

Audit and Governance Committee Agenda

Date: Thursday 6th December 2018
Time: 2.00 pm
Venue: Committee Suite 1,2 & 3, Westfields, Middlewich Road,
Sandbach CW11 1HZ

The agenda is divided into 2 parts. Part 1 is taken in the presence of the public and press. Part 2 items will be considered in the absence of the public and press for the reasons indicated on the agenda and at the top of each report.

It should be noted that Part 1 items of Cheshire East Council decision making meetings are audio recorded and the recordings are uploaded to the Council's website.

PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT

1. **Apologies for Absence**
2. **Declarations of Interest**

To provide an opportunity for Members and Officers to declare any disclosable pecuniary and non-pecuniary interests in any item on the agenda.

3. **Public Speaking Time/Open Session**

In accordance with paragraph 2.32 of the Committee Procedural Rules and Appendix 7 to the Rules a total period of 10 minutes is allocated for members of the public to address the Committee on any matter relevant to the work of the body in question.

Individual members of the public may speak for up to 5 minutes but the Chairman or person presiding will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers. Members of the public are not required to give notice to use this facility. However, as a matter of courtesy, a period of 24 hours' notice is encouraged.

Members of the public wishing to ask a question at the meeting should provide at least three clear working days' notice in writing and should include the question with that notice. This will enable an informed answer to be given.

For requests for further information

Contact: Rachel Graves

Tel: 01270 686473

E-Mail: rachel.graves@cheshireeast.gov.uk with any apologies

4. **Minutes of Previous Meeting** (Pages 5 - 10)

To approve the minutes of the meeting held on 27 September 2018 as a correct record.

5. **External Audit Plan - 2018/19** (Pages 11 - 34)

To receive the External Audit Plan for the year ending 31 March 2019.

6. **Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2019/20** (Pages 35 - 58)

To receive an update on the contents of the Council's draft Treasury Management Strategy and the Minimum Revenue Provision Statement.

7. **Annual Governance Statement and Code of Corporate Governance Review** (Pages 59 - 100)

To consider the update on the issues reported in the 2017-18 Annual Governance Statement, the process for the production of the 2018/19 Annual Governance Statement and the review of the Council's Code of Corporate Governance.

8. **Mandatory Declarations of Interest** (Pages 101 - 106)

To consider whether or not any outside organisations as being organisations which, by virtue solely of being members of the same, Councillors must declare and/or register an interest in under Cheshire East Council Member Code of Conduct.

9. **Maladministration Decision Notices from Local Government and Social Care Ombudsman: June – August 2018** (Pages 107 - 110)

To receive an update on the Decision Notices issued by the Local Government Ombudsman when their investigations have found maladministration causing injustice to complainants.

10. **Committee Work Plan 2018/19** (Pages 111 - 122)

To consider the Committee's Work Plan for the remaining meetings in 2018/19.

11. **Contract Procedure Rule Waivers and Non-Adherences** (Pages 123 - 128)

To receive an update on the number and reasons for waivers and non-adherences which have been approved between 1 September and 30 September 2018.

12. Exclusion of the Press and Public

The reports relating to the remaining items on the agenda have been withheld from public circulation and deposit pursuant to Section 100(B)(2) of the Local Government Act 1972 on the grounds that the matters may be determined with the press and public excluded.

The Committee may decide that the press and public be excluded from the meeting during consideration of the following items pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

PART 2 - MATTERS TO BE CONSIDERED WITHOUT THE PUBLIC AND PRESS PRESENT

13. Contract Procedure Rule Waivers and Non-Adherences

To note the approved WARNS between 1 September and 30 September 2018.

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 27th September, 2018 at Committee Suite 1,2 & 3,
Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor G Baxendale (Chairman)
Councillor M Sewart (Vice-Chairman)

Councillors S Corcoran, T Dean, R Fletcher, P Groves, N Mannion, G Merry
and A Stott

Councillors in attendance

Councillors L Wardlaw and J P Findlow

Officers in attendance

Kath O'Dwyer, Acting Chief Executive
Dan Dickinson, Acting Director of Legal Services and Monitoring Officer
Alex Thompson, Head of Finance and Performance
Michael Todd, Principal Auditor
Josie Griffiths, Principal Auditor
Jo Wilcox, Finance Strategy & Reporting Manager
Jo Butler, Business Governance and Risk Manager (minute 45 only)
Sandra Smith, Customer Relations and Compliance Manager (minute 43 only)
Leanne Halliday, Senior Manager – Procurement (minute 45 only)
Rachel Graves, Democratic Services Officer

External Auditors

Jon Roberts, Grant Thornton
Alastair Newall, Mazars

36 APOLOGIES FOR ABSENCE

No apologies for absence had been received.

37 DECLARATIONS OF INTEREST

There were no declarations of interest.

38 PUBLIC SPEAKING TIME/OPEN SESSION

There were no members of the public present.

39 MINUTES OF PREVIOUS MEETING

Consideration was given to the minutes of the meeting held on 31 July
2018 and the following amendment was made:

Minute 26 Annual Governance Statement 2017/18

the second paragraph, first line delete “on the following”

It was reported that the bullying helpline – Stop Bullying Behaviour, was now operational.

RESOLVED:

That, subject to the above amendment, the minutes of the meeting held on 31 July 2018 be approved as a correct record.

40 GRANT THORNTON - ANNUAL AUDIT LETTER 2017/18

Jon Roberts of Grant Thornton presented the Annual Audit Letter for the year 2017/18.

The detailed findings of which had been reported to the Committee at its last meeting. In considering value for money they were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for the matter identified in respect of inadequate arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making; as a result they had qualified their value for money conclusion.

RESOLVED:

That the report be received and noted.

41 OUTCOME OF THE EXTERNAL ASSESSMENT OF INTERNAL AUDIT AND COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Committee considered the outcome of the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards, carried out under the peer review process developed and managed by the North West Audit Executive's Group.

The overall judgement of the assessors was that the service was currently 'Partially Compliant' with the Public Sector Internal Audit Standards. An action plan had been developed to address the areas of partial and non-compliance.

The external assessment had raised concern over the resourcing of internal audit, which was an issue recognised by the Corporate Leadership Team and the Audit and Governance Committee.

RESOLVED:

That the outcome of the external assessment and the action plan be noted.

42 REVIEW OF AUDIT AND GOVERNANCE COMMITTEE'S TERMS OF REFERENCE

Consideration was given to the Terms of Reference of the Audit and Governance Committee following the publication by CIPFA of their Practical Guidance for Audit Committee.

The publication included CIPFAs Position Statement: Audit Committees in Local Authorities and Police (2018), which set out CIPFA's view of the roles and functions of an audit committee and replaced the 2013 guidance.

Appendix 1 to the Report set out the Committee's existing Terms of Reference against the Model Terms of Reference included in the Guidance and made a number of recommendations when the existing Terms of Reference differed from the Model Terms of Reference.

With regards to existing Terms of Reference – ref 48: consideration of findings of the Local Government Ombudsman, which was not included in the Model Terms of Reference, the Committee proposed that this should remain in the Committee's Terms of Reference.

RESOLVED:

That the Constitution Committee be recommended to amend the Audit and Governance Terms of Reference as per the recommendations set out in Appendix 1 to the Report, with the exception of ref. 48 - Consideration of findings of the Local Government Ombudsman, which should be retained in the Terms of Reference.

43 REFERRALS TO THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN 2017-18

The Committee considered a summary of the referrals the Local Government and Social Care Ombudsman received from Cheshire East customers during 2017/18.

During 2017/18 the Local Government and Social Care Ombudsman issued 91 decision notices – 47 of these cases were closed after conducting their initial enquiry, 24 of the complaints were upheld in the customer's favour and 20 were not upheld.

The Committee noted that the number of cases dealt with by the Local Government and Social Care Ombudsman had increased compared with previous years, and asked that the processes for dealing with the

Ombudsman observations were made robust, with learning points identified and necessary changes implemented.

RESOLVED:

That the contents of the report be noted.

44 MEMBER CODE OF CONDUCT 2018: STANDARDS REPORT

The Committee was advised of the number of complaints received under the Member Code of Conduct 2018 which had been considered by the Acting Director of Legal Services (in his capacity as the authority's Monitoring Officer) and the Independent Person, during the period from 1 March 2018 to 31 August 2018.

The report broke down complaints received with regard to the number of complaints made against Cheshire East Councillors and Town and Parish Councillors; the paragraph of the code alleged to have been breached and the outcome of each complaint, where completed.

RESOLVED

That the report be noted.

45 RISK MANAGEMENT UPDATE REPORT

The Committee considered a report which summarised the most significant threats and opportunities facing the Council which could prevent or assist with the achievement of the Council's Corporate Plan 2016-20.

The report detailed the changes and movement of the risks on the Corporate Risk Register since the last report to the Committee in relation to risks CR12, CR02, CRO3 and CR04.

In relation to risk CR4 Contract and Relationship Management, a short presentation was received to provide assurance on the work being undertaken to improve contract management arrangements following the limited assurance report conclusions.

RESOLVED:

That the report and presentation be noted.

46 INTERNAL AUDIT – 2018/19 PLAN PROGRESS UPDATE

Consideration was given to the progress report on the Internal Audit Plan 2018/19.

Appendix A to the report detailed the work undertaken to the end of August 2018, including the issues identified and actions required from each review carried out.

Appendix B to the report set out the Quality Assurance and Improvement Programme and detailed the practical arrangements in place to provide assurance that the activities of Internal Audit were consistent with the Public Sector Internal Audit Standards.

RESOLVED: That

- 1 the Internal Audit progress report be noted; and
- 2 the Internal Audit's Quality Assurance and Improvement Programme be noted.

47 TREASURY MANAGEMENT ANNUAL REPORT 2017/18

The Committee consider the annual report on the performance of the Council's treasury management operation.

The Treasury Management Strategy for 2017/18 had been approved by Council in February 2017. The Council had complied with the legislative and regulatory requirements and had remained within all of its Prudential Indicators during the year with the exception of borrowings maturing in under 12 months - details of which were included in Annex 1 to the Annual Report.

In response to questions on investment in the CCLA managed property fund whilst selling off buildings in Cheshire East, it was reported that if invested in property in Cheshire East it would be classed as a capital asset.

RESOLVED:

That the Treasury Management Annual Report for 2017/18, as detailed in Appendix A to the Report, be noted.

48 COMMITTEE WORK PLAN 2018/19

Consideration was given to the Committee's Work Plan for 2018/19.

The Committee noted the items which had been re-scheduled for future meetings, as detailed in paragraph 5.8 of the report. Members were asked to advise the Monitoring Officer of the type of organisation and memberships to be included in the requested report on Members Declarations of Interest, which would be brought to the December meeting.

RESOLVED

That the Work Plan be approved and that it be brought back to the Committee throughout the year for further development and approval.

49 CONTRACT PROCEDURE RULE WAIVERS AND NON-ADHERENCES

The Committee considered a report on the number and reasons for Waivers and Non-Adherences (WARNs) which had been approved between 1 July and 31 August 2017.

RESOLVED:

That the report be noted.

50 EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

That the press and public be excluded from the meeting during consideration of the following item pursuant to Section 100(A)4 of the Local Government Act 1972 as amended on the grounds that it involves the likely disclosure of exempt information as defined in Paragraph 1, 2 and 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and public interest would not be served in publishing the information.

51 CONTRACT PROCEDURE RULE WAIVERS AND NON-ADHERENCES

RESOLVED:

That the WARNs be noted

The meeting commenced at 2.00 pm and concluded at 4.15 pm

Councillor G Baxendale (Chairman)



Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: External Audit Plan ~ 2018/19

Portfolio Holder: Cllr Paul Bates

Senior Officer: Alex Thompson, Head of Finance & Performance (Section 151 Officer)

1. Report Summary

- 1.1. The Audit Plan for the year ending 31 March 2019 is set out in Appendix A.

2. Recommendation/s

- 2.1. That Members receive and comment on the Audit Plan.
- 2.2. That Members note the level of audit fees set out on page 14 of the Audit Plan.

3. Reasons for Recommendation/s

- 3.1. The appointed auditors are required to report to those charged with governance.

4. Other Options Considered

- 4.1. Not applicable

5. Background

- 5.1. The Audit Plan sets out the work that the Council's Auditors, Mazars will be carrying out in their statutory audit on the Council's financial statements and arrangements for securing value for money
- 5.2. As the Council's appointed auditors, representatives of Mazars will attend the Committee to report their findings directly to Members.

6. Implications of the Recommendations

6.1. Legal Implications

- There are no legal implications identified.

6.2. Finance Implications

- The Audit Plans sets out the level of fees for the audit work specified by the external auditors.
- The audit fees will be met from within the revenue budget.

6.3. Policy Implications

- There are no policy implications identified.

6.4. Equality Implications

- There are no equality implications identified.

6.5. Human Resources Implications

- There are no human resources implications identified.

6.6. Risk Management Implications

- The report sets out the approach of Mazars to completing a risk based audit whereby they will focus audit effort on those areas where they have identified a risk of material misstatement in the accounts.

6.7. Rural Communities Implications

- There are no direct implications for rural communities.

6.8. Implications for Children & Young People

- There are no direct implications for children and young people.

6.9. Public Health Implications

- There are no direct implications for public health.

7. Ward Members Affected

- 7.1. Not applicable.

8. Access to Information

- 8.1. The full report provided by Mazars is appended to this covering report.

9. Contact Information

- 9.1. Any questions relating to this report should be directed to the following officer:

Name: Joanne Wilcox

Job Title: Financial Strategy and Reporting Manager

Email: Joanne.wilcox@cheshireeast.gov.uk

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Audit Strategy Memorandum

Cheshire East Council

Year ending 31 March 2019





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2. Your audit engagement team
3. Audit scope, approach and timeline
4. Significant risks and key judgement areas
5. Value for money conclusion
6. Fees for audit and other services
7. Our commitment to independence
8. Materiality and misstatements

Appendix A – Key communication points

Appendix B - Forthcoming accounting and other issues

Appendix C – Mazars' client service commitment

This document is to be regarded as confidential to Cheshire East Council. It has been prepared for the sole use of the Audit & Governance Committee as the appropriate committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

Audit & Governance Committee

Cheshire East Council

Westfields

Middlewich Road

Sandbach

CW11 1HZ

19 November 2018

Dear Audit & Governance Committee members

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Cheshire East Council for the year ending 31 March 2019

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Cheshire East Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 020 7063 4310.

Yours faithfully



Gareth Davies

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Cheshire East Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: <https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We report to the NAO on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission.

Value for money conclusion

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for money conclusion work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or the Audit & Governance Committee (as those charged with governance), of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

2. YOUR AUDIT ENGAGEMENT TEAM



- **Gareth Davies, Partner and Audit Engagement Lead**
- E: gareth.davies@mazars.co.uk
- T: 020 7063 4310 M: 07979 164467



- **Alastair Newall, Senior Manager**
- E: alastair.newall@mazars.co.uk
- T: 0161 238 9243 M: 07909 986776



- **Mark Stansfield, Assistant Manager**
- E: mark.stansfield@mazars.co.uk
- M: 07909 987654

In addition an engagement quality control reviewer (EQCR) has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

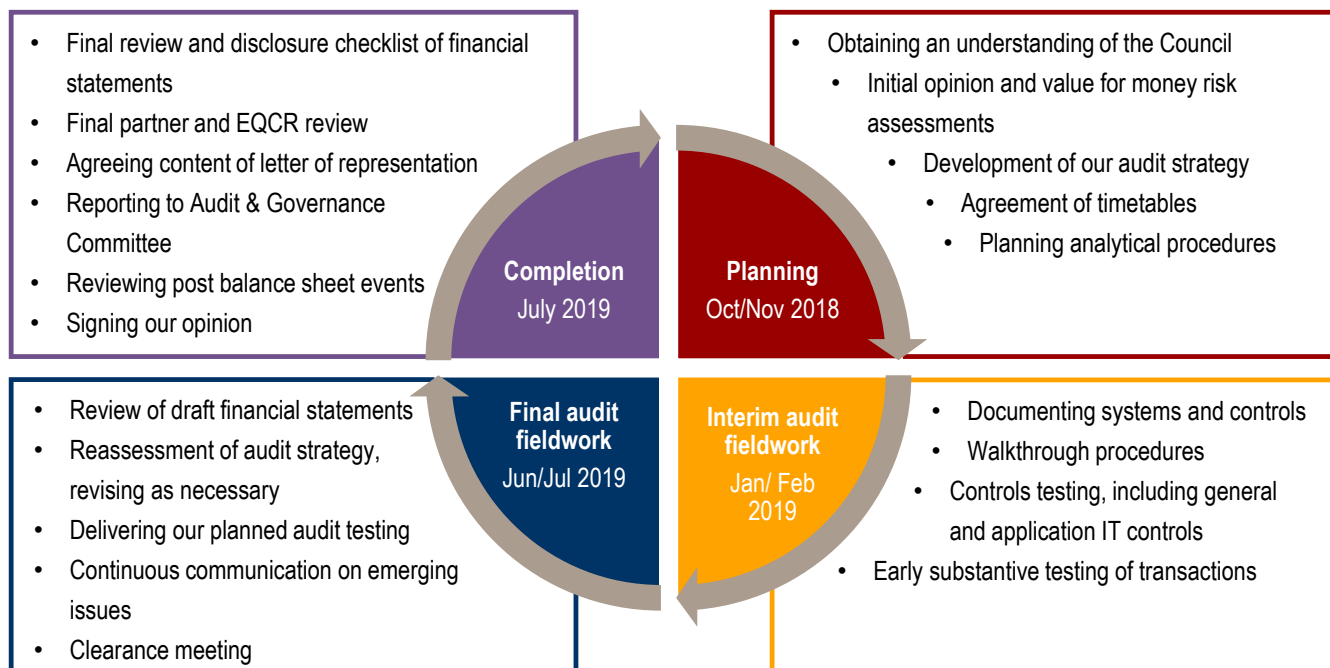
Audit approach

Our audit approach is risk-based and primarily driven by the matters that lead to a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.



3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

We are not planning to rely on the work of internal audit, but should we do so, we would evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit pension assets and liabilities	Hyman Robertson Actuaries	PwC, consulting actuary, on behalf of National Audit Office
Property, plant and equipment valuation	Deloitte Real Estate and Farms Estate Shared Service	Gerald Eve, consulting valuer, on behalf of National Audit Office

Service organisations

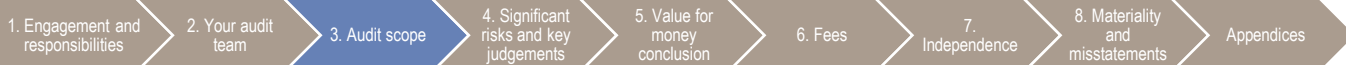
International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Payroll, non-pay expenditure and other transactional items of account	Cheshire transactional services shared services	We plan to obtain assurance by understanding the process and controls that the Council has in place to assure itself that transactions are processed materially correctly. Our testing will include sample testing of transactions based on evidence available from the Council rather than the Shared Service.

Group audit approach

The Council's group structure includes seven subsidiaries operating under a wholly owned holding company. In auditing the accounts of the Council's Group financial statements we need to obtain assurance over the transactions in the Group relating to the Council's subsidiary companies.

Our approach will reflect the size and complexity of the transactions from the subsidiary companies that are consolidated into the Council's Group financial statements. Our plan, based on our initial understanding and the values reported in the prior year financial statements is that we will obtain assurance from analytical procedures and we do not plan to obtain specific assurance from the component auditors of the companies.

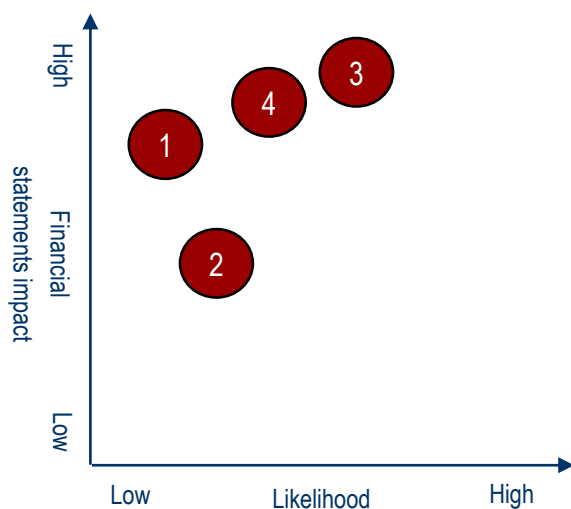


4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

- Significant risk** A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.
- Enhanced risk** An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
 - other audit assertion risks arising from significant events or transactions that occurred during the period.
- Standard risk** This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant. We have summarised our audit response to these risks on the next page.



Significant Risk	
1	Management override of control
2	Revenue recognition
3	Property, plant and equipment valuation
4	Defined benefit liability valuation

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit & Governance Committee.

Significant risks

	Description of risk	Planned response
1	<p>Management override of controls</p> <p>Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p> <p>Our audit methodology incorporates this risk as a standard significant risk at all audits. Based our initial knowledge and planning discussions we do not consider this risk at the Council to be unusually high or requiring enhanced audit procedures.</p>	<p>We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.</p>
2	<p>Revenue recognition</p> <p>Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Council's revenue income and expenditure.</p> <p>The areas where we will carry out further detailed planning work and expect to be able to rebut the risk relates to the income categorised as fees & charges or are derived from the Council's subsidiary companies and trading operations.</p>	<p>We plan to establish, through our obtaining of a detailed understanding of the fees and charges income sources, that we can rebut the risk of revenue recognition for all areas of income. Our audit approach will however incorporate testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2018/19 accounts.</p>

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	<p>Property, plant and equipment valuation</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.</p> <p>The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process.</p> <p>In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.</p>	<p>In relation to the assets which have been revalued during 2018/19 we will: assess the Council's valuer's qualifications, objectivity and independence to carry out such valuations, and review the valuation methodology used, including testing the underlying data and assumptions. We will also compare the valuation output with market intelligence provided by Gerald Eve, consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations.</p> <p>We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2018/19 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Council's valuers.</p> <p>In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.</p>
4	<p>Defined benefit liability valuation</p> <p>The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Cheshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.</p>	<p>As part of our work we will review the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the scheme Actuary, Hymans Robertson.</p> <p>We will review the appropriateness of the methodology applied, and the key assumptions included within the valuation, compare them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office. We will review the methodology applied in the valuation of the liability by Hymans Robertson.</p>

4. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	Group Financial Statements consolidation process The Council has made judgements around which of its group entities it consolidates into its Group Financial Statements, and how it consolidates the transactions and balances into the Group.	Our approach to auditing the Group Financial Statements has been detailed on page 7. We will complement this work by our work over the Council's Group consolidation process. In particular we will review the Council's judgements relating to the entities that are consolidated into the Group financial statements, and we will review and test the method of consolidation of those group entities into the Group financial statements.
2	Minimum Revenue Provision The Council agreed its current policy on its Minimum Revenue Provision in 2017/18. The Minimum Revenue Provision is an area of judgement which ensures that the Council makes an appropriate revenue charge each year for the repayment of debt.	We will review the judgements made relating to the Provision policy in order to confirm that the policy is compliant with the extant statutory regulations in providing a prudent revenue provision for the repayment of debt.

New integrated financial system

We understand that the Council is in the process of implementing a new integrated financial systems package, replacing the existing Oracle system with Agresso Business World. If the new financial system is implemented during 2018/19 then our 2018/19 audit work will need to include procedures to obtain assurance over the transfer of data from the old system to the new. Should the implementation take place after 31st March 2019 and the 2018/19 accounts are closed down using the old system, then our work will be included within our audit plan for the next year.

5. VALUE FOR MONEY CONCLUSION

Our audit approach

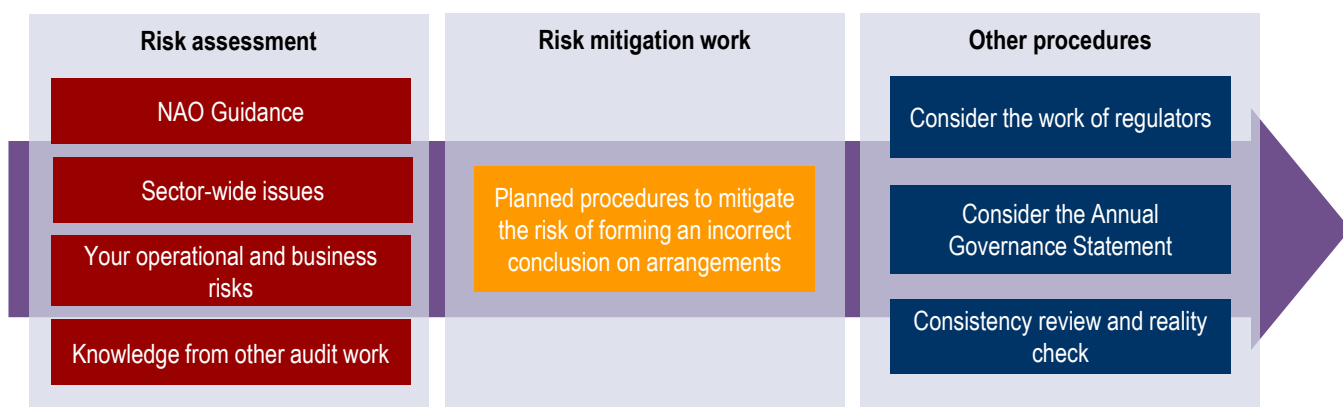
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the 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.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a significant risk exists. Risk, in the context of our value for money (VFM) work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

For the 2018/19 financial year, we have identified the following significant risks to our VFM work:

	Description of significant VFM risk	Planned response
1	Financial sustainability <p>The Council's medium term financial strategy for the period 2016/17 to 2019/20 sets out the financial challenges it faces. The mid year reporting for 2018/19 indicates that the Council is projecting to overspend this year's budget by £5.3m, placing further pressure on service delivery and increasing the use of reserves to support the revenue expenditure.</p> <p>The continuing challenges the Council faces are not new and are not unique to Cheshire East Council. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability over the medium term.</p>	<p>We will review the arrangements the Council has in place for ensuring financial resilience, specifically that the medium term financial plan has taken into consideration factors such as future funding sources and levels, levels of other income, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We will also review the arrangements in place to monitor progress delivering the budget and related savings plans.</p>

5. VALUE FOR MONEY CONCLUSION

Significant risks (continued)

For the 2018/19 financial year, we have identified the following significant risks to our VFM work:

	Description of significant VFM risk	Planned response
2	<p>Good governance to support informed decision making</p> <p>In 2017/18, the Council's previous auditors qualified their Value for Money conclusion on the basis of inadequate arrangements for good governance to support informed decision making. We have taken the previous auditor's conclusions into account in considering the significant Value for Money risks in 2018/19, and we have concluded that this area is a significant risk for our work.</p> <p>During 2018/19 the Council continues to operate with temporary senior management arrangements for key posts including the Chief Executive, Section 151 Officer and Monitoring Officer.</p> <p>To demonstrate that the arrangements are adequate for 2018/19, the Council will need to demonstrate that its governance arrangements, particularly relating to strategic and financial decision making matters are operating efficiently and effectively.</p>	<p>We plan to review the Council's governance arrangements particularly focusing on the decision making process for strategic and financial decisions.</p> <p>In addition we plan to understand how the Council is addressing the historical governance issues, and to consider the Council's plans to move forward from the temporary senior management arrangements to longer term permanent arrangements.</p>

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2017/18 fee (Grant Thornton)	2018/19 fee
Code audit work	£154,590	£119,034

Fees for non-PSAA work

We have not been engaged by the Council to carry out any additional work over and above the audit of the Council's statutory audit. In particular the Council has engaged a different audit firm to provide the assurance work on the Housing Benefit Subsidy claim and Teachers' Pensions return for 2018/19.

Should we be engaged to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

Services provided to other entities within the Council's group

We have not been engaged by any of the Council's group entities to provide any audit, or non-audit, services in 2018/19.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Gareth Davies in the first instance.

Prior to the provision of any non-audit services Gareth Davies will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

As we have not been engaged to carry out any non-audit work to date, no threats to our independence have been identified. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group materiality	Council single entity materiality
Overall Group and Council materiality	£11,000,000	£10,800,000
Group and Council Performance materiality	£6,600,000	£6,480,000
Specific lower materiality – Related Party Transactions	£50,000	£50,000
Specific lower materiality – Officer Remuneration bandings	£5,000 *	£5,000 *
Trivial threshold for errors to be reported to the Audit Committee	£330,000	£324,000

* Reflecting movement from one salary band to another

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

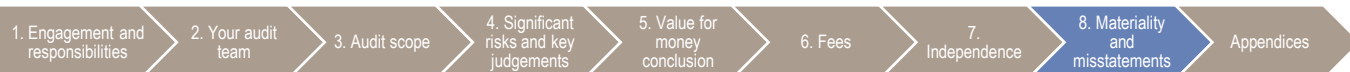
The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.



8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Materiality (continued)

Our provisional materiality is set based on a benchmark of the 2017/18 gross expenditure at the net cost of services level. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Governance Committee.

We consider that gross expenditure at the net cost of services level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We have set our materiality threshold at 1.57% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 financial statements we anticipate the overall materiality for 2018/19 to be £11 million for the audit of the Group financial statements and £10.8 million for the audit of the Council's single entity financial statements.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 60% of our overall materiality (£6.6 million for the Group and £6.48 million for the Council single entity financial statements). As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Reporting Misstatements Threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £330,000 for the Group and £324,000 for the Council single-entity financial statements based on 3% of overall materiality.

Reporting to the Audit & Governance Committee

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Audit & Governance Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

International Standards on Auditing (ISA) (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised costs.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. At this stage it is unclear whether statutory provisions, over and above those already in place, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2019/20	<p>We anticipate that the new leasing standard will be adopted by the Code for the 2019/20 financial year.</p> <p>IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17.</p> <p>Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed.</p> <p>The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council (and its schools) are party to.</p>

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.





Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2019/20

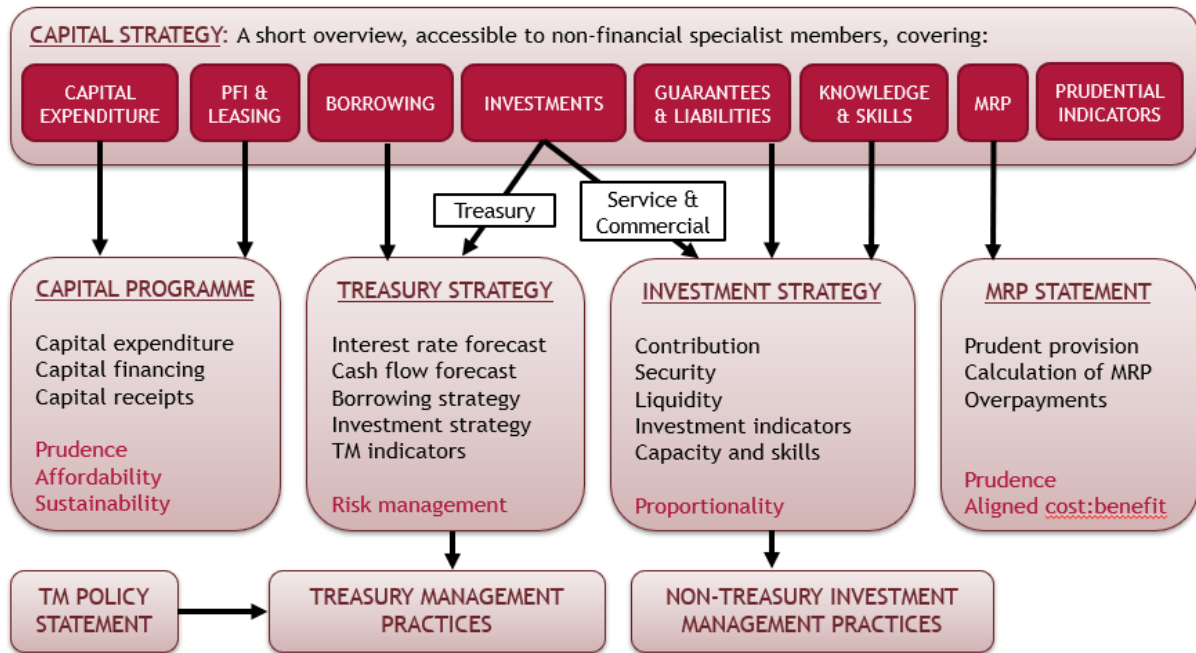
Portfolio Holder: Councillor Paul Bates

Senior Officer: Alex Thompson, Head of Finance & Performance (Section 151 Officer)

1. Report Summary

- 1.1. The purpose of this report is to update Members on the contents of the Council's draft Treasury Management Strategy and the Minimum Revenue Provision (MRP) Statement.
- 1.2. The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. This responsibility has been nominated to the Audit & Governance Committee.
- 1.3. The Treasury Management strategy is an important element in the overall financial health and resilience of Cheshire East Council. The strategy focuses on the management of the Council's investment 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. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

- 1.4. The balance sheet forecast and liability benchmark in Section 3 will be updated when the capital programme is agreed, therefore the Strategy is currently in a draft stage.
- 1.5. The Treasury Management Strategy forms part of a range of financial strategies which will be reported as part of the Medium Term Financial Strategy to Cabinet on 5th February 2019 and then on to Full Council for approval on 21st February 2019.



Source: Arlingclose Strategy Report Templates for 2019/20

2. Recommendation/s

- 2.1. To receive and comment on the draft Treasury Management Strategy and the MRP Statement for 2019/20 set out in Appendix A.

3. Reasons for Recommendation/s

- 3.1. The report presents the 2019/20 draft Treasury Management Strategy Statement (TMSS), required under Part 1 of the Local Government Act 2003.
- 3.2. The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2019/20. The Strategy reflects the views on interest rates of leading market forecasts by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.

4. Other Options Considered

- 4.1. None.

5. Background

- 5.1. The treasury management team work closely with the Council's advisors Arlingclose to gain the maximum benefit from their expertise and guidance, including benchmarking performance against other local authorities.
- 5.2. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard for longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise.
- 5.3. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity.
- 5.4. Following the increase in Bank Rate to 0.75% in August 2018, the forecast is for more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon.
- 5.5. The requirement for temporary borrowing is expected to continue in 2019/20 following the decision in April 2017 to pay the pension past service deficit contributions in one advance payment of £45m. The discount available from early repayment more than offsets the cost of borrowing.
- 5.6. The Council currently has external borrowing of £123m of which £28m is temporary borrowing with other local authorities. The amount of interest paid on the Council's portfolio of loans is mainly at fixed rates of interest (circa. 4.20%). Currently long term interest rates (25-30 years) are around 2.69%. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Although reduced from previous years, the

Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £10m and £45m. Levels of around £20m are expected to be maintained in the forthcoming year.

- 5.7. The Council remains committed to delivering appropriate levels of capital investment to support service improvement and local economic growth, which increases the importance of sound Treasury Management Strategy in the medium term. The current strategy is to ensure that investment in capital schemes is sustainable by controlling the consequential impact on the revenue account and council tax levels. Further information will be provided in the Capital Strategy report.
- 5.8. The capital financing budget for 2019/20 is £12m. 4.3% of the 2019/20 net revenue budget.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. As noted in paragraph 4.54 of the Finance Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. Paragraphs 4.55 – 4.61 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report will be presented to Cabinet under rule 4.60.

6.2. Finance Implications

- 6.2.1. Contained within the report.

6.3. Policy Implications

- 6.3.1. The treasury management strategy has been prepared in accordance with the Treasury Management Policy Statement and Treasury Management Practices (TMPs).

6.4. Equality Implications

- 6.4.1. None.

6.5. Human Resources Implications

- 6.5.1. None.

6.6. Risk Management Implications

6.6.1. The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.

6.6.2. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.

6.6.3. To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.

6.6.4. The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

6.7. Rural Communities Implications

6.7.1. None.

6.8. Implications for Children & Young People

6.8.1. None.

6.9. Public Health Implications

6.9.1. None.

7. Ward Members Affected

7.1. Not applicable.

8. Access to Information

- 8.1. The background papers relating to this report can be inspected by contacting the report writer:

Name: Joanne Wilcox
Designation: Financial Strategy & Reporting Manager
Tel No: 01270 685869
Email: joanne.wilcox@cheshireeast.gov.uk

9. Contact Information

- 9.1. Any questions relating to this report should be directed to the following officer:

Name: Alex Thompson
Job Title: Head of Finance and Performance (Section 151 Officer)
Email: alex.thompson@cheshireeast.gov.uk

Appendix A

**Treasury Management Strategy Statement
2019/2020**



Contents

1. Background
2. External Context
3. Local Context
4. Borrowing Strategy
5. Investment Strategy
6. Treasury Management Indicators
7. Other Items
8. Financial Implications

Annexes

- A. Economic & Interest Rate Forecast (Section 2.9)
- B. Existing Investment & Debt Portfolio Position (Section 3.1)
- C. MRP Statement 2019/20

1. Background

- 1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management
- 1.2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.
- 1.3. Investments held for service purposes or for commercial profit are considered in the Investment Strategy (see Appendix X).

2. External Context

- 2.1 **Economic background:** The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.
- 2.2 Following a weak reading in the first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.
- 2.3 The headline rate of UK Consumer Price Inflation rose to 2.7% year on year in August 2018, higher than both the consensus forecast and the Bank's August Inflation Report. Labour market data is positive.
- 2.4 The International Labour Organisation (ILO) unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.4% and only likely to have a moderate impact on household spending.
- 2.5 Inflationary pressures were expected to subside, but having increased again recently, together with the rising price of oil and tightness in the labour market, this may keep inflation above the Bank of England's 2% target throughout most of their forecast horizon, and possibly beyond, meaning that strong real income growth is unlikely to materialise any time soon.
- 2.6 The fallout from the US-China trade war continues which, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity in 2019. Despite slower growth in the region, the European Central Bank has started conditioning markets for the end of quantitative easing as well as the timing of the first interest rate hike, currently expected in 2019, and the timing and magnitude of increases thereafter.

- 2.7 **Credit outlook:** The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.
- 2.8 European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.
- 2.9 **Interest rate forecast:** Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.
- 2.10 The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.
- 2.11 Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.5% and 2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.
- 2.12 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.
- 2.13 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.75%, which takes into account strategic fund investments, and that new borrowing in the form of short term loans will be borrowed at an average of 0.90%.
3. **Local Context**
- 3.1 As at 18th October 2018 the Authority currently has borrowings of £123m and investments of £38m. This is set out in further detail at **Annex B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Estimate £m	31.3.21 Estimate £m	31.3.22 Estimate £m
General Fund CFR					
Less: Other long-term liabilities *	(26)	(24)	(23)	(21)	(21)
Loans CFR					
Less: External borrowing **	(170)	(110)	(84)	(80)	(78)
Internal (over) borrowing					
Less: Usable reserves	(97)				
Less: Working capital	(55)	(55)	(55)	(55)	(55)
New borrowing					

* finance leases and PFI liabilities that form part of the Authority's debt

** shows only loans to which the Authority is committed and excludes optional refinancing

- 3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 3.3 The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £XXXm over the forecast period.
- 3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2019/20.
- 3.5 **Liability Benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain a core strategic investment.

Table 2: Liability Benchmark

	31.3.18 Actual £m	31.3.19 Estimate £m	31.3.20 Forecast £m	31.3.21 Forecast £m	31.3.22 Forecast £m
Loans CFR					
Less: Usable reserves	-97				
Less: Working capital	-55	-55	-55	-55	-55
Plus: Minimum investments	10	10	10	10	10
Liability Benchmark					

- 3.6 Following on from the medium-term forecasts in table 2 above the long-term liability benchmark assumes capital expenditure funded by borrowing of £XXm a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below.

Chart 1: Liability Benchmark Chart

4. Borrowing Strategy

- 4.1 The Authority currently holds loans of £123m, a decrease of £47m since 31st March 2018 but this will increase to a higher level, currently forecast as £180m at 31st March 2019. PWLB debt is reducing by £6m per year whilst cash flow shortfalls caused by internal borrowing and prepayment of the pension fund deficit is being funded through cheaper short term borrowing. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.
- 4.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.
- 4.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use both internal resources and to borrow short-term loans instead.
- 4.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Our treasury advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 4.5 Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 4.6 In addition, the Authority may borrow further short-term loans to cover unexpected or planned temporary cash flow shortages.

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

- Public Works Loan Board and any successor body
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Cheshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- European Investment Bank
- Salix Finance Ltd energy efficiency loans

4.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

4.9 The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

4.10 **Municipal Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.

4.11 **LOBO's:** The Authority holds £17m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2019/20, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

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

4.13 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new

loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or reduction in risk.

5. Investment Strategy

- 5.1 Although reduced from previous years, the Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £10m and £45m. Levels of around £20m are expected to be maintained in the forthcoming year.
- 5.2 The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
- 5.3 If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 5.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to continue to diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for any longer-term investment. The Authority has some investments in higher yielding asset classes with the remaining surplus cash invested for liquidity purposes in short-term unsecured bank deposits, money market funds and with other Local Authorities.
- 5.5 Under the new IFRS9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.
- 5.6 The Authority may invest its surplus funds with any of the counterparties in table 3 below, subject to the cash limits (per counterparty) and time limits shown.

Table 3: Approved Investment Counterparties and Limits

Credit Rating	Banks* Unsecured	Banks* Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£6m 5 years	£12m 20 years	£12m 50 years	£6m 20 years	£6m 20 years
AA+	£6m 5 years	£12m 10 years	£12m 25 years	£6m 10 years	£6m 10 years
AA	£6m 4 years	£12m 5 years	£12m 15 years	£6m 5 years	£6m 10 years
AA-	£6m 3 years	£12m 4 years	£12m 10 years	£6m 4 years	£6m 10 years
A+	£6m 2 years	£12m 3 years	£6m 5 years	£6m 3 years	£6m 5 years
A	£6m 13 months	£12m 2 years	£6m 5 years	£6m 2 years	£6m 5 years
A-	£6m 6 months	£12m 13 months	£6m 5 years	£6m 13 months	£6m 5 years
None	£1m 6 months	n/a	£12m 25 years	£100,000 5 years	£6m 5 years
Pooled funds & real estate investment trusts		£12m per fund			

*Banks includes Building Societies

- 5.7 **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 5.8 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
- 5.9 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.
- 5.10 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.11 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be

made either following an external credit assessment or to a maximum of £100,000 per company as part of a diversified pool in order to spread the risk widely.

- 5.12 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.
- 5.13 **Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 5.14 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.
- 5.15 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.
- 5.16 **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept to the lowest practical levels per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.
- 5.17 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
 - no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 5.18 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

- 5.19 **Other Information on the Security of Investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 5.20 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.
- 5.21 **Investment Limits:** The Authority's revenue reserves available to cover investment losses are forecast to be £63m on 31st March 2019. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £6m. Secured investments will have a higher limit of £12m per organisation. A group of banks under the same ownership will be treated as a single organisation for limit purposes. The limits on fund managers, investments in brokers' nominee accounts and Real Estate Investment Trusts (REIT's) are higher as the investment is diversified over a greater range of counterparties within those funds. These funds are generally held to generate higher on-going returns but with a long term view on the value of the fund which may fluctuate significantly; e.g. REIT's underlying value will reflect the property market movements in whichever sector or geographic region in which that REIT operates. For foreign countries and other sectors with a total limit, the individual organisation limits still apply. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

Type of Counterparty	Cash limit
Any single organisation, except the UK Central Government	£12m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£12m per group
Any group of pooled funds under the same management	£25m per manager
Negotiable instruments held in a broker's nominee account	£25m per broker
Foreign countries	£12m per country
Registered Providers and Registered Social Landlords	£25m in total
Unsecured investments with Building Societies	£12m in total
Loans to unrated corporates	£12m in total
Money Market Funds	£12m in each (£50m in total)
Real Estate Investment Trusts	£25m in total

- 5.22 **Liquidity management:** The Authority maintains a cash flow forecasting model to determine the maximum period for which funds may prudently be committed. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

6. Treasury Management Indicators

- 6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.
- 6.2 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£410,000
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£0

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The Council is expected to remain a net borrower in 2019/20 so a fall in rates would lead to savings rather than incurring additional cost.

- 6.3 **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	35%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper limit for loans maturing in under 12 months is relatively high as short term funding is currently considerably cheaper than alternatives. This will be kept under review as it does increase the risk of higher financing costs in the future.

- 6.4 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£25m	£15m	£10m

7. Other Items

- 7.1 The CIPFA code requires the Authority to include the following in its treasury management strategy.
- 7.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 7.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.
- 7.5 **Markets In Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services including advisers, banks, brokers and fund managers, allowing it to access a greater range of services without the greater

regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this seems to be the most appropriate status.

8. Financial Implications

- 8.1 Anticipated investment income in 2019/20 is £420,000, based on an average investment portfolio of £24 million at an interest rate of 1.75%. The budget for debt interest paid in 2019/20 is £4.2 million, based on an average debt portfolio of £130 million at an average interest rate of 3.20%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

DRAFT for information only

Annex A - Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.
- Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.
- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.
- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.
- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.
- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.
- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.17
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.65
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.80	1.00	1.10	1.20	1.30	1.30	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.17
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.68
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.05	1.25	1.35	1.40	1.50	1.45	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.37
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.69
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.15	1.20	1.25	1.35	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.90	1.95	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.98
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.80	1.85	1.85	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.88
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%

PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B

Existing Investment & Debt Portfolio Position

	18/10/18 Actual Portfolio £m	18/10/18 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	74	4.10%
Local Authorities	28	0.70%
LOBO Loans	17	4.63%
Other	4	-
Total External Borrowing	123	3.23%
Other Long Term Liabilities:		
PFI	23	-
Finance Leases	2	-
Total Gross External Debt	148	-
Investments:		
<i>Managed in-house</i>		
Short-term investments:		
Instant Access	18	0.66%
Fixed Term Deposits	10	0.75%
<i>Managed externally</i>		
Fund Managers	3	0.85%
Property Funds	8	4.49%
Total Investments	39	1.42%
Net Debt	109	-

Annex C - MRP Statement 2019/20

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently updated in 2018.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance.

- For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date, MRP will be charged at 2% annuity rate over a 50 year period.
- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets, as the principal repayment on an annuity rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

(Option 3 in England and Wales)

- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.



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Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Annual Governance Statement (AGS) and Code of Corporate Governance Review

Senior Officer: Mark Taylor, Interim Executive Director of Corporate Services

1. Report Summary

- 1.1. The purpose of this report is to provide assurance that the Annual Governance Statement is underpinned by an appropriate framework of assurance and to allow the Committee to monitor the implementation of actions identified in the 2017/18 Statement in order to improve governance arrangements and to respond to emerging issues.
- 1.2. The report also informs the Committee of the proposed production process for the 2018/19 Annual Governance Statement, and the proposals for reviewing the Council's Code of Corporate Governance as part of the Governance Workstream in the Council's Whole Organisation Transformation Programme.

2. Recommendations

- 2.1. That the Committee
 - Note and endorse the updates provided on the issues reported in the 2017/18 AGS, including the recommendations to the Committee on whether items remain in the Statement.
 - Consider and endorse the process for the production of the 2018/19 AGS, including the proposals for reviewing the Code of Corporate Governance.

3. Reasons for Recommendations

- 3.1. Under the Accounts and Audit Regulations 2015, local authorities are required to prepare an Annual Governance Statement and to report publicly on the effectiveness of governance and control. The Audit and Governance

Committee is responsible for reviewing and then approving the AGS prior to being signed by the Leader of the Council and the Chief Executive.

- 3.2. The process of preparing the governance statement should in itself add value to the effectiveness of the Council's corporate governance and internal control framework. Good governance enables the Council to better meet the challenges of pursuing its vision, delivering ambitious objectives against a background of continued financial pressures, by underpinning that vision with mechanisms for control and management of risk.
- 3.3. In accordance with best practice the Audit and Governance Committee should undertake a number of activities to discharge its responsibilities in relation to the AGS including:
- ensuring that the AGS is underpinned by a framework of assurance
 - monitoring the implementation of action plans or recommendations to improve governance arrangements
 - receiving reports and assurances over changes to the governance framework and control environment as they are established; this includes reviewing the Council's Code of Corporate Governance.

4. Other Options Considered

- 4.1. Not applicable.

5. Background

Progress against items reported in the AGS

- 5.1. The 2017/18 AGS approved by the Audit and Governance Committee in July 2018 included updated details of previously reported governance issues, as well as a number of significant governance issues recognised for 2017/18 and relevant proposed actions for implementation.
- 5.2. A detailed update on progress since July in implementing the actions proposed is included at Appendix A for consideration by Members.
- 5.3. Each update has been provided by the relevant responsible officer. In providing the updates, they have considered the assurance provided in the update in order to determine whether the required action has been completed appropriately, whether the issues are being sufficiently and effectively managed and whether there are further issues or concerns arising.

- 5.4. These recommendations, with endorsement from Corporate Leadership Team, are summarised in Table 1, with a recommendation to the Committee on which items should be considered as completed or managed, and can be monitored via local monitoring arrangements and which require further monitoring via the Annual Governance Statement.
- 5.5. Where items are removed from the Annual Governance Statement and progress updates reported to the Audit and Governance Committee, they will still continue to be monitored through normal management processes, and in some cases via reports to other Committees. These items can and will be re-escalated if necessary through the ongoing AGS production and monitoring cycle.

Table 1: Recommendations summary

Description (Summarised)	Responsibility	Recommendation to the Audit and Governance Committee
Business Continuity Planning	Interim Executive Director of Corporate Services	<i>That this issue remains on the AGS progress update.</i>
Local Enterprise Partnerships	Executive Director of Place	<i>That this issue remains on the AGS progress update.</i>
Alternative Service Delivery Models	Executive Director of Place	<i>As substantial progress, detailed in Appendix A, has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i>
Review of Contract Awards re Core Fit	Interim Executive Director of Corporate Services	<i>As substantial progress, detailed in Appendix A, has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i>
Council Funding	Section 151 Officer	<i>That this issue, recognised in the AGS as a “continuing governance issue” remains on the AGS progress update.</i>
Health and Social Care Intergration	Acting Executive Director of People	<i>That this issue, recognised in the AGS as a “continuing governance issue” remains on the AGS progress update.</i>
Berkeley Academy Car	Executive Director	<i>As substantial progress,</i>

Park	of Place	<i>detailed in Appendix A, has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i>
Sleep in arrangements	Acting Executive Director People; Interim Executive Director of Corporate Services and Head of Strategic HR	<i>As substantial progress, detailed in Appendix A, has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i>
Designated Statutory Officers/Investigation and Disciplinary Committee	Acting Chief Executive	<i>That this issue remains on the AGS progress update.</i>
Land Purchases	Internal Audit, reporting to the Acting Chief Executive	<i>That this issue remains on the AGS progress update.</i>
Holiday Pay	Head of Strategic HR	<i>That this issue remains on the AGS progress update.</i>
Chief Inspector of Weights and Measures	Executive Director Place and Acting Deputy Chief Executive	<i>That as detailed in Appendix A, the review has been completed, the matter should be removed from the AGS progress update.</i>
Bullying and Culture Review	Acting Chief Executive	<i>As substantial progress, detailed in Appendix A, has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i>
Data Protection Breach	Acting Chief Executive	<i>That this issue remains on the AGS progress update.</i>

Code of Corporate Governance Review

- 5.6. The Council's Code of Corporate Governance was first approved by the Governance and Constitution Committee in November 2009 and has been reviewed and updated to reflect best practice and organisational changes over time. The Council's Codes have been consistent with the principles of the various CIPFA/SOLACE Frameworks. Cabinet approved a revised Code of Corporate Governance in January 2017, which was in line with the

revised guidance set out by CIPFA issued in 2016; *Delivering Good Governance in Local Government*.

- 5.7. The Council's Code of Corporate Governance articulates the expected standards, principles and values by which Cheshire East Council Officers and Members will operate. There should be clear links between the principles of the Code, and the governance framework of strategies, policies and procedures which underpin the Code.
- 5.8. Progress on the review of the Council's Code and any changes to the proposed Code will be reported back to this Committee. The proposed Code will need to be formally adopted by Cabinet.
- 5.9. It is proposed that the 2018/19 Annual Governance Statement will be carried out against the principles identified in the current Code of Corporate governance, as this will have been in place for the majority of the period in review.

Preparation of the 2018/19 Annual Governance Statement

- 5.10. In order to provide assurance that governance arrangements are adequate and operating effectively in practice, or where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future, The Council is required to undertake regular, at least annual, reviews of the effectiveness of its governance framework, consider the findings of the review at a meeting of the Authority or delegated Committee, approve an AGS at a meeting of the Authority or delegated Committee and publish the AGS.
- 5.11. The 2018/19 AGS will be prepared in line with the requirements of updated CIPFA/SOLACE guidance; the *Delivering Good Governance in Local Government* framework and against the Council's Code of Corporate Governance.
- 5.12. The Audit and Governance Committee has, through its terms of reference, been delegated specific governance responsibilities. These include considering the findings from reviewing the effectiveness of the Council's governance arrangements and approving the AGS. It is considered good practice to agree the process for preparing the AGS, including the framework of assurance that underpins it, with Members in advance.
- 5.13. The review of the effectiveness of the Council's governance framework for 2017/18 will be informed by the work of Internal Audit, senior managers and comments made by the External Auditors and other review

agencies/inspectors. The sources of assurance include, but are not limited to:

- Senior management assigned with the ownership of risks and delivery of services through the risk management process;
- The Section 151 Officer and the Monitoring Officer in meeting statutory responsibilities;
- Internal Audit through the annual and interim reports;
- External Audit through its reports to those charged with governance;
- Outcomes from other review agencies and inspectors;
- Service managers who independently sign off on the adequacy of controls within their service areas via disclosure statements;
- Other internal assurance providers (ICT Security etc.) via completion of questionnaires;
- Designated officers who complete AGS self-assessment questionnaires; in this way compliance with the Council's Code of Corporate Governance will be evidenced.

5.14. The AGS will be considered by the Corporate Leadership Team on an ongoing basis with work being co-ordinated by the Corporate Assurance Group who will:

- review and update the Code of Corporate Governance and governance framework as necessary
- identify systems, processes and documentation that provide evidence of compliance including:
- agreeing content and format of Management Disclosure Statements, self- assessments and questionnaires
- identify the individuals responsible for monitoring, reviewing and providing assurance on the systems, processes and documentation identified
- consider the extent to which the Council complies with the principles and elements of good governance set out in the CIPFA/SOLACE Framework using:
 - Self-assessment of the Organisation's performance against its Code of Corporate Governance

- Completion of Disclosure Statements/Internal Assurance Provider questionnaires
 - Assessment of significant delivery partner governance arrangements
 - Self-assessment of Internal Audit against the Public Sector Internal Audit Standards
 - Assessment of the effectiveness of the Audit and Governance Committee
 - Consideration of sources of external assurance as applicable (External Audit, Ofsted, Care Quality Commission etc.)
 - Assessment of the effectiveness of mitigating actions for approved corporate risks
 - Consideration of the Annual Internal Audit Opinion Report
- identify issues that have not been addressed in the Council and consider how they should be addressed, including items reported in previous Annual Governance Statements
 - identify the individuals who would be responsible for undertaking the actions that are required.
 - Produce the draft AGS and co-ordinate its approval including review by the Corporate Leadership Team, signing by the Leader and Chief Executive and consideration by the Audit and Governance Committee in May 2019, for approval in July 2019.

6. Implications of the Recommendations

6.1. Legal Implications

- The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS). The best practice guidance is recognised as the CIPFA Framework Delivering Good Governance in Local Government (2016).
- The AGS is used by the Council to report publically on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations 2015. The process outlined is designed to meet this obligation

6.2. Finance Implications

- In reviewing assurance arrangements, the Committee should bear in mind that the assurance process has a cost to the Authority and it should therefore be proportional to the risk.

- The production of the AGS is designed to align with the production of the Council's Financial Statements. For 2018/19 this requires a draft Statement to be published by May 31st and a final approved Statement by July 31st, published alongside the audited accounts.

6.3. Policy Implications

- There are no specific policy implications.

6.4. Equality Implications

- There are no specific equality implications.

6.5. Human Resources Implications

- There are no specific human resources implications.

6.6. Risk Management Implications

- The Authority is required to prepare and publish an Annual Governance Statement to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit England Regulations 2015. Failure to do so could result in non-compliance with the requirements of the Regulations.

6.7. Rural Communities Implications

- There are no direct implications for rural communities.

6.8. Implications for Children & Young People

- There are no direct implications for children and young people.

6.9. Public Health Implications

- There are no direct implications for public health.

7. Ward Members Affected

- 7.1. Not applicable.

8. Access to Information

- 8.1. [Cheshire East Council Annual Governance Statement 2017/18](#)

- 8.2. [Cheshire East Council – Code of Corporate Governance](#)

9. Contact Information

- 9.1. Any questions relating to this report should be directed to the following officer:

Name: Josie Griffiths

Job Title: Principal Auditor

Email: josie.griffiths@cheshireeast.gov.uk

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Annual Governance Statement 2017/18

Progress Update December 2018

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1. Progress against issues identified in previous Annual Governance Statements

Business Continuity Planning <i>Identified in 2013/14 AGS as requiring further attention in 2014/15</i>	
Description of Issue	Current and tested business continuity plans are not consistently in place across all service areas.
Responsibility	Director of Legal Services
Action proposed at the time of inclusion in the AGS	Develop Business Continuity Planning to ensure service delivery in the event of business disruption
Progress Update for AGS 2017/18	<p>The Business Continuity Institute (BCI) has recently updated its Good Practice Guidelines (GPG) to the 2018 Edition (previously 2013). The GPG is recognised as industry best practice for professionals, by professionals in organisations all over the world. It is important to note that developing the Council's business continuity programme is an ongoing process, which adapts in response to the changing nature of the Council's internal and external operating environment.</p> <p>In light of the updated GPGs, the Council is treating the implementation of this programme as if approaching it for the first time. This will mean undertaking all activities detailed in the business continuity management lifecycle. We are currently in the first stage of the lifecycle; the Audit and Governance Committee recently approved the Business Continuity Policy Statement and Strategy for ratification by Cabinet on 10 July 2018. The Policy provides strategic direction from which the business continuity programme will be delivered and defines the way in which the Council will approach business continuity.</p> <p>An important part of the business continuity lifecycle is about understanding and influencing organisational culture to ensure successful embedding of business continuity. As part of this we undertook an awareness raising campaign by undertaking a Cyber Attack Awareness Exercise with colleagues from across various areas of the Council. The exercise was a discussion based using a relevant scenario of the Council's ICT systems and network being attacked and switched off. The awareness exercise was set in a table-top environment and</p>

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	<p>included various time-jumps to allow different phases of the scenario to be exercised and discussed. The session helped to ensure that:-</p> <ul style="list-style-type: none"> • colleagues from across the Council are engaged in business continuity, • awareness of previous and possible future impacts were raised, • existing measures and future measures to manage an incident were considered • best practice, ideas and resources for Business Continuity planning were shared • further development of resilient Business Continuity Plans could be considered • areas of support and potential service requirements both corporately and by the IT Shared Service were highlighted <p>The next step is to refine the scope of the business continuity programme before proceeding with the Analysis, Design, Implementation and Validation stages of the business continuity management lifecycle. This will ensure that the business continuity programme and associated activities focus on the Council's priorities and ensure the programme makes best use of available resources. The main technique used for the analysis of the Council for business continuity purposes is the business impact analysis (BIA); this provides information to determine the most appropriate business continuity solutions and an initial BIA can be used to clarify the scope of the business continuity programme.</p> <p>Further reports are scheduled on Business Continuity as part of the Risk Management updates to the Audit and Governance Committee.</p>
Progress update October 2018	<p>Work continues with teams on the high level business impact assessments which will help to clarify the scope of the business continuity programme. This phase is scheduled to be completed by the end of 2018/19, and will be used to inform the next stage of work, scoping individual business continuity plans which will be undertaken on a priority basis across the Council's three directorates over 2019/21. Business Continuity will then be delivered as a rolling programme, designed to be flexible and adapt to the changing requirements of the organisation</p>
Recommendation to A&G	<p><i>To note progress, but that this issue remains on the AGS progress update.</i></p>

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Local Enterprise Partnerships <i>Identified in 2013/14 AGS as requiring further attention in 2014/15</i>	
Description of Issue	Governance arrangements outlining the relationship between the Council, as accountable body, and the Local Enterprise Partnership (LEP) are out of date
Responsibility	Executive Director of Place
Action proposed at the time of inclusion in the AGS	Governance arrangements need to be developed that are sufficiently “future proofed” to accommodate further anticipated changes to the role of the LEP and its sub groups and the Council’s relationship with it.
Progress Update for AGS 2017/18	<p>Actions for Cheshire and Warrington LEP included making certain Sub Committee meetings open to the public and establishing an Overview & Scrutiny Committee. An Overview and Scrutiny Committee has now been established and met for the first time on Thursday 1st March. This meeting was used to set out terms of reference and select a Chair. Cheshire East is represented by Cllr Harold Davenport.</p> <p>As part of the Finance and Accountable Body services provided to the LEP by the Council, we assist in preparation of the financial information for inclusion in the final version of their Annual Report. This includes information not only in respect of the LEP Company’s operating accounts, but also financial summaries relating to the Local Growth Fund, Growing Places Fund, and other reserves and balances in order to present a more comprehensive picture of the LEP’s financial affairs.</p> <p>As part of our Accountable Body role, Cheshire East’s Internal Audit Team assisted with the review of the LEP’s Local Assurance Framework and prepared a report with an opinion (Satisfactory) and recommendations for improvements. This report was used to support the “Annual Conversation” (meeting of LEP with Government officials) which took place in December 2017.</p> <p>Also included in the evidence pack submitted to Government in advance of the “Annual Conversation” was the required statement from the Council’s Section 151 Officer, that there is satisfaction with the LEP’s governance and transparency arrangements and that there are no issues of concern. The statement also commented that</p>

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	<p>going forward, as part of strengthening arrangements in this regard, the Council's Section 151 Officer and the LEP Chief Executive will meet quarterly, to help ensure we are sighted on developments/ proposals before key decisions are made (including receiving Strategy Committee papers).</p> <p>This has been followed by a Performance Review undertaken by the Department for Business, Energy and Industrial Strategy and the Ministry for Housing, Communities and Local Government. The Annual Conversation was generally very positive, reporting that governance and systems and processes are improved. There are however some challenges around delivery and capacity.</p> <p>The Mary Ney Review has made further recommendations for improving the governance and transparency of LEP's and this has resulted in further revisions to the National Assurance Framework for LEP's to adopt.</p> <p>Following the Ney Review, CIPFA and MHCLG are developing fresh guidance on the role of the Section 151 Officer of the Accountable Body for LEPs.</p> <p>The CIPFA guidance was out for consultation until the end of May 2018 and the subsequent guidance from CIPFA will be helpful in providing further clarity on any actions required by the Council or the LEP to ensure effective financial management.</p> <p>Internal Audit is developing a plan of future work in discussion with the LEP. This will ensure statutory requirements are undertaken, as well as embedding a programme of risk based audit work to provide assurance to the LEP Board and to the Council in its role as accountable body.</p>
Progress update October 2018	<p>The LEP's Finance & Audit Committee Board continues to receive, review and challenge the financial management of the LEP including adherence to the assurance framework, EZ income and internal audit. This group is chaired by Tim Wheeler (LEP Board member and Vice Chancellor, University of Chester). CEC is represented on this board.</p> <p><u>LEP Annual Report</u></p> <p>As part of our Finance and Accountable Body services provided to the LEP we assist in preparation of the</p>

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financial information for inclusion in the final version of the Annual Report. This includes information not only in respect of the LEP company's operating accounts, but also financial summaries relating to the Local Growth Fund, Growing Places Fund, and other reserves and balances in order to present a more comprehensive picture of the LEP's financial affairs.

LEP Review

The Government has developed a new 'Industrial Strategy' to set out its thinking on how to drive sustainable economic growth and productivity growth within the context of a more globally focussed post Brexit economy. It wants to see industrial strategies produced and delivered locally, led by LEP's, and has carried out a policy review of LEP's to ensure that they are equipped to support Government in this role. The report "Strengthened Local Enterprise Partnerships" was published by MHCLG on 24th July 2018 and makes recommendations for reforms to the leadership, governance and accountability of the 38 LEPs charged with kick-starting economic growth and creating jobs in their regions.

<https://www.gov.uk/government/news/government-proposes-shake-up-of-local-enterprise-partnerships>

The Government was advised by an external panel which met 4 times between December 2017 and May 2018 (Christine Gaskell, Chair of the C&W LEP was part of this panel along with Mary Ney and 11 other panel members from a range of associated organisations).

The review proposes a number of changes to boost the performance of LEPs, increase their diversity and ensure they're operating in an open and transparent way.

LEP's will be required to:

- develop an Implementation Plan showing how the changes will be adopted and how the Local Industrial Strategy (LIS) will be developed (this will be used as a basis for any proposal or bid for additional capacity funding)
- develop and deliver a strong evidence based LIS as their main priority or 'single mission'
- publish an annual delivery plan and end of year report including key performance indicators, both

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	<p>qualitative and quantitative</p> <ul style="list-style-type: none"> • consult widely and transparently on appointing new Chairs and introduce defined term limits for Chairs and Deputy Chairs • establish more representative board membership with regard to gender and protected characteristics with a requirement for women to make up at least one third of LEP boards by 2020 with the expectation of equal representation by 2023 • remain independent private sector led institutions with at least two thirds of the Board being private sector and robust governance and external scrutiny in place • have a ‘legal personality’, such as incorporation as companies where LEP’s are not in Mayoral/Combined Authority areas in place by 2019 prior to any further release of Local Growth Funding • submit proposals for revised geographies including removing situations in which 2 LEP geographies overlap <p>Government has stated that it will:</p> <ul style="list-style-type: none"> • retain accountability and oversight over the system as a whole • facilitate regular dialogue with Government including the Prime Minister chaired LEP Council (first met 16th June 2018) and a senior government official sponsor for every LEP • allocate up to £20 million of additional capacity funding between 2018 to 2019 and 2019 to 2020 to support the implementation of the review and strategic capability to embed evidence in Local Industrial Strategies (individual awards will be according to an independent assessment of capacity and capability and allocated based upon the LEP’s Implementation Plan) • publish a further statement to guide the production of LIS’s setting out how to identify priorities across the five ‘foundations of productivity’ (see below) • measure and publish economic performance across all LEP’s and benchmark individual performance • publish a statement regarding its approach to intervention in cases of underperformance in a revised National Assurance Framework
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	<ul style="list-style-type: none"> work with the LGA to develop an induction and training programme for LEP Board Members and officers <p>LEP's are to provide a formal response to Government on how they will meet all these requirements and this is being discussed at LEP Board level.</p> <p><u>NP11</u></p> <p>LEP chairman Christine Gaskell is to become vice-chair of NP11, a Government-funded board comprising the North's 11 Local Enterprise Partnership figureheads, brought together to promote the Northern Powerhouse. NP11 is entirely separate from former Chancellor George Osborne's Northern Powerhouse Partnership, launched in September 2016, which mostly comprises large businesses and civic bodies, featuring the likes of Liverpool Mayor Joe Anderson and Manchester leader Sir Richard Leese on its board. The organisation was announced at the Northern Powerhouse Summit in Newcastle-Gateshead by Northern Powerhouse Minister Jake Berry and is to "act as one voice representing each of their regions as a modern day Council for the North". NP11 will report quarterly to the Ministry for Housing, Communities & Local Government. Its aim is to work with and advise the Government on issues such as how to increase productivity, overcome regional disparities in economic growth and tackle the north-south divide.</p>
Recommendation to A&G	<i>Although appropriate governance arrangements have been put in place the LEP manage significant funds and allocate funding to third parties, this council acts as accountable body and therefore it is appropriate to keep these assurance arrangements under review.</i>

Alternative Service Delivery Models <i>Emerging issue identified in the 2013/14 Annual Governance Statement which required further attention and monitoring to ensure it did not become significant governance issues</i>	
Description of Issue	<p>The Council launched four service delivery vehicles in April and May 2014. Service areas transferred to these new companies were initially completed on a 'lift' and 'shift' basis to maintain existing arrangements. Further work is now being done to ensure that the Council maximises the benefit of these new arrangements.</p> <p>Two additional vehicles were launched in early 2015: Transport Service Solutions Ltd (1st January 2015) and</p>

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	Civica (1st April 2015)
Responsibility	Executive Director of Place
Action proposed at the time of inclusion in the AGS	Senior Officers to continue to work with the directors of the new companies and the Leisure Trust to clarify roles and responsibilities and to ensure that the requirements of the new commissioning plans and new contracts – and the benefit to residents – are fully achieved.
Progress Update for AGS 2017/18	<p>The findings of a review to assess the effectiveness and appropriateness of the existing governance arrangements for the ASDVs and CERF were reported upon to Cabinet in March 2018.</p> <p>The report found that improvements could be made to how the Council commissioned services from its ASDVs and how the ASDVs were governed. Cabinet endorsed the findings of the report, and approved the creation of a Cabinet Committee, the “Shareholder Committee”.</p> <p>This Committee will give advice and direction to the Cabinet member(s) with legal responsibility for making ASDV shareholder decisions. The Shareholder Committee will design, implement and oversee the ASDV change programme. The ASDV Shareholder Committee will meet on 6th August 2018.</p>
Progress update October 2018	The Shareholder Committee has been setup and held its first meeting. Meetings are now scheduled in for the next 12 months, a programme board that is chaired by the Executive Director of Place is established and a full programme team has been setup in order to refine and implement the recommendations out of the ASDV review and oversee the change programme.
Recommendation to A&G	<i>Sufficient control and assurance is now in place and as such it is recommended that this can be removed from the AGS.</i>

Review of Contract Awards re Core Fit <i>Recognised as a governance issue in 2015/16</i>	
Description of Issue	Following concerns raised about the awarding of contracts by the Council, the Council’s Internal Audit team were asked by the then Chief Executive to consider the issues raised as part of an ongoing audit of the Council’s procurement arrangements. This work was underway in the third quarter of 2015/16. However, in late December 2015, following the launch of a police investigation by Cheshire Constabulary regarding alleged misconduct in public office, the internal audit work was suspended, pending the outcome of the police

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	investigations which is ongoing at this time. The internal audit work will continue once the police investigation concludes.
Responsibility	Interim Executive Director of Corporate Services
Action proposed at the time of inclusion in the AGS	<p>A number of improvements increasing the transparency of the Council's procurement arrangements have already been made. For example;</p> <ul style="list-style-type: none"> • Waivers and Records of Non Adherence (WARN) forms are reported individually and in full to the Audit and Governance Committee. • The Audit and Governance Committee receive reports on the quantity and reasons for Waiver's and Non Adherences (WARNs) approved. • The Council has both introduced and strengthened the operation of the Procurement Board, with membership of the Council's Portfolio Holder for Corporate Policy and Legal Services. • The Audit and Governance Committee Anti-fraud Member/Officer Sub Group carries out sample checking on procurement activity ahead of each meeting and reports back on any non-compliance issues; there have been none found to date. • The Council has developed its Contracts Register to allow an earlier assessment of those services/functions that need to be re-commissioned. • The Procurement Team have reduced the threshold to £5,000 for requisitions that have to be approved, in order to prevent procurement activity being undertaken without appropriate approvals. • A £5,000 expenditure report is run monthly and sent to CLT members to scrutinise. From this a sample of transactions are selected and managers asked to provide details of budgetary controls applied. • National reporting requirements include £500 spend report which is completed monthly. Contracts awarded over £5,000 to be reported quarterly. Invitation to tenders and quotes above £5,000 to be reported quarterly.
Progress Update for AGS 2017/18	<p>The Audit and Governance Committee received reports (thematic report and individual review) on WARNS throughout their meetings in 2017/18.</p> <p>Following a 'maturity assessment' of Procurement and Commissioning, carried out by external consultants (Ameo) which concluded in September 2017, a Commissioning & Procurement Delivery Group and</p>

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	<p>Commissioning & Procurement Delivery Board were established. A Project Board supports the Group. The Group meets on a monthly basis, with the Board meeting a couple of weeks after Group.</p> <p>Whilst initially looking at the Commissioning Cycle & Contracts/Procurement, the scope of the Programme has grown to encompass the Business Planning Process and the PMO Project Gateway process.</p> <p>Procurement have developed a Pipeline Dashboard, utilising the Contracts Register for existing contracts due to come to an end for the next rolling 36 months as well as new contracts/procurements to be identified. This permits the Group to identify forthcoming contracts/procurements to be highlighted and scrutinised as appropriate, with observations/assurance to Board prior to Reports being scrutinised at CLT. The Contracts Register will be built into the Business World system to provide greater transparency over spending against contracts. It will also allow for workflows and reminders to be built into the system.</p> <p>There is a quarterly highlight reporting process for 'Platinum' Contracts i.e. contracts in excess of £1m per annum. This is one element of a Toolkit under development designed to equip Contract Managers with the requisite tools and techniques to robustly contract manage and where practicable realise savings within the Contract. This will in time be extended to Gold contracts and potentially Silver & Bronze contracts (subject to approval at Group/Board). We have now identified an officer from within Finance to own the Savings Tracker which will capture and monitor savings and benefits including non-cashable benefits.</p> <p>In June 2018, Internal Audit reported to Management on the findings of a review to provide assurance that arrangements in place to manage procurement activity are appropriate and effective. Internal Audit gave a "Satisfactory" opinion. The Audit and Governance Committee will receive details of the review at their meeting on July 31st.</p>
Progress update October 2018	<p>Audit and Governance Committee has continued to receive assurance in relation to the Council's procurement arrangements via the following reports:</p> <ul style="list-style-type: none"> • WARN's are reported to every meeting of the Committee

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	<ul style="list-style-type: none"> • A report providing an overview of the Internal Audit review of procurement referred to above. • A presentation on the Contract Management Toolkit at the September 2018 meeting.
Recommendation to A&G	<p><i>As detailed in the progress updates, a variety of actions have been implemented to ensure improvements in the Procurement control environment, including greater transparency and reporting. Given the progress made, and the assessment of the arrangements by Internal Audit, this issue should now be removed from the AGS and arrangements will be monitored locally.</i></p> <p><i>Issues relating to the ongoing police investigation are addressed elsewhere on the update.</i></p>

Council Funding	
<i>Recognised as a Continuing Governance Issue in the 2015/16 AGS</i>	
Description of Issue	<p>Ongoing and future changes to the financial framework - including several changes to national funding regimes - will increase the Council's reliance on self-financing. Issues arise from changes to business rates, and government grants (particularly grants linked to health and schools).</p> <p>The Council is in a relatively strong position due to ongoing growth in the local tax bases and low levels of demand for local welfare payments. However, any risks from economic downturn or additional unfunded responsibilities are more difficult to manage whilst most income sources are still subject to significant government control.</p>
Responsibility	REVISED Section 151 Officer
Action proposed at the time of inclusion in the AGS	<p>The Council's approach to the continuing financial challenges, linked to austerity, are being addressed through a range of activities and communication channels.</p> <p>Senior accountants are fully engaging with government and professional bodies (such as CIPFA, SCT, RSN and UTS), in the review of local government finance. Responses have been provided to consultations and regular seminars and meetings have been attended to ensure that issues relevant to Cheshire East Council are being discussed.</p> <p>Estimates have been developed with the Portfolio Holder, and Cabinet members, around the main funding</p>

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	<p>sources. This includes Council Tax levels, tax base growth, potential Business Rates growth and the diminishing grant position. The revised Corporate Plan also introduces the Council's commitment to developing a self-financing approach to achieving outcomes.</p> <p>The Council's increasing level of collaboration with public sector partners, such as health services and neighbouring local authorities, is also subject to significant review and work is ongoing in line with CIPFA's Aligned Public Services model.</p> <p>The best fit of service providers, also described in the Corporate Plan, remains a key element of the Council's approach. Commissioning and Contract management, with its strong links to achieving outcomes, is also developing as a key feature of the Council's control framework.</p>
Progress Update for AGS 2017/18	<p>The Council achieved a balanced outturn position for 2017/18. The pre budget consultation undertaken received the largest number of responses to date.</p> <p>The Local Government settlement received in December 2017 provided no surprises, and a balanced budget for 2018/19 was approved by Council on 22nd February 2018. Adjustments were made in relation to the Highways Budget following consultation responses. The adjustments were affordable within contingency levels and the reserves strategy.</p> <p>In year budget monitoring will continue, with improvements anticipated when the B4B project goes live. Based on the positive level of consultation and engagement last year, we will look to extend the consultation period for the next pre-budget consultation to allow more analysis of the results.</p> <p>The Council will engage in consultation in relation to Fair Funding and Business Rates retention in line with National Government timescales.</p>
Progress update October 2018	<p>In year budget monitoring shows potential overspends, but at levels much lower than experienced in previous years. The Mid-Year Review of Finance and Performance has been reported to COSC and Cabinet.</p>

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	<p>Work is ongoing to analyse the impact of current spending and government announcements in relation to the 2019/20 MTFS. Based on the positive level of consultation and engagement last year, the consultation period for the next pre-budget consultation is being brought forward to allow more analysis of the results.</p> <p>The Council continues to engage with partners and other authorities in relation to Fair Funding and Business Rates retention in line with National Government timescales.</p>
Recommendation to A&G	<i>That this issue, recognised in the AGS as a “continuing governance issue” remains on the AGS progress update</i>

Health and Social Care Integration <i>Recognised as a Continuing Governance Issue in the 2015/16 AGS</i>	
Description of Issue	<p>The Council is a key partner in the delivery of integrated health and social care and is a signatory of the Better Care Fund (BCF) submission to NHS England. This is a high profile programme of change which the Council is working with the two Clinical Commissioning Groups, (CCGs), and the two acute providers and one Community and mental Health provider in the Borough. BCF is part of a staged process to focus and increase joint working with the NHS seeking to improve the health and wellbeing outcomes for Cheshire East residents, with the initial aims of the work programme being to reduce non-elective admissions to hospitals and Delayed Transfer of Care (DToC) locally.</p> <p>The initial Plans submitted in April 2014 did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators.</p>
Responsibility	Executive Director of People
Action proposed at the time of inclusion in the AGS	<p>The BCF Governance Group, overseen by Cheshire East’s Health and Wellbeing Board (HWB) continues to meet on a monthly basis to oversee the governance of the Cheshire East BCF.</p> <p>Feedback was expected from NHS England and the Association of Directors of Social Services (ADASS) in June 2016 regarding Cheshire East’s plans for BCF in 2016/17. The expected status is “approved with support”.</p>

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	<p>At the time of submission, there were areas requiring further work and attention including:</p> <ul style="list-style-type: none"> • Final agreement for expenditure plans • Lack of a Delayed Transfers of Care (DToC) plan for South Cheshire Clinical Commissioning Group • Assurance that DToC is a standing item on Systems Resilience Group agendas (now called A&E Delivery Boards). <p>These areas had to be addressed by the end of June 2016 to avoid escalation to national level of assurance; these areas have now all been addressed within timescale. The BCF plan for Cheshire East has been approved by the Health and Wellbeing Board.</p> <p>In April 2016 Mersey Internal Audit Agency published a report on the BCF arrangements in operation over 2015/16 which contained three key “medium” ranked recommendations;</p> <ul style="list-style-type: none"> • Failure to identify and effectively manage BCF risks • CEC and CCG’s Programme Management Office approaches to the BCF are not co-ordinated. • Poor Information Governance <p>These were included on the BCF risk register. The risk register and the risk assessment process have been reviewed and improved, to ensure that mitigating actions are Specific, Measurable, Assignable, Realistic and Time-related (SMART). Red rated risks are reviewed and updated on a monthly basis to ensure action is taking place to address.</p> <p>A piece of work took place to look at Programme Management Office approaches across CCGs and LAs. This had already been done by PMO leads and good practice has been shared by them and adopted accordingly to ensure more consistent approaches. We also agreed a number of actions between us to streamline reporting processes.</p> <p>Work on Information Governance is still ongoing but is the priority item on the agenda for the BCF Governance Group is to establish any gaps and allocate necessary actions.</p>
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<p>Progress Update for AGS 2017/18</p>	<p>There have been changes to both the Cheshire and Merseyside and the local South and Eastern Cheshire transformation programmes over the last six months.</p> <p>The Better Care Fund Governance Board in Cheshire East continues to provide oversight for the 16 schemes which provide the underpinning strategic approach towards health and social care integration. This takes place on a monthly basis through the BCF Governance Board via the highlight report, which covers: progress to date, an update on key areas of work, issues and risks. It is used to advise the Better Care Fund Governance board of any potential issues as they arise, so that timely action can be recommended.</p> <p>Following the approval of the Cheshire East Better Care Fund plan, focus from both the Local Government Association and NHS England has shifted to performance reporting. Quarterly performance reporting for the BCF and iBCF continues. The shift to performance reporting is also demonstrated through the submission of a new weekly Winter Data and Intelligence Collection survey administered by the Local Government Association (LGA) and ADASS (Directors of Adult Social Services).</p> <p>This weekly return is focused on the number of delayed days experienced in acute and non-acute settings and the causes of those delays. Further to this the collection aims to: highlight local challenges and achievements, ensure DToC data has been signed off, provide further understanding to support winter work and help to provide intelligence nationally. The collection commenced on 02/02/2018 and is due to end on 31/05/2018.</p> <p>As part of the iBCF conditions, quarterly reporting has commenced to track the progress and contribution of the schemes that were specified as part of the planning process for iBCF in July 2017. The update reports have been submitted as required by NHS England. The report covers: key successes, challenges, how iBCF has been allocated against the three purposes of the fund expressed as a percentage, progress on the schemes in terms of a narrative update and in terms of the project life cycle and performance against self-identified performance metrics.</p> <p>In order to meet and demonstrate a robust and clear outcomes framework for reporting, a monthly process for reporting across all 16 schemes has been initiated, together with an integrated approach to data management</p>
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across all three Better Care Fund partners in Cheshire East. Data leads from each organisation support the production of a performance dashboard which is produced on a monthly basis. This, along with the highlight report is supplied to the BCF Governance board. The dashboard identifies the latest position in respect of a number of national metrics.

The Department of Health has been closely reviewing DToC performance nationally, in order to benchmark those areas that are not making sufficient progress against their agreed trajectories. DToC performance in Cheshire East remains good.

Highlights from the BCF schemes in 2017/18 include:

- The piloting of a care sourcing team, sourcing 995 packages of care.
- Implementation of Care Package 7 day's retention scheme utilised on 413 occasions.
- Rapid return home scheme operationalised
- Care Home Support scheme operationalised including clinical support
- Funding in place to support discharge models which included having a locality manager and practice manager in post as well as having social workers available on weekends covering both Leighton and Macclesfield hospitals.
- A pilot scheme to test referrals to reablement from the acute setting over weekends was established.
- The establishment of a Rapid Return Home (Overnight) Service
- Increased support for community Matrons case-managing High Risk patients.
- Commenced Fair cost of care pricing review and consultation for Accommodation with Care.
- Completed market engagement on carers services and people with complex needs
- Specification for Care at Home and Accommodation with care completed.
- Live Well CE established; the site generated 16,000 page views per week and 5,700 individual user sessions.
- Management of steady increase to telecare usage from 1,926 monthly users in January 2016 to 2,531 monthly users in December 2017.

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	<ul style="list-style-type: none"> • Confirmed Carers wellbeing budgets for 872 people. • 318 disabled people enabled to live independently through Disabled Facilities Grants. • Service specifications in place for Support at Home Service – (British Red Cross to provide practical and emotional support at home over 7 days). Following this services were established. • Community Support Reablement - the total number of hours provided is 2,140 hours per week across the North and South Teams • 3175 safeguarding concerns were raised. <p>The annual review report for 2017/18 was presented to the Health and Wellbeing Board on 24th May 2018 together with the Plan for the year ahead.</p>
Progress update October 2018	<p><u>Strategic changes</u></p> <p>A new Cheshire East Health and Care Partnership has been formed, merging the previous Caring Together and Connecting Care Transformation Programmes. The Council is not formally a partner (having not signed the MoU) but is an active supporter of the work of the Partnership. The Partnership's vision is:</p> <p><i>"To improve the health and wellbeing of local communities enabling them to live longer and healthier lives, through creating safe, integrated and sustainable services that meet people's needs by the best use of the assets and resources available."</i></p> <p>The four Clinical Commissioning Groups in Cheshire have announced an intention to merge and work is underway to set up a shadow single CCG for Cheshire from April 2019. This will require the Council and Cheshire West and Chester to review commissioning arrangements. Other implications will include a review of membership of the Health and Wellbeing Board (HWB).</p> <p><u>BCF update</u></p> <p>For the period 2018/19 we have a total of 19 schemes covering BCF and iBCF, a number of schemes aimed at reducing DTOC which include CCG operated schemes Home First and Winter Pressures. Separately we have a</p>

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	<p>number of iBCF schemes which aim to reduce Delayed Transfers of Care.</p> <p>A deep dive into DTOCs has been carried out, the purpose of this deep dive was as follows:</p> <ul style="list-style-type: none"> • Understand system performance in relation to metric • Highlight differences between east and south • Highlight patterns/themes where greater resource can be targeted • Produce a series of recommendations to be implemented by organisations <p>The Better Care Fund Governance Group provides oversight of the 19 schemes, more recently the Group has re-reviewed the Terms of Reference, produced operating principles and a forward plan. As part of the forward plan there will be a further metric deep dive into the remaining metrics.</p> <p>Further to this recommendations are being developed which aim to detail the scope of the BCF Programme in 2019/20. The BCF Governance Group continues to underpin the strategic approach towards health and social care integration. A monthly highlight report covering progress to date, update on key areas of work, risks and issues.</p> <p>On a quarterly basis the local BCF performance is reported to the central national BCF team, this performance is reported through a standardised template. This template is then converted into a narrative report which gets reported to HWB each quarter.</p> <p>In respect of performance there is also a weekly Winter Data and Intelligence Collection survey administered by the Local Government Association (LGA) and ADASS (Directors of Adult Social Services).this surveys includes a weekly validation of DTOC data, recording the total number of DTOC delays caused by Social Care, NHS and Joint for both acute and non-acute beds. Further to this the main reason for delay is recorded, challenges, achievements and finally issues.</p> <p>In order to meet and demonstrate a robust and clear outcomes framework for reporting, a monthly process for</p>
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	reporting across all 19 schemes continues to operate, together with an integrated approach to data management across all three Better Care Fund partners in Cheshire East. Data leads from each organisation support the production of a performance dashboard which is produced on a monthly basis. This, along with the highlight report is supplied to the BCF Governance board. The dashboard identifies the latest position in respect of a number of the national metrics.
Recommendation to A&G	<i>That this issue, recognised in the AGS as a “continuing governance issue” remains on the AGS progress update</i>

Berkeley Academy Car Park <i>Recognised as a Significant Governance Issue in the 2016/17 AGS</i>	
Description of Issue	<p>In April 2016, an undertaking was given to The Berkeley Academy by the Council, to make a contribution of £70,000 in support of a scheme for “off highway parking”, provided the Academy provided at least 50% in match funding.</p> <p>This undertaking was given ahead of the conclusion of the work of a Task and Finish Group on Safer Parking for Communities from the Corporate Overview and Scrutiny Committee. The findings and recommendations of this Group were to inform policy development and a future programme of work.</p> <p>Therefore, the commitment made to the Academy was not progressed in accordance with any approved policy or budget, and was given prior to the conclusion of an existing review.</p>
Responsibility	Executive Director – Place
Action proposed at the time of inclusion in the AGS	<p>Cabinet considered a report at its meeting on 22nd August 2017, which sought authority for the award of grant funding for £70,000 to be given to the Berkeley Academy for the purposes of piloting a safer drop off facility at the school. The report also outlined an approach to the formation of a policy to enable similar proposals to be considered and address congestion at other primary schools.</p> <p>Cabinet authorised the Executive Director of Place to make the grant award in order to inform the development</p>

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	of Council policy in the area. In addition, Cabinet authorised the Executive Director of Place, in consultation with the Director of Legal Services and the Portfolio Holder for Corporate Policy and Legal Services to dispose of any requests received for reimbursement of additional expenses reasonably and properly incurred by the Academy which it is considered the Council may be liable to reimburse flowing from action taken in connection with the undertaking given.
Progress Update for AGS 2017/18	<p>The funding agreement between the Council and the school has now been finalised. An Officer Decision Record will be prepared, and the funding agreement will be signed once appropriate due diligence has been completed.</p> <p>The Acting Chief Executive receives regular updates on the progress of items referred by the Council. The Police are still considering whether a criminal offence has been committed and a decision is awaited.</p>
Progress update October 2018	Due diligence is still being undertaken to ensure the scheme has been delivered in accordance with the funding agreement. In addition, Cabinet has approved a budgetary and policy framework to inform any future decisions of this nature through the Sustainable Modes of Transport Policy. Therefore an appropriate control environment now exists to manage funding requests and projects such as these.
Recommendation to A&G	<i>As substantial progress has been made in implementing the required actions and address improvements in the control environment, this issue can be removed from the AGS and be monitored locally.</i>

Sleep In Arrangements <i>Recognised as a Significant Governance Issue in the 2016/17 AGS</i>	
Description of Issue	<p>The case law development in relation to sleep in arrangements is a complex national issue, which we are seeking to clarify and resolve. We were originally alerted to a potential breach of the national minimum wage regulations following a national employment appeals tribunal case towards the end of 2013.</p> <p>However, the case law and regulations were contradictory at that time. Legal advice was that we should continue to monitor case law developments but that there was no clear legal basis for action.</p> <p>It was not until April 2017, following the outcome of the national Mencap appeal that the employment appeals</p>

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	<p>tribunal set out detailed tests to be applied on a ‘case by case’ basis, to determine compliance with the National Minimum Wage and Working Time Directive regulations. At this time the Local Government Association (LGA) advised councils to assess their current arrangements using the published employment appeals tribunal assessment rules.</p> <p>The Acting Chief Executive requested a review be undertaken in all affected services. To this end a pay specialist was employed to support this work, which has involved checking payments made to every worker in receipt of sleep-in arrangements over the past two years. This work is expected to be completed in September.</p> <p>We are in continuing dialogue with both the LGA and North West Employers to progress matters.</p>
Responsibility	Acting Executive Director People; Interim Executive Director of Corporate Services and Head of Strategic HR
Action proposed at the time of inclusion in the AGS	<p>That review is now well advanced and its findings and recommendations are due to be reported soon.</p> <p>The review has so far covered:</p> <ul style="list-style-type: none"> • A number of services that undertake sleep in arrangements have been identified and each is being assessed in line with Employment Appeal Tribunal guidelines. • External specialist support appointed to assist this process and report findings separately. • On-going dialogue with the Trade Unions is taking place to resolve staff grievances. <p>Compliance with the NMW investigation underway.</p>
Progress Update for AGS 2017/18	<p>The Internal Audit review of sleep in payments and the national minimum wage is now complete and a Final Report has been issued to management.</p> <p>In October 2017 back pay of £167,863 was made to 108 current and former employees in respect of underpaid sleep-in payments for the period 1st September 2015 to 31st August 2017. The payments were made on a calculation following advice from independent legal counsel, using a methodology agreed in advance with the relevant unions.</p> <p>The external auditors have considered a formal objection to the Council’s accounts. Following their</p>

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	<p>consideration of the matter, they have decided not to uphold the objection, but have made a number of recommendations which the Council has agreed to, including;</p> <ul style="list-style-type: none"> • Implementing the improvements arising from the Internal Review into the matter • Formally concluding on whether further back payments are required following the outcome of the Mencap appeal, and to ensure that current and forward arrangements comply with the Governments National Social Care Compliance scheme. • Officers continue with increased levels of disclosure regarding potential areas of non-compliance with law and regulation in future communications with the external auditor. <p>The recent Court of Appeal ruling determined that care workers are not entitled to be paid minimum wage while on sleep in and providers had no liability for back pay. This indicates that a liability for paying back pay of up to 6 years may no longer exist but due to the possibility that this case may now proceed to the Supreme Court it has been noted. A report is being prepared for the Corporate Leadership Team on the impact of the decision upon the Council. This will be used to identify any further actions necessary. The issue will continue to be monitored for further developments.</p>
Progress update October 2018	<p>Unison has lodged an application to the Supreme Court for permission to appeal against the Court of Appeal decision. The Supreme court will decide whether to give permission to Appeal during October. If granted the case would be listed for a hearing in the latter part of 2019. HMRC are expected to update employers on the SCCS scheme imminently, having suspended legal action against social care providers pending further updates.</p> <p>Meanwhile, the action already taken by the Council has mitigated any action being taken by HMRC and also will allow the progression of the outstanding grievances by Care Workers in relation to Sleep claims.</p> <p>The issue will continue to be monitored for further developments and reported as required.</p>

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Recommendation to A&G	<i>As substantial progress has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i>
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Designated Statutory Officers/Investigation and Disciplinary Committee <i>Recognised as a Significant Governance Issue in the 2016/17 AGS</i>	
Description of Issue	During 2016/17 (Q4) concerns relating to the conduct of the Council's Head of Paid Service (Chief Executive), S151 Officer (Chief Operating Officer) and Monitoring Officer (Director of Legal Services) were received by the Deputy Monitoring Officer. In accordance with the processes put in place by Council in February 2017 to deal with such matters those concerns were then referred to the Council's Investigation and Disciplinary Committee (IDC).
Responsibility	Acting Chief Executive
Proposed Action	<p>The Investigation and Disciplinary Committee (IDC) processes are still ongoing but a decision has been taken by the IDC to suspend the Chief Executive, and subsequently the Director of Legal Services and Monitoring Officer, whilst an investigation is undertaken.</p> <p>The decision to suspend is a neutral act and will be kept under review. The Council will continue to act appropriately to deal with any matters arising from those processes to ensure continuity of service provision and organisational governance.</p>
Progress Update for AGS 2017/18	<p>The IDC processes are ongoing in respect of the S151 Officer and have continued since the previous update to the Committee. The decision to suspend is a neutral act taken in the best interest of the Council and the S151 Officer to protect both against allegations of a similar nature arising whilst investigations are ongoing. The suspension is reviewed on a regular basis in accordance with the procedures that relate.</p> <p>The Chief Operating Officer was suspended in December 2017.</p> <p>The Director of Legal Services and Monitoring Officer resigned with immediate effect in December 2017.</p> <p>The Chief Executive resigned with immediate effect in July 2018.</p> <p>In April 2018, the Chair of the IDC was asked to stand down from his committee duties because of concerns</p>

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	about actions he took whilst serving on the authority's IDC. The vice-chairman of the IDC will act as IDC chairman on an interim basis whilst those concerns are investigated.
Progress update October 2018	The IDC processes continue in respect of the S151 Officer as previously described. The existing acting up arrangements continue.
Recommendation to A&G	<i>That this issue remains on the AGS progress update.</i>

Land Purchases	
<i>Recognised as a Significant Governance Issue in the 2016/17 AGS</i>	
Description of Issue	Early in 2017/18, the Acting Chief Executive and the Executive Director of Place and Acting Deputy Chief Executive requested that Internal Audit undertook a review of the Council's arrangements for asset disposals and purchases. This was started in July 2017, and concerns have been identified over a number of acquisitions.
Responsibility	Internal Audit, reporting to the Acting Chief Executive
Proposed Action	<p>Internal Audit work in this area is ongoing, and findings to date have been referred to TITAN for consideration and further investigation.</p> <p>The Council's external auditors have confirmed that their value for money conclusion for 2016/17 was qualified due to the findings identified and reported by Internal Audit.</p>
Progress Update for AGS 2017/18	<p>Internal Audit reviews of individual transactions have been undertaken and reports issued to management. Where appropriate, referrals have been made to the police. The Police are considering whether a criminal offence has been committed and a decision is awaited.</p> <p>To ensure that control weaknesses identified as part of this work are addressed, a consolidated findings report has been prepared by Internal Audit.</p> <p>A review of the current control environment in relation to asset disposals and purchases is scheduled in the 2018/19 Internal Audit Plan.</p>

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Progress update October 2018	Internal Audit work continues in this area and a further referral was recently made to the police.
Recommendation to A&G	<i>That this issue remains on the AGS progress update.</i>

Holiday Pay <i>Recognised as a Significant Governance Issue in the 2017/18 AGS</i>	
Description of Issue	<p>During the course of investigating and managing the Council's responsibilities in relation to sleep in payments, and developing case law on changes to holiday pay calculations, the Council has also identified that there could be a challenge over holiday pay.</p> <p>HR colleagues have undertaken work to understand the scale of this issue, and ensured the risks are being managed effectively, with regular reports being taken to the Corporate Leadership Team and briefings to the Portfolio Holder.</p> <p>The following actions have so far been undertaken :-</p> <ul style="list-style-type: none"> • On going reports to CLT and ELT to discuss the legal and financial implications, as well as timescales and options available for completing this exercise. • Discussions with the Trade Unions on this matter continue. • External and internal legal advice taken on this matter. <p>The risk has been included in the HR Risk register but until the matter is quantified across all Council service areas the risk cannot be identified and assessed before putting on the corporate risk register.</p>
Responsibility	Head of Strategic HR
Proposed Action	In addition to the actions already undertaken, work will continue to be undertaken to establish the potential impact of this changing case law on all Council services where staff earnings fluctuate which could affect future

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	holiday pay liabilities both going forward and retrospectively to meet employment law compliance.
Progress Update for AGS 2017/18	n/a – Item first included in the AGS 2017/18
Progress update October 2018	<p>Considerable progress has been made on identifying potential Council service risk areas that may have to review their holiday pay arrangements. Action is being taken to assess the situation and risks in order to agree an action plan for each service to ensure future compliancy.</p> <p>Council Systems and processes continue to be explored to ensure electronic business efficiency in holiday pay calculation going forward including Business World application.</p> <p>Further, all pay elements that are emerging as now being payable for periods of holiday pay are being identified, agreed and signed off to ensure future legal compliance and consistency by all services going forward. In addition external legal advice on options for compliancy and liabilities are being considered before formal discussions commence with the Trade Unions.</p> <p>Once the final assessment and the above actions are completed this will be reported to Corporate Leadership Team on the recommended way forward with the Trade Unions. The HR risk register is regularly updated and further actions will be taken as deemed necessary.</p>
Recommendation to A&G	To note, this matter continues to be monitored and regular updates on progress continue to be reported.

Chief Inspector of Weights and Measures <i>Recognised as a Significant Governance Issue in the 2017/18 AGS</i>	
Description of Issue	In January 2018, the Council reassured residents that there had been no adverse impacts on any weights and measures activity, following confirmation that for a period between 2014 to 2016, the officer appointed to the role of Chief Inspector Weights and Measures, whilst having management responsibility for the qualified inspectors, did not hold the appropriate professional qualification to undertake statutory role of Chief Inspector

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	<p>of Weights and Measures.</p> <p>Actions undertaken by duly qualified officers during this period remain valid and have full legal effect. A piece of work is being commissioned to verify that the Chief Inspector in place between 2014 and 2016 did not engage directly in work requiring a statutory qualification.</p>
Responsibility	Executive Director Place and Acting Deputy Chief Executive
Proposed Action	<p>The Council has recognised the legal requirement for its Chief Inspector Weights and Measures to hold the appropriate professional qualification and has appointed a suitably qualified person.</p> <p>Processes are in place to check that current staff and new applicants for statutory roles hold the required qualifications.</p> <p>A piece of work was commissioned to verify that the Chief Inspector in place between 2014 and 2016 did not engage directly in work requiring a statutory qualification. This work has now been completed, and has confirmed that the post holder did not engage directly in any work requiring a statutory qualification.</p>
Progress Update for AGS 2017/18	n/a – Item first included in the AGS 2017/18
Progress update October 2018	Work in this area is complete with no further action taken against any officers.
Recommendation to A&G	<i>That as the review has been completed, the matter should be removed from the AGS progress update.</i>

Bullying and Culture Review <i>Recognised as a Significant Governance Issue in the 2017/18 AGS</i>	
Description of Issue	<p>In response to concerns around a perception of significant issues of bullying and harassment in the Council, the Leader and Acting Chief Executive invited the Local Government Association to carry out a review into organisational culture. The review was independently commissioned in October 2017 and undertaken in November and December 2017.</p>

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	The findings and recommendations from the review were delivered in January 2018. The full report is available on the Council's website.
Responsibility	Acting Chief Executive
Proposed Action	A report to Staffing Committee on 4 th October 2018 confirmed that the delivery of the Brighter Future Together (Culture) programme is on schedule against the plan and that over half of the LGA recommendations have been implemented and work is well underway to deliver the remaining actions.
Progress Update for AGS 2017/18	n/a – Item first included in the AGS 2017/18
Progress update October 2018	<p>The Vision, Behaviours and Deal were launched on 26th July 2018. Simultaneous launch sessions took place across the Council. The sessions were well attended by officers and positive feedback has been received from officers across the Council.</p> <p>The Council has 108 Brighter Future Together Champions who are members of staff that have volunteered from every level across the organisation. The Champions have received comprehensive training for their role and are supported through regular meet ups, a weekly news update and a virtual hub. All staff from across the Council are participating the “What’s the Conversation?” session delivered by the Brighter Future Champions. The session provides an opportunity for staff acknowledge and discuss how they currently feel about working for the Council and to understand the steps that have been taken in ‘setting the tone’, defining our vision, behaviours and the employment deal.</p> <p>A skills audit was undertaken by 487 officers with responsibility for managing or supervising staff. A response rate of 78% was achieved which is significantly higher than previous surveys and suggests improved levels of engagement from the officers involved. The findings are being used to develop a management development programme that will be rolled out later in the year, in addition to informing the content of the “Having the Conversation” training.</p> <p>A review of the appraisal process, including a 360 degree feedback is in progress. A replacement system for</p>

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	<p>Oracle is in the commissioning process which is being jointly procured with Cheshire West and Chester. An end to end review of the recruitment process is underway and findings are scheduled to be presented to the Steering Group at the end of October.</p> <p>The restructuring procedure is being reviewed under the Leaving the Council and Organisational Change procedure to be implemented later this year.</p> <p>An independent and confidential helpline was launched on 6th August 2018 to support people that are experiencing unacceptable behaviour.</p> <p>The Member Development & Technology Panel has developed and agreed a mandatory training programme for elected Members for 2019/20 which includes a comprehensive induction programme. The Member Forum has discussed the positive impact Members can have on culture. These informed the development of the Member Behaviours that complement our member officer protocol by clearly outlining what is acceptable and unacceptable behaviour. Work is well underway in developing a training session for all Members that will be delivered Sticky Change and supported by our Member Champions that will focus relationships with each other, with officers and our residents.</p> <p>The Brighter Future Together Team, staff Forum consists of 38 officers from across the Council and continues to act as a critical friend to the programme team as the cultural programme is embedded across the Council.</p>
Recommendation to A&G	<i>Significant progress has been made since the publication of the LGA Review. Governance and assurance mechanisms are now in place and quarterly reports are taken to Staffing Committee. It is recommended that this can be removed from the AGS.</i>

Data Protection Breach <i>Recognised as a Significant Governance Issue in the 2017/18 AGS</i>	
Description of Issue	Data protection incidents are taken extremely seriously by the Council. The Council's information governance

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	<p>policies require suspected breaches to be reported and logged under the data breach management process.</p> <p>Reported incidents are considered by the Council's Information Governance Group, who advise on managing the incident, and also consider the need to self report incidents to the Information Commissioner's Office.</p> <p>In April 2018 the Information Governance Group considered an incident brought to its attention, and recommended that the Council should report the incident to the Information Commissioner's Office.</p> <p>The incident has now been reported. Further details will not be provided whilst the ICO is considering the report and undertaking any further investigation required. The Council is co-operating fully with the ICO.</p> <p>Breaching the Data Protection Act contravenes the Council's Code of Conduct for both Officers and Members. Further internal investigations are also underway to ensure any improvement actions are identified and undertaken, and that any disciplinary or Standards issues are also addressed.</p>
Responsibility	Acting Chief Executive
Proposed Action	The incident has been reported to the ICO and the Council is co-operating fully with the ICO.
Progress Update for AGS 2017/18	n/a – Item first included in the AGS 2017/18
Progress update October 2018	The Council continues to co-operate fully with the ICO following the reporting of this incident.
Recommendation to A&G	<i>To note progress and that this issue remains on the AGS progress update.</i>

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Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Mandatory Declarations of Interest

Portfolio Holder: Cllr Paul Findlow – Corporate Policy and Legal Services

Senior Officer: Daniel Dickinson – Acting Director of Legal Services

1. Report Summary

- 1.1. This report discusses whether or not the Audit & Governance Committee should particularise any outside organisations as being organisations which, by virtue solely of being members of the same, Councillors must declare and/or register an interest in under Cheshire East Council Member Code of Conduct (“the Code”).

2. Recommendations

- 2.1. That the Audit & Governance Committee:-
 - 2.1.1 note that there are adequate provisions in the Member Code of Conduct to appropriately deal with any conflicts of interest that may arise in decision making.
 - 2.1.2 decline to particularise any outside organisations as being organisations which, by virtue solely of being members of the same, Councillors must declare and/or register an interest in under Cheshire East Council Member Code of Conduct

3. Reasons for Recommendations

- 3.1. There are adequate provisions in the Code to appropriately deal with any conflicts that may arise in decision making.
- 3.2. In addition to the requirements in relation to disclosable pecuniary interests, the Code is clear that Councillors will have a personal interest in any business of the authority where (amongst other scenarios):-

“the business of the authority relates to or is likely to affect any body exercising functions of a public nature, which is directed to charitable purposes or whose principle purposes includes influencing public opinion or policy where you are a member of that body or in a position of general control or management” (paragraph 15 – emphasis supplied)

- 3.3. The approach taken by a number of other local authorities is to expect registrations/declarations under paragraph 15 (or similarly worded provisions) in respect of freemasonry where the membership in question includes membership of the Charitable arm of what would otherwise be a non-charitable association, i.e. the Grand Charity. The same approach is invariably taken in respect of other organisations that carry out charitable functions (e.g. Roundtable, Rotary etc...)
- 3.4. There is, therefore, no compelling reason why membership of any particular organisation should, in and of itself, trigger a mandatory declaration/registration of interests under the Code.
- 3.5. A requirement to declare/register simple membership of any particular outside organisation will not serve to improve probity in decision making beyond the existing provisions in the Code and is, therefore, likely to be a disproportionate infringement on the rights of Councillors under the Article 11 (Freedom of Assembly and Association) and Article 14 (Prohibition on Discrimination) of the Human Rights Act 1998.
- 3.6. In respect of Freemasonry in particular, regard should be had to the decision of the European Court of Human Rights (“ECHR”) in *Grande Oriente d'Italia di Palazzo Guistiniani v Italy* (no.1) and *Grande Oriente d'Italia di Palazzo Guistiniani v Italy* (no.2) where it was held that a law requiring candidates who had been nominated for public office to declare whether they were freemasons violated Articles 11 and 14. Councillors will recall that the policy or requiring similar declarations of successful candidates for judicial appointments was withdrawn by the then Lord Chancellor in light of the ECHR’s decision in those cases.

4. Other Options Considered

- 4.1. At Audit & Governance Committee on 27 September 2018 Members were invited to suggest which organisations should be prescribed for these purposes, and why. Three representations were received. One representation relayed a consensus against prescribing particular organisations, expressing the view that members were responsible for making appropriate declarations/registrations (howsoever they might arise) under the existing provisions of the Code.

- 4.2. The remaining two representations related solely to Freemasonry. In support of the case for requiring simple membership of the Freemasons to trigger a mandatory declaration/registration of interests, “widespread public perception” that freemasonry has an impact on public life and decisions was cited in both representations. Both representations also quoted a remark of a former leader of the Council, said to have been made on 22 July 2014. One of the representations linked to media reports on freemasonry.
- 4.3. Accordingly, the options considered were to prescribe membership of the Freemasons for these purposes, or to make no changes to the Code.

5. Background

- 5.1. This matter most recently arose through a notice of motion proposed by Cllr Corcoran and seconded by Cllr Mannion at Council on 15 December 2016. Council referred the matter to the Audit & Governance Committee who considered the same on 1 June 2017.
- 5.2. The Audit & Governance Committee report is available as a background document.
- 5.3. At that time, the Code only required Councillors to declare and register disclosable pecuniary interests. The Code did not require members to register or declare any other kind of interest.
- 5.4. The 1 June 2017 Audit & Governance Committee report noted that a review of the Constitution was being undertaken, which would include the Code. It resolved that the Constitution Committee should consider what amendments should be made to the Code as part of the review of the Constitution. The minutes of the Audit & Governance Committee record that the Committee supported the general principle of setting criteria in the form of a general requirement in accordance with which Members were required to consider their interests, rather than requiring a declaration of interests in individual organisations.
- 5.5. Ultimately, the Constitution Committee, through Council did not require mandatory declarations/registrations on account of simple membership of any particular outside organisation. Instead, it amended the Code by adding the criteria around personal and prejudicial interests, and by providing guidance on pre-determination and bias. In addition, it enabled the Audit & Governance Committee to prescribe, from time to time, certain bodies that membership of which would amount to a personal interest.
- 5.6. In light of what is set out in section 3 of this report (above), the view of the Audit & Governance Committee captured in the minutes of its 1 June 2017

meeting, the approach taken by Constitution Committee (endorsed by Council) and the absence of any rationale other than two representations citing “widespread public perception”, media reports and remarks of the former Leader said to have been made in 2014, it is considered that no further changes are needed to the Code.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. Dealt with in the body of the report.

6.2. Finance Implications

6.2.1. None identified.

6.3. Policy Implications

6.3.1. None identified.

6.4. Equality Implications

6.4.1. Dealt with in the body of the report.

6.5. Human Resources Implications

6.5.1. None identified.

6.6. Risk Management Implications

6.6.1. None identified.

6.7. Rural Communities Implications

6.7.1. None identified.

6.8. Implications for Children & Young People

6.8.1. None identified.

6.9. Public Health Implications

6.9.1. None identified.

7. Ward Members Affected

7.1. No ward is affected any more or less than any other ward.

8. Consultation & Engagement

- 8.1. In addition to the exposure that this issue has had through the notice of motion to Council, it has been considered by Audit & Governance in June 2017 and by the Constitution Committee (and Sub-Committee/Working Groups) through the Constitution review exercise towards the end of 2017. The Constitution review process ultimately produced changes to the Constitution which relate, and those changes were adopted by Council in December 2017. Members were also consulted, via their group representatives on the Audit & Governance Committee, at (and following) the September 2018 Audit & Governance Committee.

9. Access to Information

- 9.1. Audit & Governance Committee 1 June 2017:-

<http://moderngov.cheshireeast.gov.uk/ecminutes/ieListDocuments.aspx?CId=486&MId=6598&Ver=4>

10. Contact Information

- 10.1. Any questions relating to this report should be directed to the following officer:

Name: Daniel Dickinson

Job Title: Acting Director of Legal Services

Email: daniel.dickinson@cheshireeast.gov.uk

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Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Maladministration Decision Notices from Local Government and Social Care Ombudsman – June – August 2018

Portfolio Holder: Councillor Liz Wardlaw – Deputy Leader

Senior Officer: Daniel Dickinson – Acting Director of Legal Services

1. Report Summary

1.1. This report provides an update on the Decision Notices issued by the Local Government and Social Care Ombudsman (LGSCO) when their investigations have found maladministration causing injustice to complainants. This report details the decisions made between 1st June 2018 and 31st August 2018 only. There was one decision in which the LGSCO found that there was maladministration causing injustice; the relevant department has taken the recommended actions and learned lessons from the investigation outcomes. It is not possible to report on any Decision Notices issued from September 2018 to November 2018, as the LGSCO imposes a three month reporting embargo. Any decisions received after 31st August 2018 will be reported at a subsequent Audit & Governance meeting.

2. Recommendation

2.1. That the Committee notes the contents of this report and makes any further response it considers appropriate.

3. Reasons for Recommendation

3.1. The Terms of Reference for the Audit & Governance Committee include seeking assurance that customer complaint arrangements are robust and that recommendations agreed with the LGSCO are being implemented.

4. Background

- 4.1. The Local Government Act 1974 established the Local Government and Social Care Ombudsman (LGSCO). It empowers the Ombudsman to investigate complaints against councils and adult social care providers and to provide advice and guidance on good administrative practice. Once a complainant has exhausted the Council's Complaints procedure, their next recourse, should they remain dissatisfied with the Council's response, is to contact the LGSCO.
- 4.2. The LGSCO will assess the merits of each case escalated to them and seek clarification from the Council as necessary before making the decision to investigate a complaint. Once the LGSCO decides to investigate, they will try to ascertain if maladministration has occurred and whether or not there has been any resulting injustice to the complainant as a result of the maladministration.
- 4.3. In instances where maladministration and injustice is found, the LGSCO will make non-legally binding recommendations which they consider to be appropriate and reasonable. Although not legally binding, refusal to accept the LGSCO's recommendation will trigger a Public Report. A Public Report is a detailed account of the complaint, outlining the failures by the Council in this particular investigation; this can have a significant damaging effect on the Council's reputation.

5. Briefing Information

- 5.1. During the period between 1st June 2018 and 31st August 2018 the Council received one Decision Notices in which the LGSCO have concluded that there has been maladministration causing injustice. The details can be found in Appendix 1.

6. Implications

6.1. Legal Implications

- 6.2. There are no legal implications flowing directly from the content of this report.

6.3. Financial Implications

- 6.4. If fault causing injustice is found, the Council can be asked to pay compensation to a complainant the level of which is determined on a case by case basis. In the period being reported, the Council was not required to make any compensation payments.

6.5. Policy Implications

- 6.6. Adherence to the recommendations of the LGSCO is key to ensuring that customers have objective and effective recourse should they be unhappy with the way in which the Council has responded to their complaint.

6.7. Equality Implications

6.8. There are no equality implications flowing directly from the content of this report.

6.9. Human Resources Implications

6.10. There are no HR implications flowing directly from the content of this report.

7. Contact Information

Any questions relating to this report should be directed to the following officer:

Name: Juan Turner

Job Title: Compliance and Customer Relations Officer

Email: juan.turner@cheshireeast.gov.uk

**Appendix 1 - LGSCO Decisions where maladministration with
injustice has taken place June – August 2018**

Service	Summary and Ombudsman's Final Decision	Agreed Action	Link to LGSCO Report
Special Educational Needs (SEN) Team	<p>Miss X complains the Council delayed in deciding not to assess her son for an EHCP (Education, Health and Care Plan) and in handling her request for mediation. The Council did delay and was at fault.</p> <p>The Council has agreed to apologise to Miss X for the delay. It has already reviewed its procedures to address the delays in requesting mediation. It has also decided to assess Miss X's son.</p>	<p>Within one month, the Council has agreed to apologise to Miss X for the delay in its decision not to assess Y and the later delay in handling Miss X's request for mediation.</p>	<p>https://www.lgo.org.uk/decisions/education/special-educational-needs/17-016-255</p>



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Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Committee Work Plan 2018/19

Senior Officer: Mark Taylor, Interim Executive Director of Corporate Services

1. Report Summary

- 1.1. This report presents the Committee's Work Plan for the remaining meetings in 2018/19 (Appendix A) to the Committee for consideration.

2. Recommendations

- 2.1. That the Committee:
 - 2.1.1. Consider the Work Plan and determine any required amendments;
 - 2.1.2. Note that the plan will be brought back to the Committee throughout the year for further development and approval.

3. Reasons for Recommendations

- 3.1. The Audit and Governance Committee has a key role in overseeing and assessing the Council's risk management, control and corporate governance arrangements. It advises the Council on the adequacy and effectiveness of these arrangements. A forward looking programme of meetings and agenda items is necessary to enable the Committee to fulfil its responsibilities.

4. Other Options Considered

- 4.1. Not applicable

5. Background

- 5.1. Aspects of the Audit and Governance Committee's agenda are determined by statutory requirements such as the Statement of Accounts and Annual Governance Statement. Outside these agenda items, the Committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference. The Committee is asked to consider the contents of

the Work Plan (Appendix A) and establish any amendments that will enable it to meet its responsibilities.

- 5.2. By identifying the key topics to be considered at the Audit and Governance Committee meetings, and receiving appropriate reports, Committee Members are able to undertake their duties effectively and deliver them to a high standard. In turn, this adds to the robustness of the risk management framework, the adequacy of the internal control environment and the integrity of the financial reporting and corporate governance of the Council.
- 5.3. Members will recognise that some items are brought to Committee on a more regular basis than others and ensure that statutory requirements are complied with. There are also individual requirements of the Committee's Terms of Reference which are only used on an ad-hoc basis.
- 5.4. In order to help with their deliberations, Members are asked to consider the following:
 - 5.4.1. care should be taken to avoid duplication and maintain the focus of an audit committee on its core functions as defined by its terms of reference rather than wider issues that are subject to the work of other committees or assurance functions.
 - 5.4.2. there are any time consuming aspects of Committee business that could be more effectively addressed elsewhere, as an audit committee should operate at a strategic level. Care should be taken to avoid straying into matters of operational detail that should be resolved by service managers
 - 5.4.3. the number and frequency of reports should be proportional to the risk in order to give the core business of an audit committee sufficient focus and attention and to avoid lengthy and thus unproductive meetings.
- 5.5. Members should note that although updated terms of reference were agreed at the 27 September 2018 meeting of the Committee, these have yet to be approved by Council and as such the previous terms of reference remain in place.
- 5.6. The Work Plan will be re-submitted to the Committee for further development and approval at each subsequent meeting.
- 5.7. In agreement with the Committee Chair, the following reports which had initially been scheduled for the 6th December 2018 meeting have been re-scheduled for future meetings of the Committee.
 - 5.7.1. Certification Report 2017/18; this report will be brought to the March 2019 meeting.

- 5.7.2. The Risk Management Update and Internal Audit interim update; having received detailed updates at the September Committee, and given the short timescale for preparing reports for the Committee in December, it was agreed to defer these updates to the March 2019 meeting.
- 5.7.3. Revising the Council's Code of Corporate Governance has been covered in the Annual Governance Statement update.

6. Implications of the Recommendations

6.1. Legal Implications

- 6.1.1. The Work Plan for 2018/19 complies with the requirements of the Accounts and Audit Regulations 2015.

6.2. Finance Implications

- 6.2.1. When reviewing the Work Plan, Members will need to consider the resource implications of any reviews they wish to carry out both in terms of direct costs and in terms of the required officer support.

6.3. Equality Implications

- 6.3.1. There are no direct implications for equality in this report. The Audit and Governance Committee receives assurances from across the organisation.

6.4. Human Resources Implications

- 6.4.1. Members should be satisfied that the inclusion of each item on its agenda results in added value, as the assurance process has a resource implication to the organisation and should therefore be proportional to the risk.

6.5. Risk Management Implications

- 6.5.1. Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position.

However, an effective audit committee can:

- 6.5.1.1. raise awareness of the need for robust risk management, control and corporate governance arrangements and the implementation of audit recommendations,
- 6.5.1.2. increase public confidence in the objectivity and fairness of financial and other reporting
- 6.5.1.3. reinforce the importance and independence of internal and external audit and any other similar review process
- 6.5.1.4. provide additional assurance through a process of independent and objective review

6.6. Rural Communities Implications

6.6.1. There are no direct implications for rural communities.

6.7. Implications for Children & Young People

6.7.1. There are no direct implications for children and young people.

6.8. Public Health Implications

6.8.1. There are no direct implications for public health.

7. Ward Members Affected

7.1. All wards affected.

8. Consultation & Engagement

8.1. The proposed Work Plan for 2018/19 was prepared following discussion with key officers who regularly provide updates to the Audit and Governance Committee. The proposed Work Plan was also discussed with the Committee Chair and Vice Chair and was considered by the Corporate Leadership Team prior to presentation to the Committee in March 2018.

9. Access to Information

9.1. Not applicable.

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officers:

Name: Michael Todd/Josie Griffiths

Job Title: Principal Auditors

Email: michael.todd@cheshireeast.gov.uk

josie.griffiths@cheshireeast.gov.uk

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
6th December 2018			
External Audit Plan for 2018/19 (Mazars)	To receive and comment on External Audit's planned work for the audit of financial statements and the value for money conclusion 2018/19	33	To comment on the scope and depth of external audit work and to ensure it gives value for money
Draft Treasury Management Strategy and Minimum Revenue Position Statement 2019/20	<p>Update on the contents of the Council's Treasury Management Strategy for 2019/20.</p> <p>The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management.</p> <p>This responsibility has been nominated to the Audit & Governance Committee.</p>	17	To review and monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice
Annual Governance Statement and Code of Corporate Governance Review	<p>Update on actions to improve governance arrangements and respond to emerging issues identified in the 2017/18 Annual Governance Statement.</p> <p>Proposed process for the production of the 2018/19 Annual Governance Statement.</p> <p>It will also update the Committee on the planned review of the Council's Code of</p>	6	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
		9	To consider the Council's framework of assurance and ensure that it adequately addresses the risks

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	Corporate Governance against best practice guidance and the use of the Code in practice and consider any changes which may be desirable.		and priorities of the council.
Member Declarations of Interest	A review of the classes of interest to be declared by Members and for inclusion in the Members Code of Conduct.	45	<p>To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).</p> <p>Added to the Work Plan at the request of Members on 31st March 2018.</p>
Upheld Complaints to the Local Government Ombudsmen	<p>Members have requested that they receive a report where there is a complaint upheld by the Local Government Ombudsmen. This will need to be a standing agenda item, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish</p> <ul style="list-style-type: none"> • if there have been any upheld complaints to be reported on to the next agenda • the appropriate part of the agenda for the 	43	<p>Subject to the requirements set out below, to consider all findings of the Local Government Ombudsman, including reports resulting in a finding of maladministration against the Council, and to make recommendations as to actions that may be necessary in connection with the Ombudsman's findings.</p> <p>(a) There are statutory obligations which will, in some circumstances, require reports to be taken to Cabinet or full Council.</p>

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
	report to be considered • clarity on the purpose of the report, the nature of the assurances to be provided in the report, and that this process doesn't duplicate any existing process or reporting.		(b) The Ombudsman operates protocols in relation to the timing of the publication of findings. The Council would have to give consideration to those protocols when determining how to manage the Audit and Governance Committee's agenda.
Audit and Governance Committee Work Plan	Forward looking programme of meetings and agenda items for 2018/19 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL
Contract Procedure Rule Non-Adherences (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee. (Part 1 and Part 2)	38	To receive retrospectively for information all notices which are used to record any non-adherence to the Council's Contract Procedure Rules.
14th March 2019			
Update on the 2018/19 External Audit Plan (Mazars)	To receive an update from the Council's External Auditors in relation to the 2018/19 external audit report and other issues	31 33	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. To comment on the scope and depth of external audit work and to ensure it gives value for money
Certification Report 2017/18 (Grant Thornton)	The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2017/18 claims and returns	31	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Members Code of Conduct: Standards Report	To note the numbers and outcomes of complaints made under the Code of Conduct for Members between 1st September 2018 and the end of February 2019.	45	To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Risk Management Update	<p>This report will update the Committee on Risk Management and Business Continuity activity in the Council.</p> <p>This will include a briefing by the Risk Owner on the management of a Corporate Risk</p>	<p>10</p> <p>11</p>	<p>To monitor the effective development and operation of risk management in the council.</p> <p>To monitor progress in addressing risk related issues reported to the committee.</p>
Internal Audit Interim Report 2018/19	<p>To consider a summary of Internal Audit Work undertaken between September 2018 and March 2019.</p> <p>Review and update of Internal Audit Charter in accordance with Public Sector Internal Audit Standards.</p>		Various (Detailed in ToR)
Internal Audit Plan 2019/20	Approval of the summary risk based Internal Audit Plan for 2019/20	20	To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
			those other sources.
Upheld Complaints to the Local Government Ombudsmen	<p>Members have requested that they receive a report where there is a complaint upheld by the Local Government Ombudsmen. This will need to be a standing agenda item, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish</p> <ul style="list-style-type: none"> • if there have been any upheld complaints to be reported on to the next agenda • the appropriate part of the agenda for the report to be considered • clarity on the purpose of the report, the nature of the assurances to be provided in the report, and that this process doesn't duplicate any existing process or reporting. 	43	<p>Subject to the requirements set out below, to consider all findings of the Local Government Ombudsman, including reports resulting in a finding of maladministration against the Council, and to make recommendations as to actions that may be necessary in connection with the Ombudsman's findings.</p> <p>(a) There are statutory obligations which will, in some circumstances, require reports to be taken to Cabinet or full Council.</p> <p>(b) The Ombudsman operates protocols in relation to the timing of the publication of findings. The Council would have to give consideration to those protocols when determining how to manage the Audit and Governance Committee's agenda.</p>
Audit and Governance Committee Work Plan	Forward looking programme of meetings and agenda items for 2018/19 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Contract Procedure Rule Non-Adherences (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee. (Part 1 and Part 2)	38	To receive retrospectively for information all notices which are used to record any non-adherence to the Council's Contract Procedure Rules.
Unscheduled items			
Work Programme for Member/Officer Working Groups	Forward looking programme of meetings and agenda items to: <ul style="list-style-type: none"> • enable individual Members to become more involved in specific areas of the Committee's work as a means of developing in-depth knowledge and expertise • address some of the more time consuming aspects of the Committee's work. • ensure that the Committee continues to work effectively and fulfils its purpose 	44	The Committee may establish standing and time-bound working groups (which may but need not be politically balanced) to consider any matters within the terms of reference of the Committee.
Feedback from Member/Officer Working Groups	The outcome of Member/Officer Groups work which, where possible, will be fed back to the Committee during the relevant agenda item. However, some of the feedback may, at the request of the Committee, require specific reports	44	The Committee may establish standing and time-bound working groups (which may but need not be politically balanced) to consider any matters within the terms of reference of the Committee.

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Approach to disclosure of Internal Audit Reports	Report to the Audit and Governance Committee regarding the current approach to the sharing of Internal Audit reports and presenting options for future consideration	4	It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
		25	To consider summaries of specific internal audit reports as requested.
Counter Fraud Update report	To update the Committee with: <ul style="list-style-type: none"> • an overview of developments that are taking place nationally, • an update on anti-fraud and corruption activity at Cheshire East; and • details of work that will be completed to ensure compliance with best practice and improve Cheshire East's resilience to the threat of fraud and corruption. 	14	To make recommendations to the Executive on the Council's arrangements for deterring, preventing, detecting and investigating fraud.
Anti-Fraud and Corruption Policy	This report sets out the review of the Council's Anti-Fraud and Corruption Policy against current best practice and identifies any suggestions for improvements to the current arrangements.	13	To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
		15	To monitor the counter fraud strategy, actions and resources.
		41	To approve and monitor Council policies relating to "whistleblowing" and anti-fraud and corruption.

Work Plan 2018/19

		Extract from existing Committee Terms of Reference – (October 2016)	
Agenda Item	Description	No	Detail
Update on Internal Audit Reports on Land Acquisitions	This report will update the Committee on the Management Actions agreed in response to the Internal Audit review of land acquisitions.	12	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions, including calling managers to explain lack of progress.
Updated Whistleblowing Policy and Procedure	To provide the Committee with an update on the effectiveness of the Council's Whistleblowing Policy	41	To approve and monitor Council policies relating to "whistleblowing" and anti-fraud and corruption.

Audit & Governance Committee

Date of Meeting: 06 December 2018

Report Title: Waivers and Non Adherences (WARNs)

Senior Officer: Mark Taylor – Interim Executive Director of Corporate Services

1. Report Summary

- 1.1. The purpose of this report is to provide an update to the Audit and Governance Committee on the number and reasons for waivers and non adherences (WARNs) which have been approved between the 1st September 2018 and the 30th September 2018.
- 1.2. The approved WARNs are published retrospectively for information on the next appropriate Audit and Governance Committee. The number of WARNs to be presented to the December Audit and Governance Committee is 1 Waiver.
- 1.3. All WARNs will be presented to the Audit and Governance Committee without any information redacted. However, they will be presented in Part 2 of the Committee as they may contain commercially sensitive information and/or Officer Details.

2. Recommendation/s

- 2.1. That the Audit and Governance Committee note the number and reason for waivers and non adherences (WARNs) approved between 1st September 2018 and 30th September 2018.

3. Reasons for Recommendation/s

- 3.1. The Audit and Governance Committee has a key role in overseeing governance arrangements within the Council and has a requirement to retrospectively review all approved WARNs. The WARN process forms part of the Councils Contract Procedure Rules (CPRs), which are intended to promote good procurement and commissioning practice, transparency and clear public accountability.

4. Other Options Considered

- 4.1. N/A

5. Background

- 5.1. All WARNs approved in the period between Audit and Governance Committees will be presented to the following Committee. This report contains all WARNs approved from the 1st September 2018 to the 30th September 2018.

The WARN process records the following;

- Waivers to the Contract Procedure Rules – These are agreed waivers in accordance with the Contract Procedure Rules, Part 5. Section 7.1-7.3.
- Non Adherence to the Contract Procedure Rules – This is a breach of the Contract Procedure Rules in accordance with Part 5. Section 7.4-7.10.

Waivers are a compliant part of the Contract Procedure Rules and are used where there is a genuine business case to direct award without the need for competition.

WARNs	2014-2015	2015-2016	2016-2017	2017- 2018	April – September 2018
Non Adherence	20	25	33	10	4
Waiver	62	45	40	20	8
Grand Total	82	70	73	30	12

- 5.2. A summary of the total number of WARNs for the reporting periods 2014 - 2017 is set out below:

The figure for financial year 2016 – 2017 increased slightly due to it including 16 ICT WARNs which were previously managed through CoSocius. If these were removed then the figure would be 54 meaning a reduction from the previous year.

The total number of WARN's for 2017-2018 was 30. This is a reduction from the previous year of 59%.

The total number of WARN's in 17/18 for the same period to give an additional benchmark e.g. April to Sept 17 was 21. Therefore, the April to Sept 18 figure shows a reduction of 42% for the same period.

This reduction in waivers and non adherences is the result of improved forward planning, better information such as enhanced contracts register and proactively working with services to inform better outcomes and ensuring compliant contracts are in place.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. All employees must ensure that they use any Council or other public funds entrusted to them through their job role in a responsible and lawful manner.

6.1.2. Employees must also seek to ensure value for money and take care to avoid the risk of legal challenge to the Council in relation to the use of its financial resources. The Council's Officer Delegations, Finance and Contract Procedure Rules and Operating Procedures must, therefore, be followed at all times. This report sets out compliance with Contract Procedure Rules.

6.2. Finance Implications

6.2.1. The Council's Constitution Finance Procedure Rule 2.30; Chapter 3 - Part 4: Section 2 explains that the Corporate Leadership Team (CLT) are responsible for working within their respective budget limits and to utilise resources allocated to them in the most efficient, effective and economic way.

6.2.2. Along with comments from Procurement and Legal Officers, Finance Officers are invited to make comments in respect of each WARN, to help ensure Finance Procedure Rules are adhered to in this regard (e.g. that the relevant Service has identified sufficient existing budget to cover the proposal; and also that the Service has considered how to achieve best value for money via this particular recommended course of action).

6.3. Equality Implications

6.3.1. N/A

6.4. Human Resources Implications

6.4.1. N/A

6.5. Risk Management Implications

6.5.1. The focus is the risk that processes are not complied with, which increases the likelihood of legal challenge causing significant financial

and reputational risk to the Council. This includes procurement processes.

6.6. Rural Communities Implications

6.6.1. There are no direct implications for rural communities.

6.7. Implications for Children & Young People

6.7.1. There are no direct implications for children and young people.

6.8. Public Health Implications

6.8.1. There are no direct implications for public health.

7. Ward Members Affected

7.1. N/A

8. Consultation & Engagement

8.1. N/A

9. Access to Information

9.1. The background papers relating to this report can be inspected by contacting the report writer.

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officer:

Name: Lianne Halliday

Job Title: Senior Manager - Procurement

Email: lianne.halliday@cheshireeast.gov.uk

Appendix 1

CPR WAIVERS – CATEGORIES FOR INTERNAL REPORTING

A	Genuine Emergency – which warrant an exception to the requirements
B	Specialist Education or Social Care Requirements
C	Genuine Unique Provider – e.g. from one source or contractor, where no reasonably satisfactory alternative is available.
D	Compatibility with an existing installation and procurement from any other source would be uneconomic given the investment in previous infrastructure
E	In-depth Knowledge, skills and capability of project/services already in existence with consultants/providers carrying out related activity – therefore procuring new consultants/skills would be uneconomic given the investment in previous, related work.
F	No valid tender bids received, therefore direct award can be substantiated
G	Lack of Planning
H	Other – Any other valid general circumstances up to the EU threshold

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