Emergency Planning Liaison Officers had been identified to work with the Emergency Planning Unit.
- Brexit monitoring arrangements have been put in place and action plans were being developed
- The risk was higher than in 2016/17, it was thought that the organisational restructure had caused this increase. The recent increase was due to the Executive Director instigating a review which highlighted that continuity plans were not robust.
- Emergency Planning services were shared through the Joint Emergency Planning Unit (JEPU), the Councils were looking at continuity across the three bodies and comparing arrangements.
- The risk had jumped in Q1 2019/20 and had been reported to CMT in June.

Some members raised concerns surrounding the term appetite, as it was felt this was confusing and as the appetite should always be as low as possible.

Officers agreed that the word appetite was a strange word to use, but another word to use in this instance was tolerance and for members to look at appetite as how much tolerance would be acceptable per risk. Officers also commented that it was unrealistic for there to be no appetite.

Sally Hendrick, Head of Audit & Risk Management explained that a risk management review had been undertaken in 2014 by an external consultant which had needed to identify appetite within risk management which is why appetite was included within risk registers. It was important to have a target of where you want the risk to get down to.

It was requested that the word appetite be changed to target in future reports, Sally Hendrick would take this away and clarify what Institute of Risk Management states.

Member's commented that it was important for the public to also be able to understand the wording within the reports.

21. **Exclusion of Public and Press**

RESOLVED that pursuant to Regulation 21 of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2000 and having regard to the public interest, members of the public and press be excluded from the meeting for the consideration of item 6 on the agenda (Item 22 in the minutes) which involves the likely disclosure of exempt information under the following category of Schedule 12A of the Local Government Act 1972:

(3) Information relating to the financial or business affairs of any particular

22. **Internal Audit Interim Report**

Sally Hendrick, Head of Audit & Risk Management provided a summary of Internal Audit activity during the period April to August 2019.

During this period During the period April to August 2019, two grants were certified, one memo without an opinion had been finalised, seven reports were finalised, five reports were
issued in draft awaiting management responses, one draft report was being discussed and in sixteen cases audit work was in progress.

New definition's for opinions and priorities were being issued with recommendations to ensure that they were more meaningful and to provide a clearer insight into the degree of severity of opinions and recommendations. These would be included in the Internal Audit Charter which would be brought back to the committee for approval.

Delivery against the planned programme was behind original schedule due to the number of audits which have been requested to be deferred to later in the year. These deferrals would give officers chance to look at areas of weakness and address before audits took place.

The main audit contractors have already raised concern about pressure to deliver the Plan as it is now end-loaded. In some areas there will be pressure on officers with multiple audits ongoing for the same service areas within the same quarter.

Major issues had been identified in the GDPR audit, where ten major recommendations had been found. Lots of work was being undertaken and would be re audited in January 2020.

In the home 2 school transport audit, a major recommendation was raised again due to weaknesses where DBS checks have not yet been received.

In the AGRESSO audit two major recommendations were raised relating to the absence of a Data Protection Impact Assessment (DPIA) and overdue review of the support agreement. The opinion also reflects ongoing issues around the system that needed to be sorted. A consultant had been appointed to investigate the issues.

One major recommendation was raised in the disabled facilities grant audit due to procurement weaknesses with procuring stairlifts and not testing for best value.

Within a school audit, two major recommendations were raised in relation DBS checks for governors and frequency of budget monitoring by governors.

As a result of the members questions, the following points were made:

- The Head of Audit & Risk Management was unsure whether the GDPR audit was made against EU or UK derogations, but would check and report back to the Committee.
- The market for procuring stairlifts under disabled facilities grants had not been tested for some time and this was now to be addressed. For other works the required number of quotes was not being sought at the time earlier in the year due to backlog in grant applications.
- The home 2 school transport issues had been a long-standing issue, Members hoped that this would finally be resolved.
- It was thought that the home 2 school transport team didn't have the control over DBS checks for drivers within their team as this was undertaken by licensing for all taxi drivers.
- Members requested that the Head of Transport attend the next Governance and Audit Committee in January to discuss the issues.
- Safeguarding concerns were raised if taxi driver are not getting checked.
- Concerns were raised that officers were not taking audit reports seriously.
- The Head of Audit & Risk Management reported that the Chief Executive took audit very seriously and they met quarterly. One of the biggest issues was due to the huge turn over in staff, with new officers often not been told that audit reports had been undertaken on their areas.

RESOLVED that

i. the Governance and Audit Committee note the Internal Audit report.

ii. the Governance and Audit Committee note the new assurance and recommendation priority definitions introduced which will be incorporated into the Internal Audit Charter for Governance and Audit Committee approval once their operational effectiveness is fully tested and confirmed.

CHAIRMAN

Unrestricted

TO: GOVERNANCE AND AUDIT COMMITTEE
29 January 2020

EXTERNAL AUDIT: AUDIT RESULTS REPORT
(Director: Finance)

1 PURPOSE OF REPORT

1.1 This report advises Members of a report by the Council's external auditor summarising the work carried out to discharge their statutory audit responsibilities.

2 SUPPORTING INFORMATION

2.1 The Code of Audit Practice requires the external auditor to provide a summary of the work they carried out to discharge their statutory audit responsibilities to 'those charged with governance'. It is also a requirement that this summary be considered ahead of the signing of the accounts by the external auditor, which must be no later than 31 July 2019. Now that the detailed audit work is complete, the external auditor has issued a report. Ernst & Young will be at the meeting to present the report and answer queries. The report is attached.

Contacts for further information

Stuart McKellar – 01344 352180
Stuart.mckellar@bracknell-forest.gov.uk

Arthur Parker – 01344 352158
Arthur.parker@bracknell-forest.gov.uk

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Bracknell Forest Council
Audit results report

Year ended 31 March 2019

January 2020

Building a better working world

Private and Confidential

21 January 2019

Dear Governance and Audit Committee Members

We are pleased to attach our updated audit results report for the forthcoming meeting of the Governance and Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Bracknell Forest Council for 2018/19. We have substantially completed our audit of Bracknell Forest Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We would highlight that we will not be able to issue our opinion until the outstanding matters are completed to our satisfaction. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Governance and Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Governance and Audit Committee meeting on 24 July 2019.

Yours faithfully

Andrew Brittain

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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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 April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the 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 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 31 January 2019 Governance and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements.

Materiality:

In our Governance and Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £5.6m, with performance materiality, at 75% of overall materiality, of £4.2m, and a threshold for reporting misstatements of £278k. We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we our overall materiality assessment has remained unchanged at £5.6m, with performance materiality, at 75% of overall materiality, remaining at £4.2m.

The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services.

Status of the audit

We have substantially completed our audit of the Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters set out below we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. At the time of writing the outstanding matters are:

- Pensions:
    - Assurance letter from Berkshire Pension Scheme auditors;
    - Procedures relating to the adjustment of the Berkshire pension scheme net liability position;
- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Receipt of the signed management representation letter;
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

However until work is complete, further amendments may arise. We expect to issue the audit certificate at the same time as the audit opinion.

Executive Summary

Audit differences

At the time of writing, there are four adjusted audit differences of:

- PPE value increase of £14.5 million, as discussed on page 12.
- Pension liability increase of £4.4 million to £539.3 million, as discussed on page 11
- Pension assets value decrease of £3.5 million to £262.0 million, as discussed on page 11
- *Remeasurement of the Net Defined Benefit Pension Liability*. The proportion of the increase which relates to Bracknell Forest's share of net pension liability is £8.991 million – as discussed on page 11.

There was one unadjusted judgemental audit difference of £1.1 million, as discussed on page 12 . However, we are yet to conclude our all of our work. We will update this report and the Committee when this work has been finalised.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues
- you agree with the resolution of the issue
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance and Audit Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

In addition, during the audit we identified a number of observations and improvement recommendations on the Council's Risk Management arrangements. These are set out in Section 7.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks. These were:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Following discussions with officers, amendments were made to present a more consistent view and therefore we have nothing further to report in this regard.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. There were no issues arising.

We have no other matters to report.

Independence

Please refer to Section 9 for our update on Independence. We have no matters to report.

02 Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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 judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk related to the capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

Significant risk

Misstatements due to fraud or error – capitalisation of revenue expenditure

What is the risk?

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

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme and therefore has the potential to materially impact the revenue position through inappropriate capitalisation.

What judgements are we focused on?

We focussed on the testing capital expenditure and obtaining evidence that additions have been correctly classified as capital expenditure.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Tested a sample of capital expenditure at a lower testing threshold, to verify that revenue costs had not been inappropriately capitalised;
- Reviewed unusual journal pairings related to capital expenditure posted around the year-end i.e. where the debit is to capital expenditure and the credit to income and expenditure.

What are our conclusions?

Our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position through the inappropriate capitalisation of revenue expenditure.

Significant risk

Pension Net Liability Valuation

What is the risk?

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 Berkshire County Council Local Government Pension Scheme, administered by the Royal Borough of Windsor and Maidenhead Unitary Authority (RBWM).

The Council's pension fund deficit is a material estimated balance and the Code requires that the net liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £276.125m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to RBWM. Accounting for this scheme involves significant estimation and judgement and therefore management engages the 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.

What judgements are we focused on?

The significance of the liability to the Council's balance sheet, as well as the difficulty in valuing some of the pension fund assets caused by their nature and size. Small changes in assumptions when valuing the pension net liability valuation can have a material impact on the financial statements.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures. We:

- liaised with the auditors of the Berkshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Bracknell Forest Council.
- assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

We are satisfied that the Council has correctly reflected the IAS 19 entries provided by their actuaries in the financial statements. We are also satisfied that the actuaries are appropriately qualified.

This year, there has also been an ongoing national issue which has meant that a late change is required to the Council's pension net liability. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the "McCloud ruling". Officers requested their actuary update their estimate of net pension scheme liability taking into account the McCloud ruling and any difference between actual and estimated return on pension scheme assets. As a result two adjustments have been made:

- Pension liability: The Council's Pension liability has increased by £4.4 million to £539.3 million
- Pension asset: This estimate decreased by £3.5 million to £262.0 million.

Remeasurement of the Net Defined Benefit Pension Liability. The audit of the Berkshire County Pension Fund identified that the pension fund assets were overstated due to the valuation methods used, and the net liability position of the fund needed to be increased. The proportion of the increase which relates to Bracknell Forest's share of net pension liability is £8.991 million.

Significant risk

Significant risk – valuation of property, including investment properties

What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

In assessing this risk, we considered the material valuations of operational and investment property held by the Council, the varied nature of these assets and the basis on which they are valued, including the need to apply judgement. We also considered the assets not revalued in year to assess the likelihood of material misstatement within the population. The Code of Practice on Local Authority Accounting states that where assets are revalued, revaluations should made with sufficient regularity such that the carrying amount does not differ materially from that using the current value at the end of the reporting period. Each class of asset should normally be valued at least every five years, subject to this requirement.

What judgements are we focused on?

Our work on valuations focussed on assessing the reasonableness of the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations.

We have also considered those assets that were not valued in 2018/19 and the potential for material misstatement in the valuation of those assets.

What did we do?

We took a substantive approach to respond to this risk, undertaking the procedures set out below.

We disaggregated the Council's property portfolio to determine those asset classes where more judgement was required in the valuation of assets, resulting in a focus on the following:

- Investment properties - £127.176 million
- Land and buildings - £386.873 million

We selected a sample within these asset categories to test the assumptions and inputs that were used in their valuation.

What are our conclusions?

We assessed the methodologies adopted by the valuers in undertaking their valuations in 2018/19 and of the key assumptions input into these valuations as reasonable.

As part of our audit, the Council provided an analysis of the rolling programme of valuations and applied relevant indices, dependent on the last revaluation date for the asset class. This provided an indication as to whether the valuation of assets not revalued in year could be materially different to the value disclosed in the financial statements.

We reviewed this analysis and challenged the Council on its appropriateness, concluding that changes needed to be made to ensure the relevant indices were applied based on the asset type and value. As a result of subsequent calculations there was a judgemental audit difference of £15.6m. The Council has agreed to:

- make an adjustment of £14.5m; and
- report the unadjusted remaining difference of £1.1m in their management representation letter.

We have reported the above differences in Section 4 of this report.

Other areas of audit focus

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

What is the risk/area of focus?	What we found
<u>NDR Appeals Provision</u> The Non Domestic Rates Appeals Provision is a judgemental balance in the Council's financial statements which is underpinned by a number of assumptions. The movement of the NDR Appeals Provision in 2018/19 was significant from an opening balance of £7.592 million to a closing balance of £9.416 million at 31 March 2019. The provision for NDR for 2018/19 was increased to reflect the latest information, at 31 March 2019. The position difficult to predict following the 2017 valuation and the Valuation Office Agency's (VOA) Check, Challenge and Appeal process. We needed to revisit the assumptions underpinning the NDR provision for the 2018/19 accounts based on the most up to date information available.	We: ▸ reviewed the calculation of the provision for accuracy; ▸ reviewed the assumptions used in the calculation based on the latest information in 2018/19; ▸ considered the Council's use of its expert, Rates Plus, involved in the calculation. We have no issues to report
<u>PFI Accounting</u> PFI is a complex area and we commissioned a detailed review of the Waste Recycling Group RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham Borough Councils. Our work, by our PFI specialist: ▸ included a review of the assumptions used in the Waste PFI accounting model; ▸ commented on local adjustments, made by Bracknell Forest Council, following the changes to the accounting model held by the host council, Reading Borough Council; ▸ reviewed the planned entries and disclosures for the Council's 18/19 accounts.	▸ We have no other issues to report.

Other areas of audit focus (continued)

What is the risk/area of focus?	What we found
IFRS 9 Financial instruments This new accounting standard is applicable for local authority accounts from this financial year and changes: • how financial assets are classified and measured; • how the impairment of financial assets are calculated; and • the disclosure requirements for financial instruments.	We: ▸ assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▸ considered the classification and valuation of financial instrument assets; ▸ reviewed the implementation of the new expected credit loss model impairment calculations for assets; and ▸ checked additional disclosure requirements for compliance with the CIPFA Code. We have no issues to report.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from this year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The impact on local authority accounting was likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue could change and new disclosure requirements have been introduced.	We: ▸ assessed the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. ▸ consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▸ checked additional disclosure requirements. We have no issues to report.

03 Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRACKNELL FOREST COUNCIL

Opinion

We have audited the financial statements of Bracknell Forest Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement; and
- Related notes to the Core Financial Statements 1 to 42;
- Collection Fund and related notes 1 to 4;
- Group related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Bracknell Forest Council and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of Bracknell Forest Council and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director: Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director: Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Director: Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Bracknell Forest Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects;

Our opinion on the financial statements

Responsibility of the Director: Finance

As explained more fully in the Statement of the Director: Finance's Responsibilities set out on page 35, the Director: Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director: Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Bracknell Forest Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Bracknell Forest Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit Report

Our opinion on the financial statements

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Bracknell Forest Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Bracknell Forest Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Bracknell Forest Council as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Bracknell Forest Council and Bracknell Forest Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Corrected differences

At the time of writing, there was one judgemental difference greater than £4.17m that was identified during the course of our audit that was corrected by management.

- PPE valuation: This relates to our work on PPE valuation reviewing those assets not revalued as part of the 2018/19 valuation exercise and assessing whether they could be materially different to the value disclosed in the financial statements. The Council has adjusted their accounts and made an adjustment of £14.5m to increase PPE values.
- Pension liability:
- *McCloud adjustment:* The Council's pension liability has increased by £4.4 million to £539.3 million due to recent appeal judgements, which have been made in cases affecting judges' and firefighters' pension in relation to age discrimination arising from pension scheme transition arrangements. It has been determined that this ruling also applies to transition arrangements in the Local Government Pension Scheme which has meant an increase in the estimated liability of the pension scheme.
- *Remeasurement of the Net Defined Benefit Pension Liability*. The audit of the Berkshire County Pension Fund identified that the pension fund assets were overstated due to the valuation methods used, and the net liability position of the fund needed to be increased. The proportion of the increase which relates to Bracknell Forest's share of net pension liability is £8.991 million.
- Pension asset: This estimate decreased by £3.5 million to £262.0 million as the pension scheme actuary has re-run its pension scheme reports and the change in valuation is due to better known information at the balance sheet date.

There were also one minor change to the disclosure notes that was made during the course of the audit.

Uncorrected differences

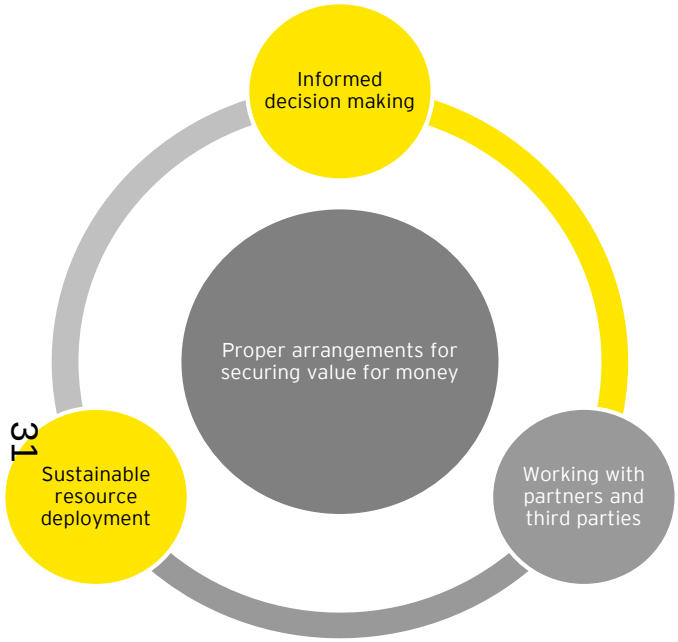
At the time of writing, there was one judgemental difference which was above the reporting threshold for uncorrected differences of £278k.

- PPE valuation: As discussed above, there was one uncorrected judgemental difference of £1.1 million increase to the value of assets within the PPE balance that were not re-valued in 2018/19. This unadjusted remaining difference of £1.1m needs to be reported in the Council's management representation letter.

Whilst not representing an audit difference, we note that the disclosure on Earmarked reserves (note 28) has a total of £49.763 million of Earmarked reserves, of which there are £10.351 million of "other earmarked reserves" including the Better Care Fund Reserve (£2.091 million), the Regeneration of Bracknell Town Centre (£1.791 million), the Public Health Reserve (£1.56 million) and the Commuted Maintenance of Land Reserve (£1.687million). Disclosing these larger reserves would reduce the "Other reserve" total to £3.22 million which could improve the disclosure for the reader.

05 Value for Money Risks

Value for Money



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Background

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. This is known as our value for money conclusion.

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

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

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

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

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

Overall conclusion

We identified two significant risks. These were:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties

We found no issues and therefore have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What we did
Delivery of a robust Medium Term Financial Plan (MTFP)		
In the Council's four year Medium Term Financial Plan (MTFP), reported to Cabinet in February 2018, the Council set a balanced budget for 2018/19. However, the cumulative shortfall of the MTFP through to 2020/21 is £9.4m, of which a £6m gap is predicted for 2020/21. The Council has a strategy in place to resolve the shortfall which is driven by commercial investment and transformational projects. The Council's transformational change programme is critical in enabling the Council to delivering the level of savings needed for a sustainable financial future, Progress is being made in the achievement of some £10.4 million of transformation savings and some £3.8 million of efficiency savings over the period of the MTFP until 2021/2022. There is also the planned "managed use" of the Council's Future Funding Reserve to smooth the impact of the Government planned changes to local government funding in 2020/21 . £1 million of reserves was planned to be used in the Council's 2016 – 2020 Efficiency Plan as part of setting a balanced budget for 2019/20. However, there is significant demand increases for Children's Social Care causing financial pressure in 18/19 and in future years which will require a higher level of savings and additional income than originally predicted to balance the 2019/20 budget. The Council's commercial programme is being accelerated in order to deliver its planned target of £3 million of income generation by 2019/20. The current focus of the Council's Corporate Management Team is, therefore, its need to review its prioritisation of transformation and enabling resources to continue its successful delivery of change. We will review the Council's Medium Term Financial Plan to assess whether the financial planning in place is sufficient to position the Council on a sustainable financial footing in the medium term.	Deploy resources in a sustainable manner	We: • assessed the key assumptions made within the annual budget and MTFP; • reviewed the progress made in identifying savings for 2019/20 and beyond; • assessed the effectiveness of project management by the Transformation Board in overseeing transformational projects and income generation opportunities; • reviewed the Council's business planning process for both generating savings and also undertaking commercial projects; Our findings are summarised overleaf.

Delivery of a robust Medium Term Financial Plan (MTFP)

The Council is currently taking steps towards improving its financial resilience and long-term sustainability whilst demonstrating prudence in relation to medium-term financial planning, identifying future savings as well as commercialisation arrangements. The financial resilience tool indicates that the Medium Term Financial Plan (MTFP) may be sufficiently financially resilient. We have reviewed the key assumptions of the MTFP and obtained related working papers from the client which support the conclusion that all key assumptions appear reasonable. Assumptions and key elements of the MTFP are monitored on a quarterly basis by the Council. This allows the Council to keep track of actual to plan, and means it can take swift action that may include revising its estimates of subsequent financial years.

The delivery of the Council's strategic priorities has been underpinned by good financial forecasts, risks and assumptions which have been disclosed and reported by management to Council and to Members in 2019/20. As outlined in the Council's Efficiency Plan 2016-20 and the 2017/18 – 2019/20 MTFS, the Council considers the following measures when working towards achieving a balanced budget:

- taking a firm line to limit future year's pressures
- delivering efficiency savings and reducing back office costs
- increasing the Council Tax
- utilising available balances
- implementing transformational savings

The Council's transformational change programme is critical in enabling it to deliver the level of savings needed for a sustainable financial future. With the predicted level of additional savings expected to fall beyond 2020 (given most of the services will have been subject to a detailed review by then), it is likely that greater reliance will be placed upon Council Tax income to fund any budget gap(s). Council Tax was assumed to be at the maximum permissible amount of 2.99% in the 19/20 Revenue Budget and subsequent years in the MTFP. Additionally, in response to the possibility of additional savings not materialising, the Future Funding Reserve has been created, supplemented through additional income from the Business Rate Pilot scheme(s), to help manage the transition to alternative funding arrangements.

It is important for the Council to find the right balance between achieving the significant savings outlined and budgeted in the MTFP to fund the budget gap whilst at the same time maintaining a certain level of service provision. Overall the Council has identified savings to date, whilst noting that improvements need to be made to continue to generate additional savings.

A risk will continue to remain upon the delivery of significant savings through the transformation programme. This has been acknowledged in budget papers and the Council's Strategic Risk register. This risk is likely to become even greater given the various financial uncertainties the Council currently faces and will continue to face in the future. Initial steps, such as transferring funds from part of the one-off Business Rate pilot gain to the Transformation Reserve, have been taken to reduce the reliance on the transformational programme, which is necessary to manage this risk effectively.

Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What we did
Commercialisation and the purchase of investment properties		
By November 2017, one year after the Council approved its Commercial Property Investment Strategy (CPIS), the Council has completed on the purchase of 5 properties at a total cost of £70 million. However the Council's CPIS may not deliver the target £3 million income by 2019/20 and therefore £20 million has been released from the 2018/19 capital programme to accelerate delivery of the CPIS programme which now totals £90 million. The Council uses an evaluation tool, to assist its Executive Committee in reviewing each investment opportunity, showing which parameters are acceptable for consideration and those which are not. It appears that all investments are subject to a full external due diligence process, which includes a building condition surveys including all M&E, independent RICS valuations and a legal audit as well as officer site inspection and market consideration. Any items considered less than satisfactory are reported. The Prudential Code, issued by CIPFA has always contained a statement (paragraph 46) that local authorities should not borrow more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. However, paragraph 47 of the Statutory Guidance also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management. The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order. We will review the Council's arrangements for the purchase of investment properties to ensure that they are adequate in terms of providing value for money and comply with proper governance and risk management arrangements.	Deploy resources in a sustainable manner	We reviewed: • The underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; • Legal powers and other advice obtained e.g. tax, investment decisions; • Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; • The Council's MRP policy; • Clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; • Recognition and reporting of risks in the Council's strategic risk register. We also considered the extent to which the Council has demonstrated the key Prudential Code considerations: • Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality; • Demonstrating value for money in borrowing decisions • Security of borrowed funds; • Extent of borrowing for investments and borrowing overall • The nature of the investment; • Risks involved, including falling capital values, borrowing costs, illiquidity of assets.

Commercialisation and the purchase of investment properties

With many Local Authorities facing uncertainty over government funding in recent years, councils have already or are now turning towards commercial activities to increase sources of self-sufficient funding. Bracknell Forest's commercialisation activities are mainly centred around the Commercial Property Investment Strategy ('CPIS') which was approved by the Executive in December 2016, setting out the aim to invest in properties and achieve a beneficial return for the Council.

The core objective of the investment strategy is to generate a long-term revenue income stream for the Council to assist in meeting the budget gap as a result of government funding cuts and other financial pressures.

Discussion with the client and review of documentation provided indicates that a clear and consistent process was adopted and followed in identifying, investigating and presenting relevant investment proposals to various Council internal stakeholders. Within the process, there were a number of possible opportunities where each proposal could be discussed and alternative views could be presented. This indicates there are robust arrangements in place which allow the Council to exercise sufficient governance over key decisions relating to CPIS.

The CPIS programme has now fully invested the approved budget, meaning no further investment proposals are currently being considered. Going forward, half-yearly meetings will be held which will review each of the existing six property portfolios. It should be noted that in Internal Audit's 2017/18 CPIS report, it was observed that progress against the Investment Strategy is verbally reported (rather than formally presented) to senior management and the Executive Committee: Commercial Property. Similarly, discussions between the Chief Property Officer, Director: Finance and Chief Executive were documented either via email or through verbal correspondence. This indicates an absence of formal reporting and transparency, which lacks best practice arrangements. The half-yearly review meetings should help ensure that sufficient arrangements are now in place to ensure formal reporting and transparency takes place. Discussion with the client gave comfort that the Council does recognise the importance of formal reporting and transparency when considering and monitoring the performance of CPIS.

The Council also recognises the importance and reliance placed upon the success of the CPIS in generating a long-term revenue income stream that can be used to fund any budget gap(s) arising from government funding cuts and other financial pressures. Measures identified, such as the use of a voluntary revenue provision in addition to the mandatory revenue provision, demonstrate prudent decision making.

We find the risks identified by the Council to be appropriate and mitigated by the risk control procedures identified in the relevant risk registers. All investments are subject to a full external due diligence process. This includes building condition surveys including all Mechanical & Electrical (M&E), independent RICS valuations and a legal audit as well as officer site inspection and market consideration. Any items considered less than satisfactory are reported. This has led to one accepted bid being withdrawn following this rigorous due diligence process. Given the CPIS programme has now fully invested the approved budget, procurement risks should no longer be a concern to the Council, although it will need to ensure that sufficient risk management processes are in place to ensure its current investment portfolio is effectively managed and potential income generation is maximised.

The Council has ensured and outlined its compliance with relevant legalisation, namely the Local Government Act 2003, CIPFA Prudential Code, MHCLG MRP and Investment Guidance and the CIPFA Treasury Management Code in its recent 2019/20 budget proposal presented to the full Council in February 2019.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

- The financial and non-financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We must also review the Council's Annual Governance Statement (AGS) for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

- We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We found that it was not consistent with other information from our audit of the financial statements, mainly in relation to the disclosure of the increased number of "limited" assurance reports from Internal Audit and the "limited" overall audit opinion from the Head of Internal Audit.
- We discussed this with officers and amendments were made to present a more consistent view of those items, and therefore we have nothing further to report in this regard.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. As the Council's assets, income, liabilities and expenditure are below the threshold set by HM Treasury, detailed audit of the return is not required for Bracknell Forest Council.

We will submit the required return in due course and once the audit opinion has been signed.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We did not identify any issues.

07 Assessment of Control Environment

Assessment of Control Environment

Internal financial control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We have, however, made the following observations relating to your overall control environment:

Risk management arrangements

The Council's risk management arrangements are identified as a governance issue to be addressed in the action plan in the Council's 2018/19 Annual Governance Statement. There was no formal internal audit review of the Council's risk management arrangements during 2018/19. Officers recognise that there are weaknesses in arrangements and have commissioned an internal audit consultancy report on risk management in 2019/20 which means that there will be no formal audit opinion on the findings. Through our work we have observed the following which could help improve the risk management arrangements:

- An independent internal audit of the effectiveness of the Council's risk management arrangements.
- Better documentation of the Council's Strategic Risk Register with clear actions and timescales on how risks are managed going forward.
- Reappraisal of the risk appetite to ensure that the Council is operating at a risk level commensurate with that documented for its strategic risks.
- The formalising of a risk register for the People Directorate following the combining of Adults and Children's services.
- Clarity on the role of the Governance and Audit Committee in providing assurance over the effectiveness of the Council's Risk Management arrangements, by understanding and commenting on the effectiveness of the whole process.

We will follow-up on the above as part of our VFM work for 2019/20.

Member declarations

When undertaking our procedures on related party transactions we checked declarations of interest, and we noted (at the time of writing) that six members had not completed a declaration.

Whilst we are satisfied through alternative procedures that there were no transactions requiring disclosure, we would recommend that Members ensure that their declarations are complete and updated for changes. This is an important part of the process for the Council to identify related party transactions and protect itself from the risk of reputational damage.

08 Data Analytics

Data analytics – Journals Testing

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

09 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2019, which we presented to 30 January Governance and Audit Committee.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance and Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Governance and Audit Committee on 29 January 2020.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your council, its directors, senior management and its affiliates. This includes all services provided by us and our network to your council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity; including those that could compromise independence and the related safeguards that are in place and, why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The page overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We confirm that none of the services listed overleaf have been provided on a contingent fee basis.

As at the date of this report, future non-audit services are limited to the reasonable assurance engagement for the housing subsidy grant claim. There are no other future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements in relation to the housing subsidy grant claim. Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	Notes 1,2,3 & 4	80,639	80,639	104,726
Non-audit work for Housing subsidy grant claim	£27,033 - Note 5	18,771	Not applicable	20,100

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We are not yet in a position to quantify the final costs associated with this work but any variation to the fee will need to be agreed with officers and approved by PSAA. The areas we are proposing varying the fee relate to the following:

Note 1: Value for Money significant risks: We have undertaken additional work in relation to the two significant VFM risks, as discussed in Section 5. These were:

- Delivery of a sustainable medium term financial plan; and
- Commercialisation and the purchase of investment properties

Note 2 – Annual Governance Statement (AGS) review: Our work on the AGS also identified issues which required us to spend more time than planned on reviewing the Council's control environment and its risk management arrangements, as we have reported in Sections 6 and 7 (Assessment of the Control Environment of this report).

Note 3: Waste PFI accounting model review: Our work on the assessment of the Waste PFI accounting model required us to spend more time than planned, as reported in section 2.

Note 4: Pensions net liability: Our work on the Council's pension net liability was extended as a result of the McCloud judgement plus the additional time spent on obtaining the IAS 19 assurances from the pension scheme auditor and the auditing of the changes to the financial statements resulting from the pension scheme audit, as reported in section 2.

Note 5 – Housing benefit subsidy grant claim: From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. The Council has appointed us to act as reporting accountants in relation to the housing subsidy claim.

The fee is based on:

- £18,771 plus VAT for the certification work
- £3,634 for the second set of extended ("40+") testing (as our agreed proposal of 7 September 2018, allowed for one set of 40+ testing)
- £2,314 for each subsequent set of extended testing of which there were two.

10 Appendices

Appendix A

Required communications with the Governance and Audit Committee

There are certain communications that we must provide to the Governance and Governance and Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		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.	Audit planning report – 30 January 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report – 30 January 2019
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit planning report – 30 January 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about Bracknell Forest Council's ability to continue for the 12 months from the date of our report.
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit results report – 24 July 2019
Subsequent events	▸ Enquiry of the Governance and Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report – 24 July 2019
Fraud	▸ Enquiries of the Governance and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Governance and Audit Committee's responsibility.	Audit results report – 24 July 2019

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Authority	Audit results report – 24 July 2019
Independence 50	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report – 30 January 2019 and Audit results report – 24 July 2019

Appendix A

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ 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	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report on 24 July 2019 and Annual Audit Letter on 18 September 2019.

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report on 30 January 2019 and Audit results report on 24 July 2019
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and those charged with governance	Audit results report on 24 July 2019
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report on 24 July 2019
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report on 24 July 2019
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit planning report on 30 January 2019 and Audit results report on 24 July 2019
Certification work	▸ Summary of certification work	Certification Report in January 2020

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TO: GOVERNANCE AND AUDIT COMMITTEE
29 JANUARY 2020

TREASURY MANAGEMENT REPORT 2020/21 AND 2019/20 MID-YEAR REVIEW
(Director of Finance)

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 2019/20 and to review the Treasury Management Report for 2020/21.

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 in Annex A for 2020/21 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 2019/20
- 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 2019/20
- A review of compliance with Treasury and Prudential Limits for 2019/20

Economic Update

5.2 It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% to date due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth. This will be an ongoing issue through 2020.

5.3 There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

5.4 This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

5.5 During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this and how strong the correlation is likely to be is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

5.6 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

5.7 The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Treasury Management Strategy Statement Review

5.8 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved by the Council on 24th February 2019. There are no policy changes to the TMSS.

Review of Investment and Debt Portfolio 2019/20

5.9 The Council held £12.197m of investments as at 31 December 2019 and the investment portfolio yield for the first nine months of the year is 0.65% against a benchmark (Local Authority 7-Day Rate) of 0.16%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	6,997	0.758
Black Rock	1 Day	2,497	0.691
Federated	1 Day	2,850	0.729
Federated Cash Plus	2 Day	4,023	0.885
Goldman Sachs	1 Day	6,997	0.673
Deutsche	1 Day	500	0.645
Total Investments		**23,864**	

5.10 The 2019/20 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. As such the interest rate earned on the years surplus cash should be in line with target

5.11 As at 31 December 2018 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	Amount £	Rate	Start Date	Maturity Date
Cambridge	5,000,000	0.98%	30/04/2019	31/01/2020
Kensington	5,000,000	0.98%	29/04/2019	29/01/2020
Renfrewshire	5,000,000	0.95%	28/08/2018	29/01/2020
Kensington	5,000,000	0.90%	17/12/2018	22/04/2020
	20,000,000			

PWLB Loans

PWLB	Amount	Rate	Start Date	Maturity Date
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024
PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2019/20

5.12 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2019/20 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2020/21

5.13 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.

5.14 The attached Treasury Management Report 2020/21 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 17 December 2019 and outlines the Council's Prudential Indicators for 2020/21 to 2022/23 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 26 February 2020.

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

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

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.5 CIPFA defines treasury management as:

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

1.6 Revised reporting is required for 2019/20 due to revisions of the Ministry of Housing, Communities and Local Government's (MHCLG) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

Capital Strategy

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The Council published its Capital Strategy last year. It has been reviewed by officers and there are no updates required. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

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

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

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

1.8 The Treasury Management Strategy for 2020/21 covers two main areas:

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

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

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

The Capital Prudential Indicators 2020/21 – 2022/23

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 2020/21 to 2022/23 complements these indicators.

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

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 such as the impact of the wider economy.

The Council is asked to approve the summary capital expenditure projections below and to note the out-turn position reported to the Executive and approved on the 23rd July 2019.

Capital Expenditure	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000
Capital Expenditure	18,700	5,674	5,724
Commercial Activities	0	0	0
Financed by:			
Capital receipts	5,000	5,000	5,000
Capital grants & Contributions	13,910	2,649	2,649
Net financing need for the year	**8,751**	**-1,975**	**-1,925**

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 CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

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:

£m	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
CFR – services	131,236	140,703	151,086	150,486	149,651
CFR - Commercial activities/ non-financial investments	**86,617**	**86,128**	**85,627**	**85,115**	**84,591**
Total CFR	217,853	226,831	236,713	235,601	234,242
Movement in CFR	**30,824**	**8,978**	**9,882**	**-1,112**	**-1,359**

Movement in CFR represented by					
Net financing need for the year (above)	28,937	6,666	7,411	-3,909	-4,153
Less MRP/VRP and other financing movements	1,887	2,312	2,471	2,797	2,794
Movement in CFR	**74,413**	**51,311**	**12,519**	**15,903**	**-1,372**

MRP Analysis					
MRP	1,401	1,328	1,513	1,818	1,960
VRP	0	489	501	512	524
Other Financing Repayments	486	495	457	467	310
Movement in CFR	**1,887**	**2,312**	**2,471**	**2,797**	**2,794**

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.

Further statutory guidance on MRP was issued by Government on 2 February 2018, which largely becomes effective from 1 April 2019. The exception related to the section allowing local authorities to change their approach to calculating MRP at any time, which took effect immediately. A key part of the updated guidance clarified that the duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements.

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 under the regulations and guidance, so long as there is a prudent provision. Having sought advice from Counsel on permissible approaches following the revised guidance, the Director: Finance recommends that Council approves 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 but excluding CPIS expenditure) 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 assets purchased under the Commercial Property Investment Strategy (CPIS) the MRP policy will be:

  Partial deferral method – MRP will be charged at 10% of the property value over a 15 year period to reflect a realistic level of value risk, on the basis that the properties will typically be held for a period of no greater than around 10 to 20 years.

- For all other capital expenditure funded from borrowing where there is an intention to repay the borrowing from future related receipts (including loans to companies wholly or partly owned by the Council) 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 or loan repayments from third parties

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 2020/21 charge will be based on 2019/20 capital out-turn.

MRP Overpayments

A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2020 the total VRP overpayments are expected to be £0.489m.

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 2020/21 – 2022/23
The borrowing requirement comprises the expected movement in the CFR and any maturing debt which will need to be re-financed.

	2020/21 Estimated	2021/22 Estimated	2022/23 Estimated
External Debt			
Debt at 31 March	£120m	£125m	£125m
Investments			
Investments at 31 March	£10m	£10m	£10m

Current Portfolio
The overall treasury management portfolio as at 31 March 2019 and for the position as at 31st October are shown below for both borrowing and investments

	Actual	Actual	Current	Current
	31/03/19	31/03/19	31/10/19	31/10/19
Treasury Investments	£000	%	£000	%
Money Market Funds	14,850	100	26,541	100
External Borrowing	£000	%	£000	%
Local Authorities	35,000	30%	30,000	27%
PWLB	80,000	70%	80,000	73%
Net Treasury Borrowing	101,150		83,459	

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 2019/20 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 Director of Finance 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	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	£230m	£230m	£230m
Other long term liabilities	£18m	£17m	£17m
Total	£248m	£247m	£247m

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	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Borrowing	£220m	£220m	£220m
Other long term liabilities	£18m	£17m	£17m
Total	£2385m	£237m	£237m

Borrowing in advance of need.
The Director of Finance 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 Director of Finance 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 has provided the following forecast:

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

The above forecasts have been based on an assumption that there is some sort of process through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a major assumption and so forecasts may need to be materially reassessed in the light of events over the coming weeks or months.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut

or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this and how strong the correlation is likely to be is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.
The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities,

consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The degree which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but our advisors will keep us informed.

In addition, PWLB rates are subject to ad hoc decisions by H.M. Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. 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.

Investment and borrowing rates

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However, the unexpected increase of 100 bps in PWLB rates requires a major rethink of local authority treasury management strategy and risk management. Now that the gap between longer term borrowing rates and investment rates has materially widened, and in the long term Bank Rate is not expected to rise above 2.5%, it is unlikely that this authority will do any further longer term borrowing in the near future, or until such time as the extra 100 bps margin is

Borrowing Strategy 2020/21

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2020/21 treasury operations. The Director of Finance 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 any 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.

Debt rescheduling

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

The reasons for any rescheduling to take place will include:

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

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Executive, at the earliest meeting following its action.

Investment Strategy 2020/21 – 2022/23

Investment Policy

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

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

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

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

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

3. 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.

4. This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. Lending and transaction limits, (amounts and maturity), for each counterparty will be set through applying the matrix table shown under the Council's creditworthiness policy

6. This authority has engaged external consultants, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

7. All investments will be denominated in sterling.

8. As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18.

Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard 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 (CNAV,LVNAV & VNAV)	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

The 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 2020/21 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.

	2020/21 Estimated + 1%	**2020/21 Estimated - 1%**
Revenue Budgets	**£'000**	**£'000**
Borrowing costs	1,000	1,000

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:

	2019/20	**2020/20**	**2020/21**
Interest rate Exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	£280m	£288m	£287m
Limits on variable interest rates based on net debt	£280m	£288m	£287m
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 > 364 days	£m 0	£m 0	£m 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 2020/21 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 was 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 (including Parish Councils) 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	*As per list of approved Counterparties*	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. *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	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 *These funds do not have any maturity date*	No	Yes	*AAA Rating by Fitch, Moodys or S&P*	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	*As per list of approved Counterparties*	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 *[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]* *Custodial arrangement required prior to purchase*	No	Yes	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	9 months
Treasury bills [*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*	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.

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
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	*As per list of approved Counterparties*	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 *Custodial arrangement required prior to purchase*	(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	*As per list of approved Counterparties*	To be used by external fund managers only subject to the guidelines and parameters agreed with them	*5 years*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum Credit Rating?**	**Circumstance of use**	**Maximum maturity of investment**
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	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*5 years*
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	(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	*10 years including but also including the 10 year benchmark gilt*

Investment	**(A) Why use it?** **(B) Associated risks?**	**Share/ Loan Capital?**	**Repayable/ Redeemable within 12 months?**	**Security / Minimum credit rating ****	**Circumstance of use**	**Maximum maturity of investment**
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	*As per list of approved Counterparties*	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.	*5 years*
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	*As per list of approved Counterparties*	In-house and by external fund managers subject to the guidelines and parameters agreed with them	*1 year*

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TO: GOVERNANCE AND AUDIT COMMITTEE
29TH JANUARY 2020

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) and the Governance and Audit Committee at least twice a year in accordance with the Risk Management Strategy

3 RECOMMENDATIONS

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 based on the risk scoring criterial in Appendix 2.**

3.2 To note in particular the Finance and Staffing risks have been subject to a deep dive by senior officers and will be presented to the Governance and Audit Committee by the Director: Finance and the Head of HR and Employee Experience.

3.3 To note that the term risk appetite has been replaced by target risk score at the request of Members.

3.4 To note that an external review of risk management arrangements has been undertaken and the outcome will be presented separately to the Committee.

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 7th November 2019 and by CMT on 15th January 2020. From this the following the following changes are proposed:

- To increase Risk 1, Finance risk reflecting current service pressures being experienced.
- To remove the transformation and continuing health care risks as these are already reflected in the Finance risk.

- To refocus Risk 2 on staffing on recruitment;
- Reduce Risk 3, Brexit risk in response to work undertaken to increase monitoring and identify risks.
- Reduce Risk 4, School places due to opportunities taken to bring down the risk including the new place planning tool;
- Increase Risk 5, demand for services in response to increasing demands in children and adult social care;
- Reduce Risk 6, supply chain risk in adult social care in response to effective mitigation action taken such as more effective contract management from the Commissioning team; and
- To reduce Risk7, Safeguarding
- To reduce Risk 8 on the IT Strategy
- To reduce Risk 12 on the internal control environment due to improvement in controls.

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 There are no financial implications arising from this report.

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 7th November 2019 and 15th January 2020.

Representations Received

8.3 Not applicable.

Sally Hendrick

Head of Audit and Risk Management
01344 352092
sally.hendrick@bracknell-forest.gov.uk

APPENDIX 1

STRATEGIC RISK REGISTER JANUARY 2020

Strategic Theme 1:Value for money

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

Risk Owner: Director; Finance

Risk Rating (Likelihood x Impact)

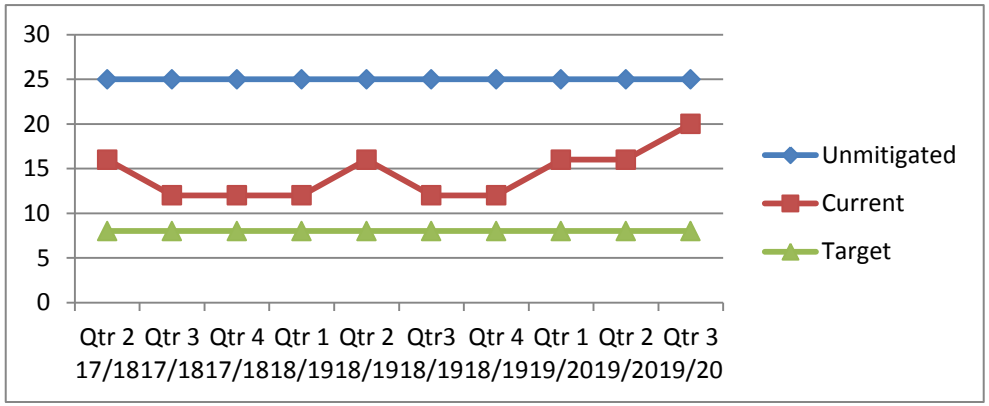
Unmitigated 5 x 5

Current Residual 5 x 4

Target Risk Score 2 x 4

Potential Impact

- Strategic objectives and statutory duties not met



Rationale for current score:
Increased due to projected overspend due to increased social care demand, income in some areas being less than budgeted and shortfalls in transformation savings in complex service areas.

Rationale for target risk score
Achieving a sustainable financial position is a core responsibility.

Current RAG rating	Red

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

- 4 year financial settlement in place but this is now in its final year and there is uncertainty around the Comprehensive Spending Review and Fair Funding Review.
- Transformation Programme supposed to deliver significant savings over the medium term .
- Engagement with Members regarding priorities
- Medium Term Financial Planning.
- Monitoring national position and medium term financial strategy is based on best estimates of future funding
- Approved capital spending plans are in place e.g. for Heathlands which will reduce the cost of adults residential care costs over time,. These are built in to the Council's capital programme and are monitored. Regular updates going to CMT.
- Reviews ongoing on Continuing Health Care cases
- Central credit control function established to improve debt management.

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

	Officer responsible	Target date
2020/21 budget setting process	Director: Finance	31/3/2020
Council wide debt management internal audit review to be carried out in qtr 4	Director: Finance	31/3/2020
Actively looking at ways to reduce residential placements for children	Executive Director: People	31/3/2020
Re-analysis of transformation projects in children and adult services.	Executive Director: People	31/3/20
A range of urgent and immediate measures introduced aimed at reducing non-essential expenditure.	CMT	31/1/20
Establishing property joint venture to generate income and develop sites	Director: Finance	31/3/20
Should start to identify a 3 year target savings strategy as income will be reducing. Process will commence at CMT in January 2020 and the Executive in February.	CMT	30/6/20

Strategic Theme 1: Value for money
Strategic Theme 2: Economic resilience
Strategic Theme 3: Education and skills
Strategic Theme 4: Caring for residents and their families
Strategic Theme 5: A clean, green and responsibly sustainable place
Strategic Theme 6: Communities

Risk 2: Employment market pressures make it difficult to recruit permanent staff to some key posts.

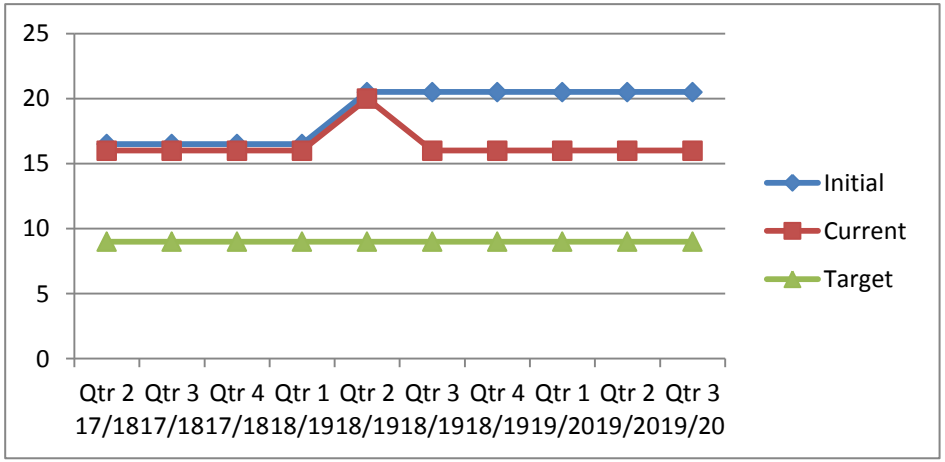
Risk Owner: CMT

Risk Rating (Likelihood x Impact)

- Unmitigated 5 x 4
- Current Residual 4 x 4
- Target Risk Score 3 x 3

Potential Impact

- Increased financial pressures due to high reliance on locums and agency workers
- Increased reliance on market premia and retention payments due to labour market pressures i.e. social workers and specialists post
- Potential for weakness in resilience in key areas as locums and agency workers can leave at shorter notice.



Rationale for current score:
Difficulties currently being experienced in recruiting to key posts due to pressures in the market.

Rational for target risk score
Staff are the key resource in delivering key services and providing support to front line services.

Current RAG rating	Amber

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

- Management information on long term, high cost locums/ agency workers now being produced for peer review at CMT.
- Matrix – neutral agency vendor – contract being reviewed to negotiate minimum costs and competitive rates for 1 year extension to contract
- Recruitment campaigns targeted on areas reliant on agency staff i.e. adult services OT's – successful in converting two staff to BFC contracts in Jan 2020.
- Regional benchmarking of salary and benefits paid by other local authorities – part of recruitment project which will inform future recruitment and retention strategy
  Well-being initiatives and research activity underway that will diagnose support needed to staff
- Current HR-OD redesign process is implementing instant win

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

	Officer responsible	Target date
Move to use of fixed terms contracts as an alternative to locums and agency arrangements	CMT	31/3/20
Well being and employee experience will be a focus of the HR-OD offer to contribute to retention of staff which will be a priority within the future Recruitment and Retention Strategy	Head of HR and Employee Experience	31/6/20
HR-OD service redesign will create a focused talent management team which will work to improve recruitment, retention, recognition, learning and development and organisational development	Head of HR and Employee Experience	31/6/20

improvements to processes and systems for recruiting managers and potential applicants i.e. mobile application functionality • People – workforce board – meeting monthly to discuss, plan and optimise staffing budget across services	Manager induction to be piloted and executive induction developed	Head of HR and Employee Experience	31/3/20
	Consideration of applying market premiums and other retention incentives within the other services where agency costs are increasing.	CMT	As necessary

Strategic Theme 1: Value for money
Strategic Theme 2: Economic resilience

Risk 3 Uncertainty around the impact of Brexit, the financial and operational implications for services such as social care, contingency planning requirements and the potential impact for businesses located in the Borough.

Risk Owner: CMT

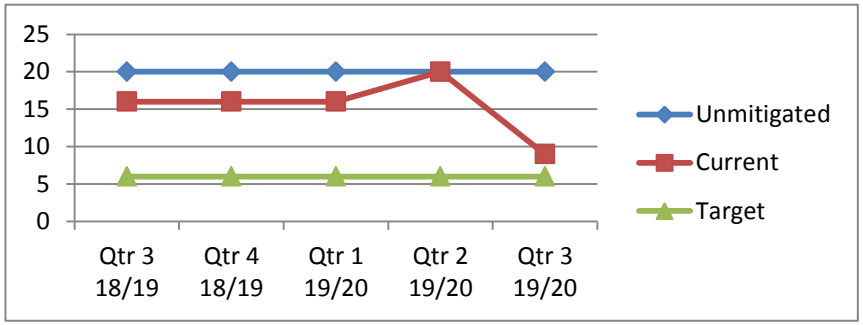
Risk Rating (Likelihood x Impact)

Unmitigated 5 x 4

Current Residual 3 x 3

Target Risk Score 2 x 3

Potential Impact
Economic prosperity not sustained
Civil unrest



Rationale for current score:
Planning and identification of key risks together has reduced the current likelihood.

Rationale for target risk score
Given potential operational and financial consequences risk appetite is low.

Current RAG rating	Amber

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

- Reviewing impact in local teams
- Review of potential impact already undertaken by National Management Trainee and reported to CMT, Senior Leadership Group and Members in the Spring.
- Enhanced Brexit monitoring arrangements though the Brexit Group incorporating planning for a no-deal Brexit Scenario planning being undertaken by HR
- Emergency Planning Manager from the joint service will be participating in the Local Resilience Forum for Brexit
- Policy and Engagement Manager undertaking analysis for CMT to

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

	Officer responsible	Target date
National position being monitored by the National Management Trainee and reported to CMT for review.	CMT	31/3/20

identify how best to focus Brexit funding • Key risks identified	

Strategic Theme 3: **Education and skills**

Risk 4: Financial impact of surplus school places.

Risk Owners: Executive Director, People

Risk Rating (Likelihood x Impact)

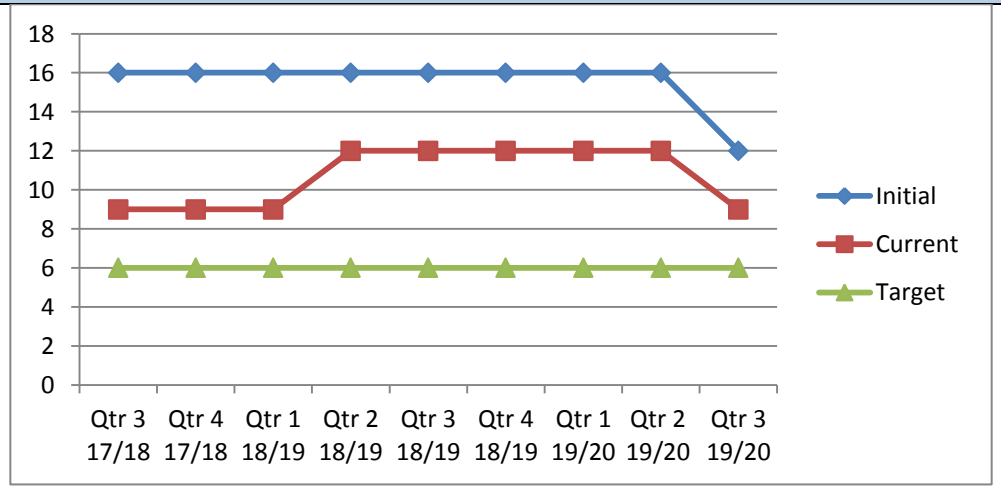
Initial underlying 4 x 3

Current Residual 3 x 3

Target Risk Score 2 x 3

Potential Impact

- Disruption to schools
- Revenue diseconomy costs
- Capital budget pressure
- Reputational damage to the council



Rationale for current score:
Risk is currently fairly high given current surplus of places and difficulties in attracting pupils to certain schools, however we have some positive opportunities to further reduce risk

Rationale for target risk score
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)
- "New place planning tool has been created which includes birth rates and doesn't rely as heavily on housing development information.
- Hold on new schools being built
- Review school place planning each term linked to a strategy to provide sufficient places through works as required as part of the Education Capital Programme
- Ensuring programmes for proposed new primary schools are kept in line with slippage to associated house building programmes so that demand for places is met by supply of places as closely as possible
- Work with Planning Policy to understand the impact of proposed new housing in the long term.
- Model the impact of this in terms of new schools/school places required to meet the projected need

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

	Officer responsible	***Target date***
Work with schools to reduce their PAN	Executive Director, People	Ongoing
Work closely with the DfE to ensure academies are not created where additional school places are not required	Executive Director, People	Ongoing
Look at creating an SEMH hub to utilise some of the surplus capacity	Executive Director, People	Ongoing

Strategic Theme 3: **Education and skills**
Strategic Theme 4: **Caring for residents and their families**
Strategic Theme 5: A clean, green and responsibly sustainable place
Strategic Theme 6: Communities

Risk 5: Demands for services arising from demographic changes and national policy initiatives are difficult to predict and plan for.

Risk Owners:
Executive Director,People

Risk Rating (Likelihood x Impact)

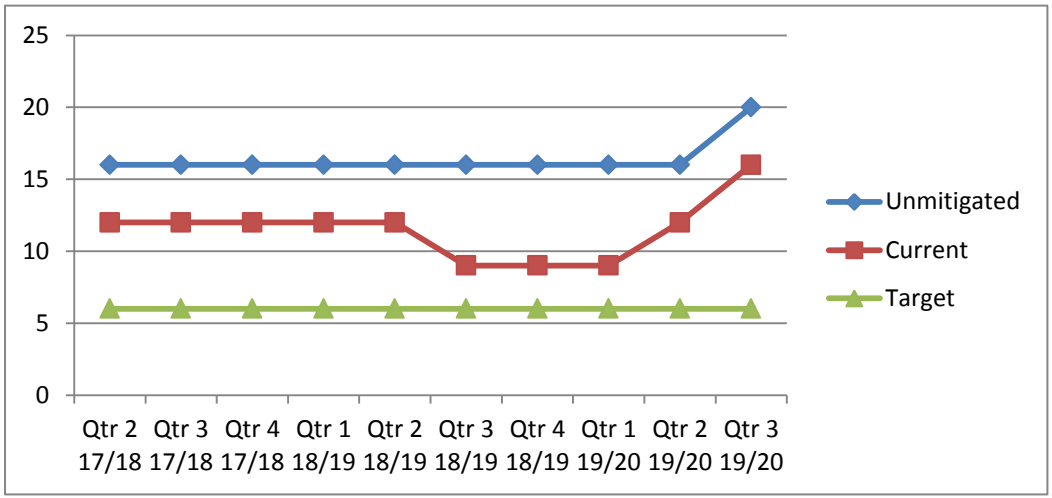
Unmitigated 5 x 4

Current Residual 4x 4

Target Risk Score 2 x 3

Potential Impact

- Service reduction
- Reduction in quality
- Staff workloads increase
- Public dissatisfaction with council services
- Statutory services not delivered effectively
- Significant budget overspends
- Damage to reputation if services reduced
- Adverse effect on staff morale
- High staff turnover
- Adverse effect on external inspections / assessments



Rationale for current score:
Increasing pressure on children's social care and adult social care due to changing demographics.

Rationale for target risk score
Appetite low due to impact on financial planning

Current RAG rating	Red

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

- Use of the Joint Strategic Needs Assessment to inform planning
- Regular performance monitoring and reporting to DMT, Children's SMT and Transformation Board

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

	Officer responsible	Target date

• Transformation under Family Safeguarding Model has provided additional staff in two of the family safeguarding teams • Active recruitment via website and where needed, agency staff to address shortfall • Strong partnership relationships • Transformation projects on placements and fostering • Regular reporting to the Safeguarding Board and DMT • Introduction of strategic leadership for criminal exploitation • Focus on CHC to ensure that all eligible individuals receive money from this stream • Review of Adults Conversations Model, conversation 3, as part of transformation project • Assess purchasing intentions based on the current appraisal of the range of support. • Analysis prepared on the annual impact of demographic change as part of the council's budget setting process • Reducing demand through prevention / reablement / review of existing care packages • Finance tracker reviewed monthly and intelligence used to address pressure points	Intention to invest in additional business intelligence capacity	Executive Director: Delivery	31/12/19
	Updated proposal to go to CMT on how to utilise business intelligence	Executive Director: Delivery	31/10/19

Strategic Theme 4: **Caring for residents and their families**

Risk 6: Council unable to sustain delivery of services to support adult social care needs due to insufficient external provision for adult social care.

Risk Owners: Executive Director People

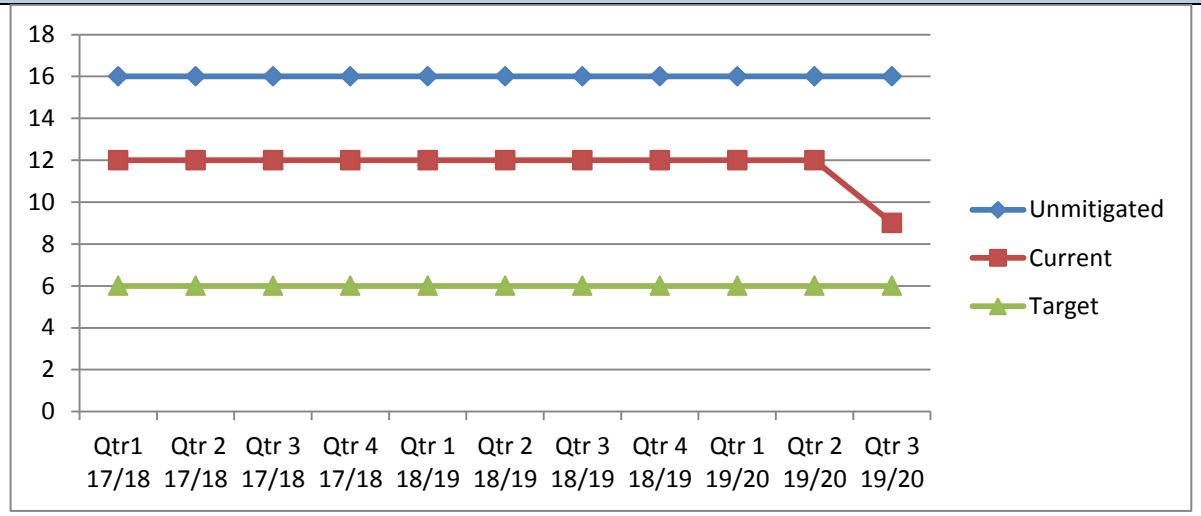
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 4

Current Residual 3x 3

Appetite 2 x 3

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



Rationale for current score:
There continue to be significant economic and workforce challenges within the market and a legacy of ineffective commissioning. However a number of mitigations are in place and have been successful in reducing level of risk

Rationale for target risk score
Appetite is low due to the potential impact for vulnerable individuals.

Current RAG rating	Amber

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

- Care Governance Board in place and chaired by AD for Commissioning
- New contact monitoring toolkit developed and implementation in place to provide greater oversight
- East Berks local authorities working together through ICS Care and Support Market Group to align quality standards and share information
- New Commissioning Team designed and implemented to increase rigour of contract oversight and specification
- ADASS working together to implement duty to support market and share intelligence of potential failures
- Council working closely with CQC where any failure / weaknesses identified
- Strong internal processes to keep people safe and to support providers to improve
- Commissioning and Brokerage teams are working together to identify options to increase the market of providers that the council works with in order to increase supply

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

	Officer responsible	Target date
Current work to extend from adults only to People Care Governance Board	Executive Director People	Ongoing
New Access to Resources team to be formed, which will increase commercial awareness, oversight and enable alternative provision to be identified	Executive Director People	Ongoing
Commissioning service now has team with market development function – this will lead to increased focus in	Executive Director People	Ongoing

• Annual reviews of prices paid for services, benchmarking with other local authorities, annual inflation approach kept under review • Use of direct payments providing increasing flexibility for individuals about how to have their care needs met • In Children's in particular the council is part of a multi-authority framework that gives providers wider market reach and greater ability to plan and adapt to the market	coming periods, and clearer statements of requirements form the council		
	Council is currently reviewing domiciliary care market, reviewing CBS framework which had effect of reduction of supply available in the borough	Executive Director People	Ongoing
	Continuing work with ICS around care and support market and potential for increasing collaboration	Executive Director People	Ongoing
	Development of Market Position Statement in partnership with local market to better understand their challenges	Executive Director People	Ongoing

Strategic Theme 4: **Caring for residents and their families**

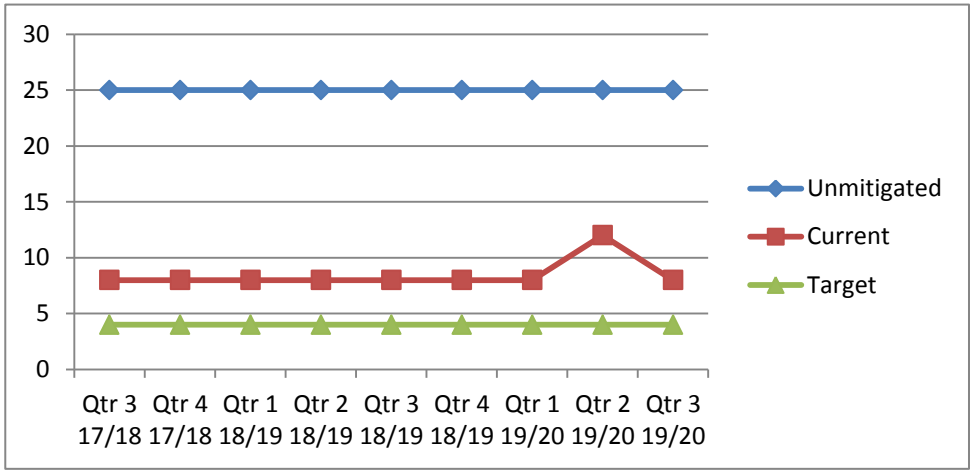
Risk 7: The Council does not identify and discharge all its responsibilities for safeguarding children and vulnerable adults

Risk Owner Executive Director People

Risk Rating (Likelihood x Impact)
Unmitigated: 5 x 5
Current residual: 2 x 4
Target Risk Score 1 x 4

Potential Impact

- Death or serious injury
- Prosecution
- Detrimental impact on council reputation
- Censure by inspection
- Public dissatisfaction
- Relationship with partners impaired



Rationale for current score:
Whilst the impact of failure would be critical, the likelihood is low

Rationale for target risk score
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)*

- Continue to roll our safeguarding awareness programmes for all internal staff and stakeholders
- Adherence to the pan-Berkshire safeguarding children procedures
- Training provided for all staff as identified in induction and through appraisal process
- All staff have regular supervision as per the council's policy
- Ensure that the audit programme for children's social care is adhered to
- Supervision and appraisal policy in place and applied including review of PDP
- Embedding of Family Safeguarding Model of practice to ensure strong evidence-based practice with highly skilled and trained workers

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

	Officer responsible	Target date
• Mechanism for reporting and learning from serious and untoward incidents being developed	Executive Director: People	Ongoing
• Review of current policy portfolio	Executive Director: People	Ongoing
• Ensure learning from ministerial serious case reviews is a rolling programme	Executive Director: People	Ongoing

• Opportunity for greater collaboration with local stakeholders through the People Safeguarding Board covering Adults and Children is being implemented • Ensure that people are fully involved with the safeguarding process • Promote positive risk management by ensuring people are supported to identify risks associated with those actions and have risk management plans in place • Multi-agency risk framework now in place • Make Safeguarding Personal as per the Care Act 2014 in place • Dedicated work on contextual safeguarding • Identification and delivery of relevant training and development for staff • Regular audits of practice including case audits and supervision files • Regular monitoring of data and information • Annual reporting to DMT, Executive Director for People, Chief Executive and Safeguarding Board • CSE and missing focused work • Work of the Safeguarding Board in prevention / communication • Review of school related policy documents where there is a potential risk of harm, e.g. administration of medicine and review of training • Highlight headteacher and governor responsibilities • School visits / activity logs / systems • Ensuring staff are kept up to date with training and developments in practice, within a partnership environment	• Place Summit, which will contribute towards a contemporary understanding of our local problem profile	Executive Director: People	Ongoing
	• Reorganisation of our safeguarding and QA teams, establishing effective leadership structures with the aim of instilling a culture of greater rigour and continuous improvement	Executive Director: People	Ongoing
	• Recruit to 3 permanent Head of Service roles in the coming months and we have appointed a full-time Principal Social Worker who will be transitioning into the role by the end of March	Executive Director: People	Ongoing

•

Strategic Theme 1:Value for money
Strategic Theme 2: Economic resilience
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Strategic Theme 5: A clean, green and responsibly sustainable place
Strategic Theme 6: Communities

Risk 8: IT Strategy and digital infrastructure fails to meet the needs of the organisation.

Risk Owners: Executive Director Delivery

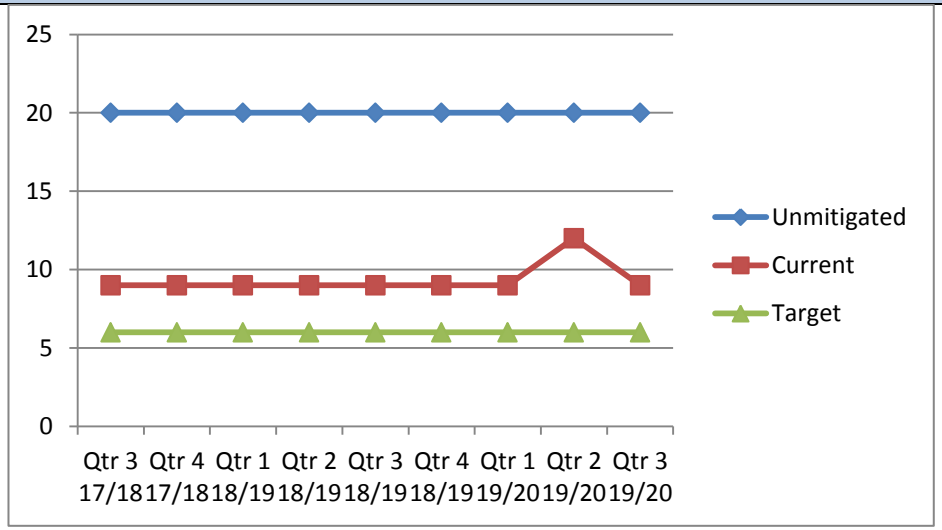
Risk Rating (Likelihood x Impact)

Unmitigated 4 x 5

Current Residual 3 x 3

Target Risk Score 2 x 3

Potential Impact
Disruption to services. Failure to meet statutory duties.



Rationale for current score:
Risk score reducing as actions have been identified and are being implemented to address weaknesses identified in technical infrastructure and systems that are not fit for purpose.

Rationale for target risk score
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 taken to CMT on 10th July on ICT Strategy 2017-20.
- Improvement programme being implemented and updates being provided and being monitored at CMT on a regular basis

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

	Officer responsible	Target date
New ICT Strategy for the future being developed developed	Executive Director Delivery	Ongoing

Strategic Theme 1:Value for money
Strategic Theme 2: Economic resilience
Strategic Theme 3: Education and skills
Strategic Theme 4: Caring for residents and their families
Strategic Theme 5: A clean, green and responsibly sustainable place
Strategic Theme 6: Communities

Risk 9 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:
Executive Director Delivery

Risk Rating (Likelihood x Impact)

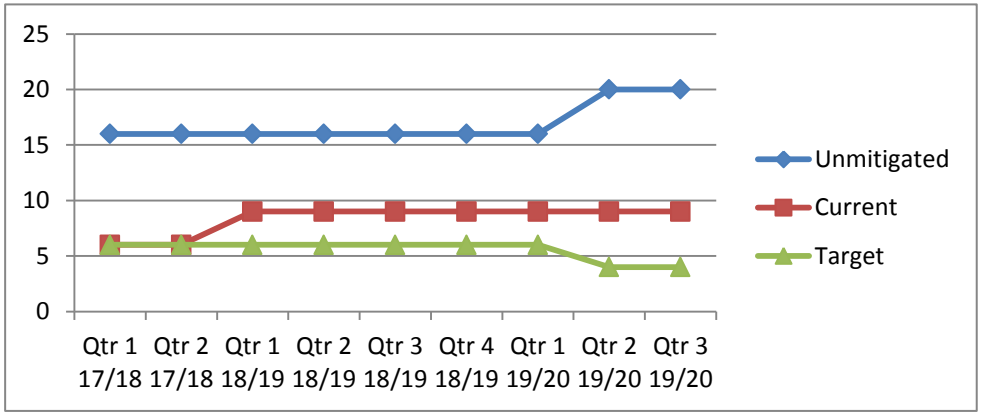
Unmitigated 4 x 5

Current Residual 3 x 3

Target Risk Score 2 x 2

Potential Impact

- Disruption to services.
- Failure to meet statutory duties.
- Reputational damage.
- Financial loss



Rationale for current score:
Likelihood of staff being targeted remains a significant risk. However, the impact of an attack is mitigated by Disaster Recovery and Business Continuity arrangements.

Rationale for target risk score
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)*

- Cyber Security policies all re-written and published on the intranet
- Microsoft SCP ATP II Licensing acquired for advanced security on Office 365- Outlook, Office, Sharepoint and Teams as well as security and compliance on all Council data.
- Windows Defender ATP deployed for the best in class anti-virus protection for all laptops.
- MS Intune deployed for protection of smartphones
- PSN compliant
- Members of government early warning groups such as NCSC (National Cyber-Security Council) land WARP (Warning, Advice and Reporting Point)
- Mandatory Information security and GDPR training before access is given

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

	Officer responsible	Target date
Currently planning an awareness raising and training campaign around cyber security and risks	Assistant Director: Customer Experience	30/4/20
Migrating the Proxy servers to MS Azure. Azure is far more secure as we will be sitting behind Microsoft security.	Assistant Director: Customer Experience	31/3/20
Deploying MS Azure B2B to enable secure collaborative working with partner organisations.	Assistant Director: Customer	30/9/20

to systems • 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 • Cyber risks monitored through Delivery risk register		Experience	
	Cyber Essentials Certification in progress	Assistant Director: Customer Experience	31/3/20
	Implementing MS Sentinel Implementation for Cyberattack management.	Assistant Director: Customer Experience	31/3/20

Strategic Theme 1:Value for money
Strategic Theme 2: Economic resilience
Strategic Theme 3: Education and skills
Strategic Theme 4: Caring for residents and their families
Strategic Theme 5: A clean, green and responibly sustainable place
Strategic Theme 6: 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.

Risk Owners:
Executive Director Delivery

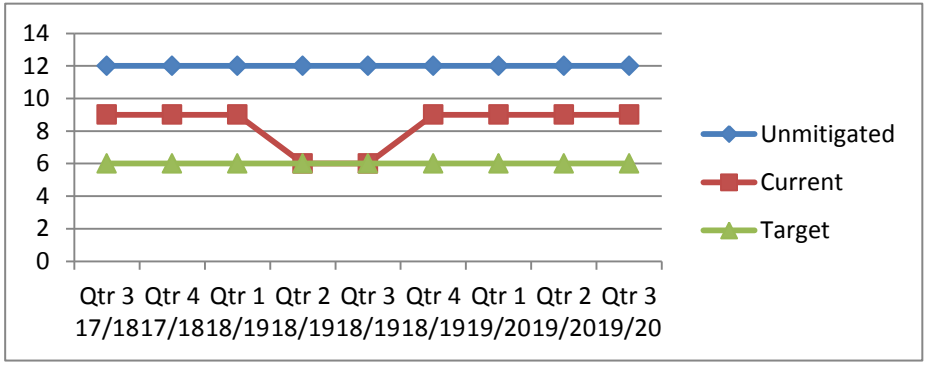
Risk Rating (Likelihood x Impact)

Unmitigated 3 x 4

Current Residual 3x 3

Target Risk Score 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:
Risk score maintained due to significant breaches incurred and also weaknesses identified by the internal audit review..

Rationale for target risk score
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 GDPR.
- Learning and Development have provided further training
- Monitoring of information security breaches to be reinstated at reformed Information Management Group and at CMT.
- Information Asset Register. Work ongoing to complete retention and

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

	Officer responsible	Target date
Work ongoing to complete retention and destruction schedule	External consultant	30/9/19
Updated policies to be communicated	Borough Solicitor	30/9/19

destruction schedule. • Internal Audit review completed which concluded that GDPR is inadequate. Further work to improve compliance has since been done and NHS Toolkit has since been re-submitted and accepted.	Improved GDPR training being developed	Lawyer (Information Management and Security)	31/12/19
	Follow up audit scheduled for January	Head of Audit and Risk Management	31/1/20

Strategic Theme 1:Value for money
Strategic Theme 2: Economic resilience
Strategic Theme 3: Education and skills
Strategic Theme 4: Caring for residents and their families
Strategic Theme 5: A clean, green and responsibly sustainable place
Strategic Theme 6: Communities

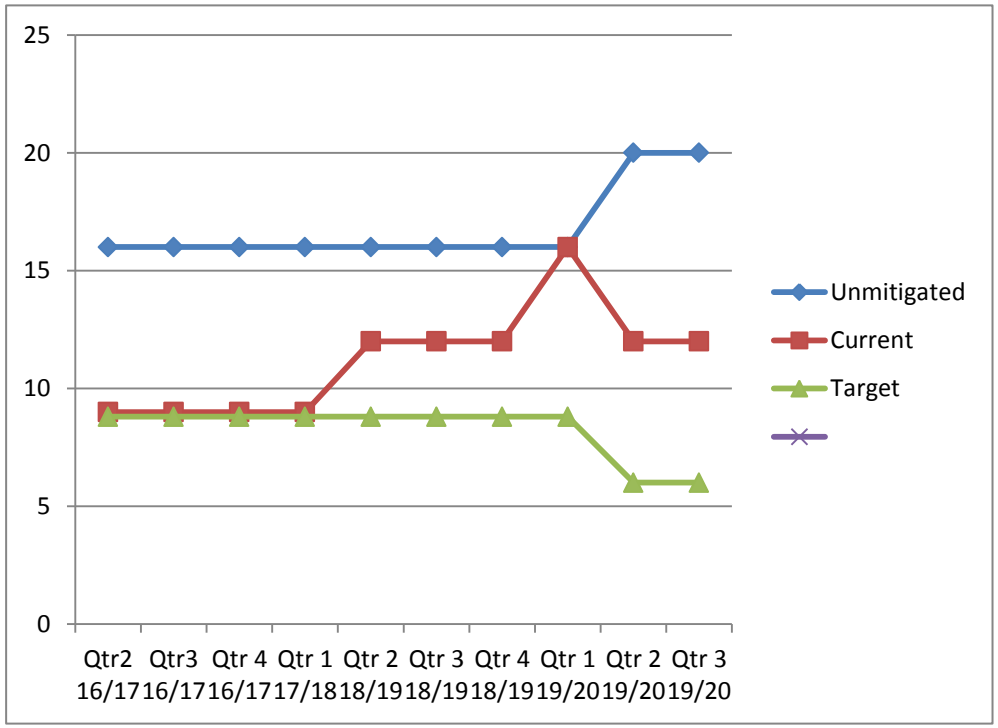
Risk 11: The Council's Business Continuity Management (BCM) fails to effectively deal with potential threats and risks.

Risk Owners: Executive Director: Delivery

Risk Rating (Likelihood x Impact)
Unmitigated 4 x 5
Current Residual 3 x 4
Target Risk Score 2 x 3

Potential Impact

- Lack of ability to respond in a coordinated manner during a Business Continuity event, particularly when affecting the whole Council over prolonged periods.#
- Enforcement action under the Civil Contingencies Act 2004.
- Reputational damage.



Rationale for current score:
Following an external business continuity review, the Councils Business Continuity status was considered to be RED based on the outcome of the Audit where the Council was High Risk, having regard to the Business Continuity Institute Audit scoring

The risk remains significant because the improvement programme put in place is not completed. However, as a result of the existing plans in place, albeit they are not robust, it is considered that the risk to the Council is currently an AMBER rating. This is based on the fact plans are in place but not robust and there are current specific risks to the Council causing potential risks to the Council including the implications around Brexit, some weaknesses identified in known critical services including the Out of Hours contact centre and the robustness of the ICT recovery process following recent incidents and a gaps in staff training.

Rationale for target score
The Council has agreed that as minimum the level of improvement should take the Council to Low risk if not best practice.

Current RAG rating	Amber

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

- Following the external review an action plan is now in place to ensure all service and corporate business continuity plans covering essential and critical functions are in place and robust by 31 March 2020
- Service Business Continuity Liaison Officers and Emergency Planning Liaison Officers have been identified to work with the Emergency Planning Unit
- Business Impact Analysis Workshops and Drop in Sessions have been arranged
- Recovery Workshops have been arranged.
- Enhanced Brexit monitoring arrangements have been put in place and action plans are being developed

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

	Officer responsible	**Target date**
Workshop scheduled for business impact analysis and drop in sessions arranged	Emergency Planning	31/10/19
Recovery workshop arranged to support services develop service recovery plans	Emergency Planning	30/11/19
Developing strategic governance document for business continuity	Emergency Planning	30/11/19
All Service & Corporate Plans to be in place	All Services & Emergency Planning	319/20
Formal Annual Reviews put in place	Emergency Planning	20/21
Service and/ or Corporate Exercises to be undertaken	Emergency Planning	20/21

Strategic Theme 1:Value for money
Strategic Theme 2: Economic resilience
Strategic Theme 3: Education and skills
Strategic Theme 4: Caring for residents and their families
Strategic Theme 5: A clean, green and responsibly sustainable place
Strategic Theme 6: Communities

Risk 12: Weaknesses in the internal control environment.

Risk Owners: CMT

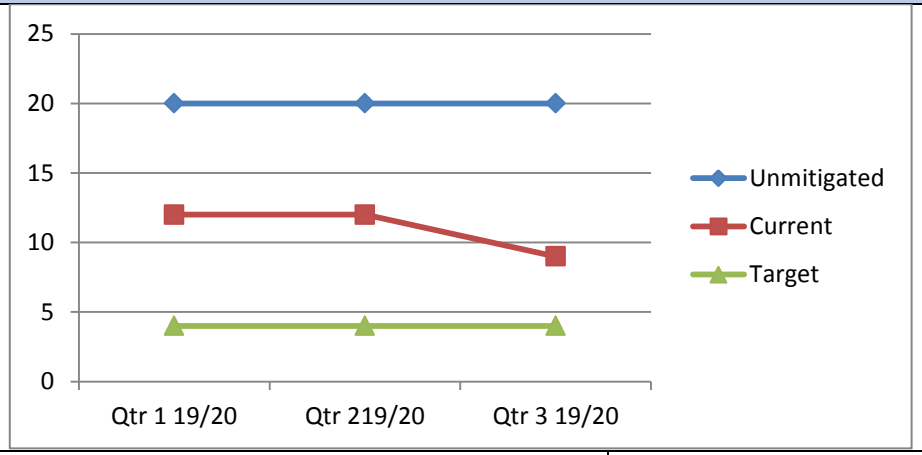
Risk Rating (Likelihood x Impact)

Unmitigated 5 x 4

Current Residual 3 x 3

Target Risk Score 2 x 2

Potential Impact
Increased potential for financial loss, fraud and safeguarding issues. Reputational damage. External sanction.



Rationale for current score:
Risk reducing as action taken is improving the control environment but more time is needed to ensure this is embedded effectively.

Rationale for target risk score
Appetite is low is as ensuring that an effective control environment is in place is fundamental to ensuring the organisation's objectives are met and is a statutory requirement under the Accounts and Audit Regulations.

Current RAG rating	Amber

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

- Limited assurance audit reports monitored at DMTs.
- Follow up audits of limited assurance areas being completed during 2019/20
- Regular review of reporting to CMT on impact of audit deferrals and outcomes on 19/20 audit opinion

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

	Officer responsible	Target date
Regular specific slot at CMT on audit and governance now being introduced	CMT	31/3/20

Strategic Theme 4: Caring for residents and their families

Risk 13: Housing: Failure to address health and safety risks in residential properties

Risk Owners: Executive Director People

Risk Rating (Likelihood x Impact)

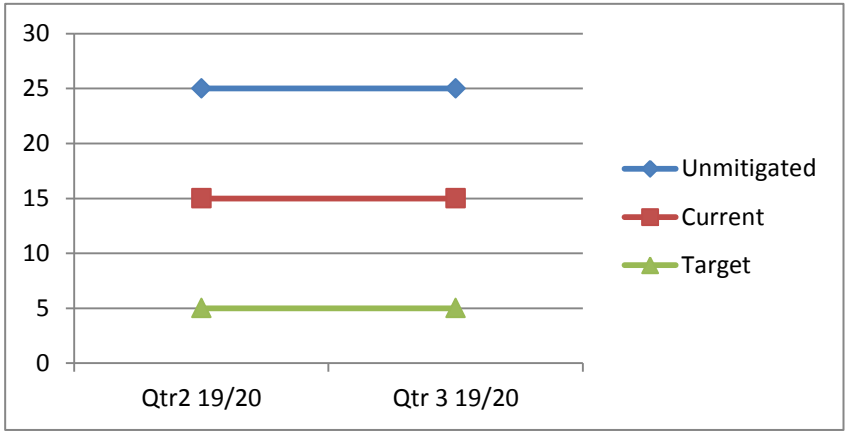
Unmitigated 5 x 5

Current Residual 3 x 5

Target Risk Score 1 x 5

Potential Impact

Death or serious injury
Prosecution
Detrimental impact on Council reputation
Financial impact - fines as a result of prosecution/ compensation



Rationale for current score:

New procedures/ systems are still being implemented.

Rationale for target score

Given that the risk relates to the safety/safeguarding of vulnerable individuals the risk appetite is low.

Current RAG rating	Red

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

- A Residential Safety Compliance Group is chaired by the Assistant Director of Early Help and Communities.
- Property Services work with Housing to provide professional expertise. A qualified surveyor with residential experience has been employed.
- Have appointed to a new interim Housing Management team leader role (pending a wider whole service restructure) to provide professional management
- Improvements to fire safety measures above the statutory minimum have been agreed
- Staff across Housing and Property Services have had HHSRS (hazard in the home) training
- Property have agreed a pilot SLA with reading BC for the provision of all maintenance to LA/DHL owned residential properties.
- The Council has a duty of care when placing vulnerable clients in provision which the Council commissions or otherwise secures. Depending on the nature of the placement this might be ensured through a range of means – including contractual requirements and contract monitoring
- Officers from the Royal Berks Fire and Rescue Service are working with officers across the People directorate to identify opportunities to improve practice (ASC, CSC – care leavers, Housing, Commissioning)

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

	Officer responsible	***Target date***
Systems are under review to identify opportunities to improve them and an action plan is being developed. This includes a review of responsibilities where property is leased or managed by a third party	Assistant Director Early Help and Communities	Ongoing
Recruiting to a vacant role in the Housing management team; have reviewed the HM officer JD and are building resilience and skills in the team	Assistant Director Early Help and Communities	Ongoing
A programme of work is underway; monitoring progress with contractors. Will need to ensure follow through on 'hard to access' properties.	Assistant Director Early Help and Communities	Ongoing
A schedule of planned maintenance is	Assistant	Ongoing

• Learning Disability management have collated a schedule of all placements in supported housing with providers • Commissioning carry out documentation checks where they are involved	required and all properties need to be inspected by a surveyor	Director Early Help and Communities	
	Fire safety awareness training is being arranged for all Housing staff with RBFRS	Assistant Director Early Help and Communities	Ongoing
	Training for providers on fire safety awareness with RBFRS is being planned by Commissioning	Assistant Director Early Help and Communities	Ongoing
	RBFRS willing to provide awareness workshops for frontline staff on fire safety – to be arranged through OD	Assistant Director Early Help and Communities	Ongoing
	Need a comprehensive list of providers used for all needs groups	Assistant Director Early Help and Communities	Ongoing
	Commissioning Team in place developing robust contract management approach.	Assistant Director Early Help and Communities	Ongoing

APPENDIX 2

CRITERIA FOR ASSESSING LIKELIHOOD

PROBABLILTY	SCORE	DEFINITION
Almost impossible	**1**	Rare (0-5%).The risk will material only in exceptional circumstances.
Low	**2**	Unlikely (5-25%). This risk will probably not materialise.
Significant	**3**	Possible (25-75%). This risk might materialise at some time
High	**4**	Likely (75-95%). This risk will probably materialise at least once.
Very High	**5**	Almost certain (>95%). This risk will materialise in most circumstances.

CRITERIA FOR ASSESSING IMPACT

	Negligible	Minor	Major	Critical	Catastrophic
Score	**1**	**2**	**3**	**4**	**5**
Disruption to established routines/operational delivery	No interruption to service. Minor industrial disruption.	Some disruption manageable by altered operational routine.	Disruption to a number of operational areas within a location and possible flow to other locations.	All operational areas of a location compromised. Other locations may be affected.	Total system dysfunction. Total shutdown of operations
Damage to reputation	Minor adverse publicity in local media.	Significant adverse publicity in local media.	Significant adverse publicity in national	Significant adverse publicity in national media. Senior	Senior management and/or elected Member

	Negligible	Minor	Major	Critical	Catastrophic
Score	**1**	**2**	**3**	**4**	**5**
			media.	management and/or elected Member dissatisfaction.	resignation/removal.
Political	Could have a major impact one departmental objective but no impact on a Council Medium Term Objective	Could have a major impact one or more departmental objective but no impact on a Council Medium Term Objective	Could have a major impact on a Departments objective with some impact on a Council Medium Term Objective	Council severely impact the delivery of a Council Medium Term Objective	Council would not be able to meet multiple Medium Term Objectives.
Security	Non notifiable or reportable incident.	Localised incident. No effect on operations.	Localised incident. Significant effect on operations.	Significant incident involving multiple locations.	Extreme incident seriously affecting continuity of operations.
Financial (Council as a whole/ single dept.)	<1% of monthly budget	>2% of monthly budget	<5% of monthly budget	<10% of monthly budget	<15% of monthly budget
General environmental and social impacts	No lasting detrimental effect on the environment i.e. noise, fumes, odour, dust emissions, etc. of short term duration	Short term detrimental effect on the environment or social impact i.e. significant discharge of pollutants in local neighbourhood.	Serious local discharge of pollutants or source of community annoyance in general neighbourhood that will require remedial attention.	Long term environmental or social impact e.g. chronic and significant discharge of pollutants.	Extensive detrimental long term impacts on the environment and community e.g. catastrophic and/or extensive discharge of persistent hazardous pollutants.

	Negligible	Minor	Major	Critical	Catastrophic
Score	**1**	**2**	**3**	**4**	**5**
Corporate management	Localised staff and management dissatisfaction.	Broader staff and management dissatisfaction.	Senior management and /or elected Member dissatisfaction. Likelihood of legal action.	Senior management and/or elected Member dissatisfaction. Legal action.	Senior management and/or elected Member resignation/removal.
Operational management	Staff and line management dissatisfaction with part of a local service area.	Dissatisfaction disrupts service.	Significant disruption to services.		Resignation/removal of local management.
Workplace health and safety	Incident which does not result in lost time.	Injury not resulting in lost time.	Injury resulting in lost time. Compensable injury.	Serious injury /stress resulting in hospitalisation.	Fatality (not natural causes)
Legal	Minor breach resulting in small fines and minor disruption for a short period	Regulatory breach resulting in small fines and short term disruption for a short period	Major regulatory breach resulting in major fines and short term disruption for a short period	Severe regulatory breach resulting in severe fines and disruption for an extended period	Very severe regulatory impact that threatens the strategic objectives of the Council

APPENDIX 2

RISK MATRIX

LIKELIHOOD

5					
4					
3					
2					
1					
	1	2	3	4	5

IMPACT

Likelihood:
5 Very High
4 High
3 Significant
2 Low
1 Almost Impossible

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

TO: GOVERNANCE AND AUDIT COMMITTEE
29TH JANUARY 2020

INTERNAL AUDIT INTERIM REPORT
1ST April 2019 – 31st December 2019

(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 2019.

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. Internal Audit are required to comply with the Public Sector Internal Audit Standards which set out the ethical and operational standards for internal audit.

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 2019. IT audits are undertaken by TIAA Limited. The remaining audits are delivered by Wokingham internal audit team under an agreement under Section113 of the Local Government Act 1972 which provides for the sharing of staff resources or are undertaken in house. Reading Borough Council provide Counter Fraud support and training under this same agreement. 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.

6.3 In addition, as raised in my Annual Report for 2018/19, the assurance opinion definitions and recommendation priorities have been redefined to provide a clearer insight into the degree of severity of opinions and recommendations by splitting the "Limited" opinion into inadequate and partial and priority 1 recommendations into critical and major. Additionally, the "Significant" audit assurance opinion which was used rarely due to the narrow way it was defined has been replaced with a "Good" opinion which can still be given if recommendations have been raised if these are only low priority.

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 financial implications arising from this report. The work of internal audit is key to providing assurance about the effectiveness of the Council's internal control environment.

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 2019/20
Strategic Risk Register

Contact for further information
Sally Hendrick – 01344 352092
sally.hendrick@bracknell-forest.gov.uk

BRACKNELL FOREST COUNCIL

HEAD OF AUDIT AND RISK MANAGEMENT'S INTERIM REPORT

JANUARY 2020

Sally Hendrick
Head of Audit and Risk Management
Sally.hendrick@bracknell-forest.gov.uk
01344 352092

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 2019 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 called the Head of Internal Audit Annual Opinion. The different categories of recommendation and assurance opinions are set out in the following tables.

2.3 Since 1st April 2019 we have been categorising our **audit opinions** according to our assessment of the controls in place and the level of compliance with these controls as follows::

	Good - There is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to the achievement of objectives and this is being complied with. Recommendations will only be of low priority.
	Adequate - there is basically a sound system of control but there are some areas of minor weakness and/or some areas of non- compliance which put the system/process objectives at risk. Recommendations will only be low or moderate in

	priority.
	Partial - there are areas of weakness and/or non- compliance with control which put the system/process objectives at risk and undermine the system's overall integrity. Recommendations may include major recommendations but could only include critical priority recommendations if mitigated by significant strengths elsewhere.
	Inadequate - controls are weak across a number areas of the control environment and/or not complied with putting the system/process objectives at significant risk. Recommendations will include major and/or critical recommendations
	None - There is no control framework in place and management is inadequate leaving the system open to risk of significant error or fraud.

2.4 We now categorise our recommendations according to their level of priority as set out below:

	Critical - Critical and urgent in that failure to address the risk could lead to factors such as significant financial loss, significant fraud, serious safeguarding breach, critical loss of service, critical information loss, failure of major projects, intense political or media scrutiny. Remedial action must be taken immediately.
	Major - failure to address issues identified by the audit could have significant impact such as high financial loss, safeguarding breach, significant disruption to services, major information loss, significant reputational damage or adverse scrutiny by external agencies. Remedial action to be taken urgently.
	Moderate - failure to address issues identified by the audit could lead to moderate risk factors materialising such as medium financial loss, fraud, short term disruption to non-core activities, scrutiny by internal committees, limited reputational damage from unfavourable media coverage. Prompt specific remedial should be taken.
	Low - failure to address issues identified by the audit could lead to low level risks materialising such as minor errors in system operations or processes, minor delays without impact on service or small financial loss. Remedial action is required.

2.3 We formerly categorised our **audit opinion** according to the following:::

	Significant - there is a sound system of internal controls to meet the system objectives and manage risks and testing performed indicates that controls tested are consistently complied with
	Satisfactory - there is basically a sound system of internal controls to manage risk 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 and management of risks 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 and management of risks is inadequate leaving the system open to significant error or abuse and/or there is significant non-compliance with basic controls.

2.5 We previously categorised our **recommendations** according to their level of priority as per the following.

	Priority 1- Fundamental weakness in the design of controls or consistent non-compliance with controls that puts the achievement of systems objectives at risk.
	Priority 2 - Weakness in the design of controls or inconsistency in compliance with controls puts the achievement of systems objectives at risk.
	Priority 3- Recommended best practice to improve overall control.

3. SUMMARY OF INTERNAL AUDIT RESULTS TO DATE

3.1 The Annual Internal Audit Plan for 2019/20 was considered and approved by the Governance and Audit Committee on 27th March 2019. This will be updated for the new assurance and recommendation definitions once the operational effectiveness of these has been confirmed. 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 9 reviews will be carried out under the Section 113 arrangement with Wokingham Borough Council's Internal Audit Team. In addition, all grants are scheduled to be audited in house.

3.2 During the period April to December 2019, 4 grants were certified, 8 memos without an opinion were finalised, 15 reports were finalised, 8 reports and 2 memos had been issued in draft awaiting management responses, one report is out for discussion and in 11 cases audit work was in progress.

3.3 Delivery against the planned programme is behind original schedule due to the number of audits which have had to be deferred to later in the year to ensure there was time to address weaknesses previously identified. Whilst there are always deferrals in any audit year, there are generally sound reasons for these audits to be deferred and 2 audits have been brought forward to compensate for this, the percentage of audit deferrals in significantly higher than in previous years. The main audit contractors, Mazars have already raised concern about pressure on resources to deliver the Plan that is now end-loaded and in some areas there will be pressure on officers where multiple audits will be ongoing for the same broader service areas in the same quarter. Staff turnover at Mazars is also currently causing delays in timely delivery of reports.

3.4 Details on the status and outcome of all audits are attached at Appendix C. Audits which have been deferred form the original timetabling are clearly noted in the status column where they are marked with "D". A summary of the outcome of finalised and audits with reports issued in draft are set out below.

APRIL TO AUGUST 2019/2020 ASSURANCE LEVELS	NUMBER OF AUDITS		2018/19 ASSURANCE LEVELS	NUMBER OF AUDITS
Good	**3**		**Significant**	0
Adequate	**14**		**Satisfactory**	30
Partial	**4**		**Limited**	19
Inadequate	**2**			
No assurance	**0**		**No Assurance**	0

Total for Audits with an Opinion	**23**		**Total for Audits with an Opinion**	49
Follow Up Memos with Major Recommendation and no Opinion	**3**		**Follow Up Memos with Priority 1 Recommendation and no Opinion**	5
Other Follow Up Memos/ Reports with no Opinion	**7**		**Other Follow Up Memos/ Reports with no Opinion**	1
Total Audits	**33**		**Total Audits**	55
Grant Certifications	**4**		**Grant Certifications**	5

Identified High Priority Control Issues

3.6 Audits which have identified high priority recommendations will generally be revisited in 2020/21, to ensure successful implementation of agreed recommendations. No critical recommendations have been raised to date in 2019/20 however a number of recommendations falling under our major recommendation category have been raised resulting in inadequate or partial audit opinions some of which have already been reported in the interim report in September 2019. High priority weaknesses were identified at the following audit reports and memos issued since September 2019. Further detail is set out in Appendix A.

AUDITS WHERE HIGH PRIORITY ISSUES HAVE BEEN IDENTIFIED SINCETHE PREVIOUS UPDATE TO COMMITTEE9
COUNCIL WIDE
• Officers Expenses • Purchase Cards
DELIVERY
• Car Parks • Cyber Security

Update of 2018/19 Audits with Limited Assurance Opinions and/or Priority 1 Recommendations

3.7 Since April 2019, ten reports and memos have been issued following follow up or re-audit of audits previously issued with a limited opinion. As shown in Appendix B, in four cases priority 1 recommendations had not been addressed and further major recommendations were raised in accordance with our new definitions. In one case a priority 1 recommendations had only been partially addressed and in another case issues with annual reviews which were not directly relevant to the area audited were found again. These matters will be followed up at the social care pathway follow up in February 2020.

Follow Up of Other 2018/19 Audits

3.8 In December 2019 managers were asked to provide updates on progress on actions to address recommendations raised in 2018/19 audit reports with a satisfactory opinion that would not be subject to further audit in 2019/20. As shown in Appendix D, Managers confirmed that only 65 out of 110 or 59% of of medium and low level priority recommendations had been implemented however this is distorted by one school that did not respond. Excluding the one school which has not responded, the implementation rate is 65%.

Quality Assurance and Improvement Programme

3.9 As shown below, 93% of the client questionnaires indicated the auditees were satisfied with the service. In one case the auditee gave an unsatisfactory assessment on the delays during the audit. In 46% of cases internal audit providers delivered the first draft report within 15 days of the exit meeting.

	Client Questionnaires		Draft Report /Memo Produced within 15 Days of Exit meeting
	Received	Satisfactory	
1st April to 31st December 2019	14	93%	46%
2018/19	20%	100%	70%

4. PROGRESS ON INTERNAL CONTROL ENVIRONMENT 2019/20

4.1 The weakening in controls in 2018/19 is being monitored as audits are delivered to monitor improvement in the control environment. Under the new CMT approach there is now a specific slot for audit and governance every few weeks. It is too early in the year to provide a reasonable prediction of the opinion for 2019/20 especially given the number of audits deferred to quarter 4 at officer request a high proportion of which are follow up or re-audits of limited assurance areas. The outcome of audits to date indicates progress in

some areas as noted in section 3.7. This is not the case in all areas and as noted in 3.8 there is a relatively low implementation of audit recommendations raised in audit reports with a satisfactory opinion.

5. RISK MANAGEMENT

5.1 The Strategic Risk Register has already been reviewed three times by the Strategic Risk Management Group (SRMG), twice by the Corporate Management Team and once by the Governance and Audit Committee in 2019/20. Deep dives on individual risks are now taking place at the Governance and Audit Committee starting with the cyber and business continuity risks reviewed in September 2019 and the finance and staffing risks being subject to deep dive review in January 2020.

5.2 Directorate risk registers are already in place and being reviewed quarterly for the Delivery and Central Directorates. A People risk register has now been developed drawing together the risks for the previous Children, Young People and Learning and Adult, Social Care, Health and Housing directorates.

5.3 In addition, the terms of reference for SRMG and the membership have been reviewed to avoid duplication with other working groups, in particular the Information Management Group. The Risk Management Toolkit for managers has also been updated, agreed with SRMG and publicised on the Council's intranet.

5.4 An independent review of risk management arrangements has been undertaken by a risk management consultant from Mazars and the outcome will be reported separately to the Committee.

6. FRAUD AND IRREGULARITY

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 submitted in the autumn of 2018 was on:

- payroll
- pensions
- trade creditors
- housing waiting lists

- housing benefits (provided by the DWP)
- council tax reduction scheme
- council tax (required annually)
- electoral register (required annually)
- private supported care home residents
- transport passes and permits (including residents' parking, blue badges and concessionary travel)
- licences – market trader/operator, taxi driver and personal licences to supply alcohol
- personal budget (direct payments)

Matches for investigation came through in stages during 2019 and the outcome will be reported in due course.

Benefits Investigations

6.2 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 refers further fraud information requests where fraud has been reported from another source. During the period April 2019 to 13 December 2019 there were 49 referrals to SFIS. We have so far been notified of 1 administrative penalty relating to these cases. During the financial year 2018/19, 55 cases were referred and the Welfare Service have been notified of 6 administrative penalties by SFIS.

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 2019 and 13th December 2019 the service has applied 38 Civil Penalties. From April 2016 Bracknell Forest Council has applied penalties of £70 in respect of Council Tax. Between April 2019 and 13th December 2019 the service has applied 6 Council Tax Penalties.

Since January 2018 the DWP no longer issue mandatory referrals for Real Time Information (RTI) system for Housing Benefit to detect undeclared income. This has been replaced by the Verify Earnings and Pensions (VEP) Alerts service which provides local authorities with the capability to prevent fraud and error arising through real time identification of changes in income.

The service provides Alerts to users to prompt them to access the service when there is a change in the claimants or partner's employment or pension. The DWP commenced the roll out to Local Authorities from May 2018 with Bracknell Forest Council using the service from October 2018. Between April 2019 and 9th December 2019, 706 changes of circumstances to Housing Benefit were recorded as actioned due to VEP of which approximately 61.8% resulted in a decrease to Housing Benefit, and approximately 26.5% resulted in an increase to Housing Benefit.

Single Person Discount

6.3 During Quarter 3, the Revenues Team started to undertake a further proactive counter fraud exercise on Council Tax Single Person Discount (SPD). This exercise is ongoing and the results will be reported to the Governance and Audit Committee in due course.

Potential Irregularities

6.4 During quarter 3 a number of potential concerns have been raised which Reading Counter Fraud are assisting with. These all relate to external parties and to welfare services.

APPENDIX A

DIRECTORATE	AUDITS WITH HIGH PRIORITY ISSUES IDENTIFIED SINCE THE LAST INTERIM REPORT	
	Purchase Cards (Also limited in 2018/19) Four major recommendations were raised in respect of weaknesses in compliance with approval processes, inadequate processes to identify card holders in schools who have left school employment, lack of supporting information for transactions and splitting transactions to circumnavigate delegation limits. The findings of the audit should be considered in the context of the level of purchase card expenditure for the Council which was £224k for the 12 months to December 2019.	
	Officers Expenses (Also limited in 2018/19, 2017/18 and 2016/17) Two major recommendations were raised in respect of lack of explanation and/or receipts to support expenditure and system weaknesses in the treatment of VAT for expense transactions.	
	Car Parks (Follow Up Memo. Also limited in 2017/18) One priority one recommendation on income reconciliations had not been addressed and a further major recommendation was raised.	
	Cyber Security (Follow Up Memo. Also limited in 2018/19) One major recommendation was raised on documenting the recovery processes for the VOIP telephone system.	

DIRECTORATE	AUDITS WITH HIGH PRIORITY ISSUED REPORTED IN PREVIOUS INTERIM REPORTS	
COUNCIL WIDE	GDPR The audit of GDPR was requested by the Executive Director: Delivery to assess level of compliance with the new Regulations. Ten major recommendations were raised. Audit have been advised that significant work is ongoing to address the gaps in compliance. And that NHS accreditation has now been obtained. We have been asked to bring forward the follow up audit from 2020/21 to February 2020.	
DELIVERY	Hone to School Transport (Follow Up Memo. Also limited in 2018/19, 2017/18 and 2016/17) A major recommendation was raised again due to weaknesses where DBS checks have not yet been received. Audit have been advised that action will now be undertaken to further mitigate risks by undertaking checks to the manual barred list.	
FINANCE	Agresso IT System Two major recommendations were raised relating to the absence of a Data Protection Impact Assessment (DPIA) and overdue review of the support agreement. Audit have	

DIRECTORATE	AUDITS WITH HIGH PRIORITY ISSUED REPORTED IN PREVIOUS INTERIM REPORTS	
	been advised that the support agreement has now been reviewed and is considered to be fit for purpose and a DPIA will now be produced. The opinion also reflects ongoing issues around the system covered by recommendations in previous creditors and officers expenses' audit reports.	
PEOPLE	Disabled Facilities Grants One major recommendation was raised due to procurement weaknesses. Audit have been advised that action is being taken to raise awareness with staff and undertake random supervisory checks on procurements.	
SCHOOL GOVERNING BODIES	School C To major recommendations were raised in relation DBS checks for governors and frequency of budget monitoring by governors.	

APPENDIX B

AUDITS WHERE HIGH PRIORITY ISSUES HAVE BEEN IDENTIFIED IN PREVIOUS YEARS	CURRENT AUDIT POSITION
COUNCIL WIDE	
• Officers Expenses	Re-audited in quarter 3 and a partial assurance was concluded. See Appendix C.
• Debt Management	To be re-audited in quarter 4
• Purchase Cards	Re-audited in quarter 3 and an inadequate assurance was concluded. See Appendix
• Absence Management	To be re-audited in quarter 4
• Social Media	Follow up completed in quarter 3 and all recommendations had been implemented
PEOPLE	
• SEN Resource Provisions (Follow Up Memo in 2018/19. Also limited in 2017/18)	To be re-audited in 2020/21
• Personal Education Plans (Follow Up Memo. Also limited in 2017/18)	Followed up in quarter 3 and all recommendations had been implemented
• Forestcare (Follow Up Memo. Also limited in 2017/18)	To be followed up in quarter 4 as part of the Council wide debt management audit
• Adult Social Care Pathway (Qtr 4 2017/18 Audit)	To be followed up in quarter 4
• Housing Rents and Deposits	To be re-audited in quarter 4
• Adults Residential Care	To be followed up in quarter 4 as part of the Contracts audit
• Direct Payments	Followed up in quarter 3 and one low and two moderate recommendations were raised. Weaknesses were still identified in completion of annual reviews that were raised separately as responsibility for these rests outside of the Direct Payments Team.

• Public Health	To be followed up in quarter 4
• Domiciliary Care	To be followed up in quarter 4 as part of the Contracts audit
DELIVERY	
• Car Parks	Followed up in quarter 3 and one major and one moderate recommendation was raised.
• Cyber Security (Also Limited Assurance in 2017/18)	Followed up in quarter 3 and one major, 4 moderate and one low recommendation were raised.
• IT Asset Management (Also Limited Assurance in 2015/16)	Follow up completed in quarter 3 and all recommendations had been implemented
• Enterprise Agreement	Follow up completed in quarter 3 and all recommendations had been implemented
• Business Rates (Also Limited Assurance in 2017/18)	Recommendations currently being followed up
• Council Tax (Also Limited Assurance in 2017/18)	Recommendations currently being followed up
FINANCE	
• Creditors System (Also limited in 2017/18, 2016/17, 2015/16 and 2014/15)	To be re-audited in quarter 4
PLACE, PLANNING AND REGENERATION/FINANCE	
• CIL/S106	Followed up in quarter 3 and three recommendations relating to Finance, one of which was priority one, had only been partially implemented. Further recommendations have been raised which will be followed up again in March 2020.
SCHOOL GOVERNING BODIES	

• School A (Also Limited Assurance in 2017/18)	To be re-audited in quarter 4
• School L (Also Limited Assurance in 2017/18)	To be re-audited in quarter 4

APPENDIX C

2018/19 AUDITS

* Draft report produced within 15 working days of exit meeting to discuss audit findings
"D" Audit deferred at service areas request

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level			Recommendations Priority			Status
				Significant	Satisfactory	Limited	1	2	3	
COUNCIL WIDE Governance Under the New Structure	29/3/19	27/6/19	X	N/A – Memo. No opinion given				10		Final

2019/20 AUDITS

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
COUNCIL WIDE Officer Expenses (Ltd 2018/19)	10/6/19	12/8/19	✓			✓			2	5		Final
Debt Management Including the Accounts Receivable Team (Joint audit Ltd 2018/19)												"D" Quarter 4 audit
Purchase Cards (Ltd	26/9/19	5/12/19	X				✓		4	3		Draft issued

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
2018/19)												
Absence Management – (Ltd 2018/19)												"D" Quarter 4 audit
Procurement	1/8/19	6/1/20	X		X				1	5	1	Draft issued
Risk Management	12/12/19											Work in progress
Revenue Budgeting/Transformation savings	7/10/19		X									Work in progress
Alternative Delivery Models Governance	22/10/19	16/12/19	X	N/A advisory review setting on best practice governance for alternative delivery models								Draft issued
IT AUDIT Social Media Follow Up (Ltd 2018/19)	**12/11/19**	**22/11/19**	✓	N/A Follow up with no opinion								"D". Final
Cyber liability Follow Up (Ltd 18/19)	**16/10/19**	**29/11/19**	X	N/A Follow up with no opinion					1	4	1	Draft issued
IT asset management (Ltd 18/19)	**26/9/19**	**24/10/19**	✓	N/A Follow up with no opinion								Final
Enterprise Agreement Follow Up (Ltd 18/19)	**15/10/19**	**28/11/19**	X	N/A Follow Up. Incorporated into the Enterprise Programme review report								Draft issued
Enterprise Programme (365 Project) Review	**15/10/19**	**28/11/19**	X		✓						4	Draft issued
Remote Access VPN Solution	**16/10/19**	**29/11/19**	X		✓					2	4	"D". Draft issued
ICT Continuity Management												Quarter 4 audit
GDPR	**6/6/19**	**19/7/19**	✓				✓		12	10	2	Final

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Agresso IT system	**13/5/19**	**19/7/19**	✓			✓			2	4	1	Final
Emergency Duty Service IT system												Deferred to 2020/21
GRANTS Troubled Families - June	18/6/19	N/A – Grant certification										Certified
Troubled Families - September	19/9/19	N/A – Grant certification										Certified
Troubled Families – December												Cancelled by Early Years. To be merged into March claim
Troubled Families – March												Quarter 4 audit
Bus Operators Grant	3/7/19	N/A – Grant certification										Certified
Integrated Transport Grant	20/8/19	N/A – Grant certification										Certified
FINANCE AUDIT Main Accounting and Reconciliations	17/9/19	20/11/19	X									Out in draft for discussion
Treasury Management	15/5/19	10/7/19	X		✓					2		Final
Payroll	11/11/19											Work in progress
Cash Management	29/7/19	12/8/19	✓		✓					1		Final
Council Tax- Follow Up	9/12/19											Work in progress

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Business Rates- Follow Up	8/12/19											Work in progress
Creditors												Quarter 4 audit
CIL/S106 Follow Up (Ltd 2018/19)	15/7/19	28/10/19	X	N/A -follow up without an opinion						3		Final
PLACE, PLANNING, AND REGENERATION Ringway contract – street lighting												Quarter 3 audit
Public Transport	15/7/19	25/9/19	X		✓					5		Final
The Look Out	30/9/19	6/1/20	**X**		✓					3	1	Draft issued
Highways Network Management	8/7/19	2/8/19	✓		✓					3		Final
ORGANISATIONAL DEVELOPMENT, TRANSFORMATION AND HUMAN RESOURCES Pre-Employment Checks Including DBS	8/11/19		X									Work in progress
DELIVERY Libraries including use of volunteers –joint audit	3/12/19											"D". Work in progress
Car Parks Follow Up (Ltd 2017/18)	4/11/19	26/11/19	✓	N/A -follow up without an opinion					1	1		Final
	30/9/19		X									"D".

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
Electoral Registration	21/10/19	13/11/19	✓	✓							4	Final
Registrars	8/7/19	22/8/19	✓	✓							2	Final
Members Expenses and Governance Declarations	2/12/19											Work in progress
Waste Collection-management of Suez	16/9/19	31/10/19	X	✓							2	Final
Home to School Transport Follow Up (Ltd 16/18, 17/18, 18/19)	8/7/19	31/7/19	✓	N/A – follow up memo. No opinion given					1			Final
PEOPLE Contracts governance and monitoring in adults and children												"D". Quarter 4 audit
Hospital Discharge and Reablement	5/8/19	21/10/19	X		✓					4	2	Final
Blue Badges	14/10/19		X							1		Draft issued
Continuing Care												"D". Deferred to 2020/21t
Deprivation of Liberties												"D". Quarter 4 audit
Social Care Pathway Follow up (Ltd 2017/18)												"D". Quarter 4 audit.
Domiciliary Care Follow up (Ltd 2018/19)												To be followed

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
												up as part of the Contracts audit in Quarter 4
ASC Residential care contracts Follow up (Ltd 2018/19)												"D". To be followed up as part of the Contracts audit in Quarter 4
Direct payments Follow up (Ltd 2018/19)	16/9/19	24/9/19	✓	N/A – follow up memo. No opinion given						2	1	Final
CSC Residential Contracts	24/6/19	11/7/19	✓		✓					2	1	Final
Parenting assessments under FSM												"D". Quarter 4 audit
Multi Agency Strategy Meetings	5/9/19	23/10/19	✓		✓					3	1	Final
Fostering reviews												Quarter 4 audit
Forestcare Follow Up (Ltd 2017/18 and 2018/19)												"D". To be followed up as part of the Council wide debt manage't audit in

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
												Quarter 4
Housing Benefit and Council Tax Reduction												Quarter 4 audit
Housing Rents and Deposits Re-Audit joint audit (Ltd 2018/19)												"D". Quarter 4 audit
Homelessness												Audit cancelled. To be audited in 2020/21
Disabled Facilities Grants	22/7/19	9/8/19	✓			✓			1	2	1	Final Additional audit in lieu of above cancelled audit.
Nursery places	3/6/19	11/7/19	✓		✓					2	1	Final
Public Health Follow Up (Ltd 18/19)												Quarter 4 audit
SEN	23/9/19											"D".
PEP Follow up (Ltd 2017/18 and 2018/19)	July 2019	24/10/19	X	N/A – follow up memo. No opinion given								Final
Services to Schools												"D". Quarter 4 audit
SCHOOLS School A (follow up -Ltd 2017/18 and 2018/19)												Quarter 4 audit

AUDIT	Start Date	Date of Draft Report	*Key Indicator Met	Assurance Level				Recommendations Priority				Status
				Good	Adequate	Partial	Inadequate	Critical	Major	Moderate	Low	
School B (School limited in 2016/17	17/6/19	11/7/19	✓		✓					4	1	Final
School C (due 2018/19 but deferred)	5/6/19	7/8/19	X			✓			2	8	1	Draft issued
School D	1/7/19	7/8/19	X		✓					1	2	Draft issued
School E	21/10/19											Quarter 3 audit
School F												Quarter 4 audit
School G	12/11/19											Work in progress
School H	9/12/19											Work in progress
School I												Quarter 4 audit
School J	28/11/19											Work in progress
School K	20/11/19											Work in progress
School L (follow up -Ltd 2017/18 and 2018/19)												Quarter 4 audit
THEMED SCHOOL AUDITS Safeguarding/Governance												Audit cancelled

APPENDIX D

FOLLOW UP OF AUDITS WITH A SATISFACTORY/ADEQUATE OPINION

2018/19 AUDITS

AUDIT	Recommendations Priority			Outcome
	1	2	3	
COUNCIL WIDE Apprenticeships Levy	0	1	1	Implemented
DELIVERY Minor Capital Works	0	1	1	Priority 3 rec implemented. Priority 2 considered by management but not regarded as appropriate
Construction and Maintenance	0	2	0	Implemented
Leisure Contract Management	0	4	0	Implemented
DELIVERY IT AUDIT IT Helpdesk	0	3	2	Four implemented and one priority one rec ongoing
PLACE, PLANNING AND REGENERATION Concessionary Fares	0	7	2	All implemented except rec 4 (priority 2) which is likely to be addressed as part of a wider review.
Highways Adoptions	0	7	0	Four are implemented and three are in progress. Follow up again.
Development Controls	0	5	1	Priority three and three priority 2 recommendations implemented. Two priority 2 recommendations in progress.
Land charges	0	3	3	All implemented except for one priority 2 which is dependent on action by another team
PEOPLE Financial Assessments	0	8	2	All implemented except for a priority 2 rec on policies and procedures which is ongoing. These will be aligned with the procedures in Commissioning
Allowances for Fostering, Adoption and Special Guardianships	0	2	2	Implemented
The Rise	0	4	0	Two implemented and two in progress
PEOPLE IT AUDITS GIS system	0	3	8	One priority 3 and one priority 2 rec implemented. Two are not due yet. No action taken yet on the rest of the recommendations.
My Benefits	0	0	1	Not implemented. Now to be actioned
SCHOOLS School M-	0	10	0	No response on progress received
School N -	0	12	1	Eight priority 2 recs implemented and 4 in progress. Priority level 3 rec implemented
School O	1	3	0	Implemented
Total Followed Up	1	77	27	

2019/20 AUDITS

AUDIT	Critical	Major	Mod	Low	Outcome
SCHOOLS School B			4	1	Implemented

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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