

Audit and Governance Committee

Agenda

Date: Thursday 7th December 2017
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 and Overview and Scrutiny meetings are audio recorded and the recordings will be uploaded to the Council's website.

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

1. **Apologies for Absence**

To receive any 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 Procedure Rules Nos.11 and 35 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 will decide how the period of time allocated for public speaking will be apportioned where there are a number of speakers.

For requests for further information

Contact: Cherry Foreman

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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.

It is not required to give notice of the intention to make use of public speaking provision, however, as a matter of courtesy, a period of 24 hours notice is encouraged.

4. **Minutes of Previous meeting** (Pages 5 - 12)

To approve the minutes of the meeting held on 28th September 2017 as a correct record.

5. **Grant Thornton - Annual Audit Letter 2016/17** (Pages 13 - 32)

To receive and comment on the Annual Audit Letter for 2016/17.

6. **Certification Report 2016/17** (Pages 33 - 36)

To receive and comments on the Certification letter.

7. **Annual Governance Statement Update** (Pages 37 - 70)

To consider an update on the Annual Governance Statement.

8. **Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2018/19** (Pages 71 - 96)

To receive and comment on the proposed Treasury Management Strategy and the Minimum Revenue Provision Statement 2018/19.

9. **Internal Audit Interim Report 2017/18 and Internal Audit Charter** (Pages 97 - 122)

To receive a report on progress against the Internal Audit Plan 2017/18 and the updated Internal Audit Charter.

10. **Work Plan 2017/18** (Pages 123 - 134)

To consider the updated Work Plan.

11. **Risk Management Update** (Pages 135 - 150)

To receive an update on Risk Management.

12. **Waivers and Non Adherence Notifications** (Pages 151 - 156)

To receive an update on the quantity and reasons for the issue of WARNs approved between 1 September 2017 and 31 October 2017.

13. 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 Paragraphs 1, 2 and 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

14. Waivers and Non Adherence Notifications

To note the approved WARNs issued between 1 September 2017 and 31 October 2017.

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CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee**
held on Thursday, 28th September, 2017 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, L Gilbert, A Kolker, N Mannion, G Merry
and A Stott

INDEPENDENT CO-OPTED MEMBER

Philip Gardener

MEMBERS IN ATTENDANCE

Councillors P Bates, L Durham, D Marren, B Edgar, P Findlow and P Groves

OFFICERS IN ATTENDANCE

Jan Willis - Director of Finance and Procurement
Frank Jordan - Executive Director of Place
Dan Dickinson - Acting Director of Legal Services & Interim Monitoring Officer
Linda Couchman - Acting Strategic Director of Adult Social Care & Health
Alex Thompson - Head of Finance and Performance
Michael Todd - Principal Auditor
Josie Griffiths - Principal Auditor
Jo Wilcox - Financial Strategy and Reporting Manager
Steve Mellor - Category Manager
Janet Ellison-Jones - Category Manager
Helen Sweeney - Senior Customer Relations and Compliance Officer
Juan Turner - Customer Relations and Compliance Officer
Gaynor Hawthornthwaite - Democratic Services Officer

EXTERNAL AUDITORS IN ATTENDANCE (Grant Thornton)

Jon Roberts and Lisa Morrey

13 APOLOGIES FOR ABSENCE

There were no apologies received.

14 DECLARATIONS OF INTEREST

There were no declarations of interest.

15 PUBLIC SPEAKING TIME/OPEN SESSION

Councillor D Marren addressed the Committee on issues relating to governance and non-compliance. He referred to the non-payment of the minimum wage to sleep-in staff and the Council's report on Whistleblowing items and procedures.

16 MINUTES OF PREVIOUS MEETING

That the minutes of the meeting held on 1st June 2017 be approved as a correct record.

17 GRANT THORNTON - AUDIT FINDINGS AND ACTION PLAN REPORT 2016/17

Grant Thornton presented the Audit Findings report on the 2016/17 Audit which had been prepared in accordance with the requirements of the International Standard on Auditing (UK and Ireland) 260, the Local Audit and Accountability Act 2014 and the Audit Office Code of Practice.

The report identified key issues considered by Grant Thornton on the Council's financial statements and its arrangements for securing economy, efficiency and effectiveness in the use of resources. The Auditors highlighted the key headlines including the audit adjustments and the Annual Governance Statement.

It was reported that some changes are to be made to the final statement to reflect the current position, value for money, audit and audit certificate. Due to a number of pending issues, there has been a delay in certification of completion of the audit for the year ended 31 March 2017.

RESOLVED

That:

1. the Audit Findings Report for 2016/17 be received; and .
2. the letter of representation be signed by the Director of Finance and Procurement.

18 2016/17 STATEMENT OF ACCOUNTS

Consideration was given to the 2016/17 Statement of Accounts for Cheshire East Council and the Cheshire East Group which provided information on the financial assets and transactions of the Group.

The report detailed amendments to the statement of accounts; specifically the main change affecting the Council's Comprehensive Income and Expenditure Statement (CIES) relating to the underlying accounting treatment of reserves and some internal recharges. The overall deficit on provision of services remains unchanged.

RESOLVED

That:

1. the report be received and the changes to the draft accounts be noted in accordance with the Audit Findings Report; and
2. delegated authority be granted to the Chairman of the Audit and Governance Committee to sign off the final accounts on behalf of the Committee.

19 TREASURY MANAGEMENT ANNUAL REPORT 2016/17

Consideration was given to the report which had been considered by Cabinet at its meeting on 13th June 2017.

It was noted that the Council had complied with its legislative and regulatory requirements and had remained within all of its prudential indicators during the year as detailed in Annex 1.

Information was provided on financial activities during the 2016/2017 financial year including investments, cash flows, capital expenditure, external borrowing, banking and property funds.

In answer to Members questions about borrowing and investing, the Committee was advised that the Treasury Management strategy is to work on the basis of maximising investment opportunities and minimising borrowing requirements.

RESOLVED

That the Treasury Management Annual Report for 2016/17, set out in Appendix A of the report, be noted.

20 UPDATE ON AIR QUALITY DATA INTERNAL AUDIT REPORT

Consideration was given to the report which summarised details of the management actions agreed following the Internal Audit review of Air Quality Management.

It was noted that during the preparation of the Air Quality Annual Status Report (ASR) for submission in 2016, anomalies were discovered by management, between the data recorded on the Council's systems and the source data provided by the laboratory that analyses the monitoring equipment. Initial analysis identified multiple anomalies in the 2016 figures, and also in those used to complete the previous return. The Chief Executive then requested that Internal Audit carry out a review of data returns, and the processes in place for the monitoring, recording and dissemination of air quality data.

Internal Audit carried out a review of the policies, systems and procedures in place to provide assurance that the key risks are being managed effectively.

RESOLVED

That:

1. the management actions agreed following the review be noted; and
2. an update on progress in implementation be provided as part of the interim report by Internal Audit at the December 2017 meeting, be noted.

21 ANNUAL GOVERNANCE STATEMENT 2016/17

At its meeting on 1st June 2017 the Committee had considered the draft Annual Governance Statement (AGS) which had now been amended to take account of feedback received at the meeting and subsequently from Members and the External Auditors. Once finalised, the AGS will be published on the Council's website, along with the Statement of Accounts.

The purpose of the AGS process was to provide a continuous review of the organisation's governance arrangements so as to give assurance on the effectiveness on the processes and/or address identified weaknesses in order to support the continuous improvement of the Authority.

Members received and noted the updates to the Proposed Final Annual Governance Statement 2016/17 - Section 7 – Significant Governance Issues arising in 2016/17.

RESOLVED

That approval be given to the 2016/17 Annual Governance Statement.

22 AUDIT AND GOVERNANCE COMMITTEE ANNUAL REPORT 2016/2017

Consideration was given to the draft report of the Chairman of the Committee on its performance and effectiveness in 2016/17 with regard to its terms of reference and purpose.

The report provided details of work undertaken by the Committee and the assurances received during the year.

RESOLVED

That the draft Annual Report for 2016/17 be approved, for consideration by the Council at its meeting on 19 October 2017, subject to the following corrections:

- Page 101: Previous member of the Audit and Governance Committee - Councillor James Nicholas from February 2017 May 2017 to be added.
- Page 89 – Head of Internal Audit (post currently vacant) and one member of staff short - short term measures are currently in place.
- Page 90 – Paragraph on the External Auditor's opinion on the Financial Statements to be re-written
- Spelling corrections.

23 REPORT ON CUSTOMER FEEDBACK - COMPLAINTS, COMPLIMENTS AND REFERRALS TO LOCAL GOVERNMENT OMBUDSMAN 2016/17

Consideration was given to the report which summarised the formal feedback received from customers during 2016/17, together with a summary of the cases dealt with by the Local Government Ombudsman (LGO).

Details were given of the feedback received, broken down into compliments (1503), suggestions (148) and complaints (1603) as follows:

- The number of complaints had increased marginally from the previous year – 1603 in 2016/17 compared with 1565 in 2015/16. The increase was partly attributable to 112 complaints made to the Licensing Team as a result of a campaign by a third party, relating to the changes to the Hackney Carriage table of fares; interested parties were encouraged to submit complaints with a view to seeking recompense. None of these complaints were upheld.
- The number of recorded compliments was 1503, compared with 1855 in 2015/16 which related to Adult Services.
- The recorded suggestions (148 compared to 177 in 2015/16) were neither complaints nor compliments, but often suggested changes to policy or working practice.
- Whilst not formally recorded on the corporate feedback system, complaints from MP's on behalf of their constituents had reduced significantly (18 to 30) from 2015/16.

With regard to complaints all customers were offered the opportunity to appeal to the Local Government Ombudsman and the report included details on the decision notices issued to the Council.

RESOLVED

That the report be noted.

24 MEMBERS' CODE OF CONDUCT: STANDARDS REPORT

The Committee was advised of the number of complaints received under the Code of Conduct for Members 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 2017 to 31 August 2017.

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.

25 WHISTLEBLOWING ARRANGEMENTS

Consideration was given to a report which outlined a breakdown of the number of reports received during 2016/17 and an update on a forthcoming independent review of the Council's whistleblowing arrangements.

Details were given on the reports received during 2016/17, broken down as follows:

- 6 did not fall under the scope of the policy and were therefore referred to the appropriate service/organisation for action;
- 2 were unsubstantiated following investigation;
- 1 was referred to Environmental Health for further investigation;
- 1 was upheld following investigation and appropriate remedial action taken;
- 2 where it was not possible to conclude the investigation as the officer concerned left the Council; and
- 1 referral is still subject to an ongoing investigation.

Appropriate remedial action will be taken to address any control weaknesses identified during this process.

This represents an 18.75% decrease in the total number of referrals when compared to those received in 2015/16. However, the previous figures were particularly high as they included 7 referrals relating to the same

procurement issue, and, when these are discounted, the year on year figures are consistent.

With regard to the review of whistleblowing arrangements, details on the level of support that is to be provided to Cheshire East Council were highlighted. It was reported that a full desk based review of current policy, procedures and supporting documents, is to be benchmarked against the Whistleblowing Commission's Code of Practice and a RAG rated report with recommendations and an action plan for improvement is to be provided. This will be supported by a full communications plan, and is expected to go live early October.

RESOLVED

That the report be noted and the external review of the Council's whistleblowing arrangements be endorsed.

26 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT AND COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

Consideration was given to a report which provided an update in relation to the independent Public Sector Internal Audit Standards (PSIAS) external assessment, which is scheduled to take place late 2017/2018. It is a requirement of an organisation's internal audit function that an external assessment be carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation.

The appendix to the report detailed the Peer Review – Memorandum of Understanding.

RESOLVED

That the forthcoming external assessment of Internal Audit against PSIAS and its scope be noted and that the Chief Executive be appointed as sponsor of the assessment.

27 WORK PLAN 2017/18

Consideration was given to the Committee's Work Plan. It was noted that unallocated items are to be reported back to the Committee as and when appropriate.

RESOLVED

That:

- the Work Plan be received and noted; and

- the Work Plan be brought back to the Committee throughout the year for further development and approval.

28 WAIVERS AND NON ADHERENCES

The Committee considered a report on the quantity and reasons for Waiver and Non Adherences (WARNs) approved between 1 February 2017 and 31 August 2017. The report also presented the approved WARNs for review.

RESOLVED

That the report be noted.

29 EXCLUSION OF THE PRESS AND PUBLIC

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 on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1 2 and 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

30 WAIVERS AND NON ADHERENCES

RESOLVED

That the approved WARNs be noted.

The meeting commenced at 2.00 pm and concluded at 5.00 pm

Councillor G Baxendale (Chairman)

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

| | |
|--------------------------|--|
| Date of Meeting: | 7 th December 2017 |
| Report of: | Director of Finance & Procurement |
| Subject/Title: | Grant Thornton – Annual Audit Letter 2016/17 |
| Portfolio Holder: | Councillor Paul Bates |

1.0 Report Summary

- 1.1 The Annual Audit Letter summarises the External Auditors' findings from the 2016/17 audit.

2.0 Recommendation

- 2.1 That members receive and comment on the Annual Audit Letter for 2016/17.

3.0 Reasons for Recommendations

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

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Implications for Rural Communities

- 7.1 None

8.0 Financial Implications

- 8.1 As covered in the report.

9.0 Legal Implications

- 9.1 There are no specific legal implications with regard to this report.

10.0 Risk Management

- 10.1 The Annual Audit letter has been prepared to meet the requirements set out in the Statement of Responsibilities of Auditors.

11.0 Background and Options

- 11.1 The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Grant Thornton reported the detailed findings from their audit work to those charged with governance in the Audit Findings Report on 28th September 2017.
- 11.2 As the Council's appointed auditors, representatives of Grant Thornton will attend the Committee to report their findings directly to Members.

12.0 Access to Information

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

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The Annual Audit Letter for Cheshire East Council

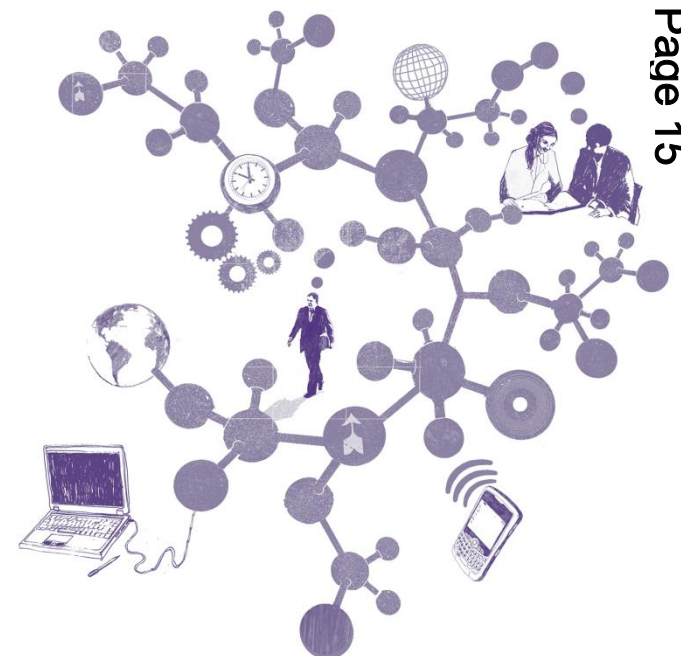
Year ended 31 March 2017

October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Cheshire East Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Report on 28 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017 except for weaknesses in the Council's arrangements for acting in the public interest, which had been identified during the year by the Council's Internal Audit Service, which had investigated a number of historic weaknesses in the operation of the Council's decision-making arrangements. We therefore qualified our value for money conclusion in our audit opinion on 28 September 2017.

Delay in certification of completion of the audit

We have determined that we cannot formally conclude the audit and issue an audit certificate for the Council for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code until:

- the Council has completed its internal disciplinary investigations into a number of its chief officers
- we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts. We are currently considering an objection to the Council's accounts relating to the payment of 'sleep-in payments' for care workers.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 29 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions, along with a number of other claims and returns. Our work on these claims is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Working with the Council

In addition to our statutory audit responsibilities, we have also undertaken the audits and related services of the Council's companies. The scale and nature of this work has been presented to and agreed with the Audit and Governance Committee within our Audit Findings Report for the year.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £12 million, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for related party transactions and officers' remuneration.

We set a lower threshold of £600,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- The Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Council are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Cheshire East Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|---|
| <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire East Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable. | <p>Our audit work on tax revenues, grant income and other revenues has not identified any issues in respect of revenue recognition that would require us to reassess this rebuttal.</p> |
| <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual and significant transactions | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Audit of the accounts – continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|---|
| <p>Valuation of property, plant and equipment</p> <p>The Council re-values its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current/ fair value.</p> <p>This valuation represents a significant estimate by management in the financial statements.</p> | <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements • Evaluation of the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current/fair value. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |
| <p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet, represent significant estimates in the financial statements.</p> | <p>We identified and assessed the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also:</p> <ul style="list-style-type: none"> • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation • gained an understanding of the basis on which the IAS 19 valuation was carried out • carried out procedures to confirm the reasonableness of the actuarial assumptions made • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>Our audit work has not identified any significant issues in relation to the risk identified in the audit plan.</p> |

Audit of the accounts – continued

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|---|--|
| <p>Changes to the presentation of local authority financial statements</p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. reviewed the new disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | <p>Our audit review of the draft financial statements and the supporting working papers identified a number of errors in the preparation of the EFA, the detailed EFA note and the CIES:</p> <ul style="list-style-type: none"> EFA did not correctly report the movement to the general fund, which is also required to include earmarked reserves. This accounting treatment meant that entries relating to the transfers to and from earmarked reserves were not appropriately determined. There should be a direct match between the adjustment between funding and accounting basis presented in the EFA, compared to the information presented in note 2 which supports the MIRS. The underlying working papers omitted an adjustment to ensure that the impact of internal recharges was removed to avoid overstating income and expenditure <p>These are significant revisions with implications throughout the EFA, the detailed EFA note and the CIES. These changes affect both the 2016/17 and 2015/16 comparatives and also impact upon the group accounts, the presentation of the prior period adjustment at note1c and the nature of expenses (segmental reporting) disclosure.</p> <p>The accounts have been amended and we have carried out additional work to audit the revised accounts.</p> <p>The overall deficit on provision of services remains unchanged. However the value of gross expenditure and gross income are each reduced by £28m (expenditure reduced from £754m to £726m and the value of income has reduced from £743m to £714m).</p> |

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall conclusion

Based on the work we performed to address the significant risks we gave a qualified 'except for' conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in your use of resources.

The basis for this is that we noted that:

- The Council has put in place temporary senior management arrangements affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer, as a neutral act, whilst proper procedures are being followed for independent investigations.
- The Council is also investigating a number of weakness in the operation of its historic decision making arrangements. The findings of the reviews undertaken by Internal Audit into these matters are evidence of weaknesses in the Council's arrangements for acting in the public interest, through demonstrating and applying the principles and values of good governance to support informed decision making.

In reaching our conclusion we had regard to the information available to us at this time. However as there was an independent disciplinary investigation underway, this is one reason why we have not yet issued our certificate to bring the audit for 2016/17 to a formal close.

Recommendations for improvement

The Council was already addressing its historic arrangements and we saw the Internal Audit reports as providing a strong basis for future actions. The Council should therefore ensure it responds fully to Internal Audit's recently reported work.

Value for Money

| Risk identified | Work carried out | Findings and conclusions |
|--|--|--|
| <p>The Council has historically managed its finances well and has consistently achieved financial targets. It is forecasting a small overspend of 0.7% of £1.7m (at the time of the auditor's risk assessment in March 2017) . This is affected by the impact of demand led services, such as the cost pressures experienced in Adults and Children's care services.</p> | <p>We reviewed the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of budgetary information and discussion with key officers.</p> | <p>The 2016/17 outturn was an overall overspend against budget of £1.7m (or 0.7%) in line with the position forecast earlier in the year. The Council reported that in line with national trends the position has been strongly influenced by an increase in caseload and costs associated with Children in Care and in particular from demand for Adult Social Care services. The most significant variance relates to Adult Social Care and Health with an overspend against budget of £5.3m. The Council has examined the underlying causes of this and reported on the implications of this in its outturn report. This highlights the pressure of £5.6m on its care cost budget arising from the growth of people receiving residential and nursing care and long term domiciliary care. The growth in the volume of clients, with increasingly complex care needs combined with the increase in fees adds to this challenge.</p> <p>Looking ahead, the Council approved its 2017/18 budget and medium term financial strategy in February 2017 in line with its usual planning timetable. The work throughout the year saw the Council tackle a projected funding gap of £94m over the period of the MTFS to 2019/20. In September this was reported to be mitigated by policy proposals and reduced to around £5m per year. The resultant approved MTFS reports a balance position for 2017/18 and is provisionally balanced for 2018/19 and 2019/20.</p> <p>Measures in 2017/18 included an increase in council tax of 4.99% (following on from the 3.75% increase in 2016/17 after a council tax freeze for five years), savings and efficiencies and a mix of specific policy proposals for each service. The funding position uses only a very small net contribution from earmarked reserves and an assumption that general reserves are not applied.</p> <p>The position in those later years of the MTFS continues to be monitored during 2017/18 as changes are implemented and further information and clarification on cost pressures is determined. The proposals for change include review of management and staffing structures, focus on corporate services, challenging discretionary services and review and challenge of contracts. Maximising development opportunities to prompt business rate growth, working with health partners and the third sector, rationalising assets, challenging the capital programme and seeking development opportunities to increase productivity are other measures being applied to tackle this challenge.</p> <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion, particularly with regard to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> |

Value for Money - continued

| Risk identified | Work carried out | Findings and conclusions |
|---|--|---|
| <p>With underlying financial deficits in the NHS, and the new five-year Sustainability and Transformation Plan (STP) now submitted, we need to understand the arrangements that the Council has to contribute to this process and to mitigate the risks to its resources.</p> <p>Working with partners from different organisations and service areas with potentially conflicting priorities, and particular financial challenges means that projects are increasingly complex and high profile.</p> | <p>We gained an understanding of the role that the Council is playing to contribute to change in the local health economy.</p> <p>We discussed this with key officers and considered the project management and assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p> | <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion. In making this assessment we note the following aspects of the Council's arrangements:</p> <ul style="list-style-type: none"> Cheshire and Merseyside STP covers 12 Clinical Commissioning Groups (CCGs), 20 providers and nine local authorities, including Cheshire East Council. Cheshire East Council is part of the Cheshire and Wirral Local Delivery System (LDS), one of three that make up the STP. The Council is part of the local partnership of health and care organisations that have developed these plans. It's guidance and involvement is vital to help set the strategic direction of health and care service development locally. The Council is represented on the STP working group, and so has engaged in this process to influence, inform and seek to mitigate the risks that may arise from the developments. The Council also has a scrutiny role, democratically representing its population in reviewing plans, through Health and Wellbeing Boards and through Health Overview and Scrutiny Committees. In November 2016/17, the Health and Wellbeing Board made their observations on the STP, highlighted the need for further detail and for a programmed approach in respect of social care which was not factored into the current STP. The LDS builds on established transformation programmes which for Cheshire East Council include Caring Together (West) and Connecting Care (South). As established programmes these have mechanisms in place for communication and decision making but the governance arrangements for the wider STP and LDS continue to be developed. A Membership Agreement for the STP and a Memorandum of Understanding for the LDS are drafted for consideration by partners but the Council has not signed up to these. With a reported funding gap of £908m in NHS finances by 2020 – 2021 if nothing changes, the STP highlights the significant service and financial challenges, across the region. The scale of change across the health and social care economy is one of major transformation which requires strategic direction, leadership and accountability if the benefits are to be realised. <p>In 2016/17, the Council have contributed to the process, and reflected on the risks to its own services and how to mitigate these – but the engagement in future will remain critical if the Council are to effectively inform and influence the further development and implementation of the STP plans.</p> <p>Overall this supports the assertion that the Council has proper arrangements for working effectively with its partners as part of the steps towards the sustainability of adult health and social care services.</p> |

Value for Money - continued

| Risk identified | Work carried out | Findings and conclusions |
|---|--|--|
| <p>The Council commissions services from a range of different delivery models, including an increasing number of companies, the leisure trust and a return to shared services. The Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles' remains important to the effective delivery of its objectives.</p> | <p>We discussed with key officers and reviewed the Council's project management and risk assurance frameworks to consider how these are developed to keep pace with the further changes in the Council's operations.</p> | <p>The Council's arrangements for the management of performance, finance, programmes and contracts contribute to the upholding of key elements of governance arrangements within its wider service providers.</p> <p>The number of ASDVs has increased with the inclusion of skills and growth company. The governance arrangements already in place for the other wholly owned companies are extended to this company. There is a governance framework in place, that continues to operate throughout 2016/17. Throughout the year, CERF has continued to provide a forum to receive presentations on the financial and operational performance of each company and provides scrutiny and challenge. The Council recognises that there is more that CERF can do to enhance the company structure, and add value to the existing operations through "encouraging and supporting the ASDVs in maintaining, improving and growing their business in a sustainable manner...". A review of CERF is under way to:</p> <ul style="list-style-type: none"> - review the effectiveness and appropriateness of the governance arrangements for the WOCs; - clarify responsibilities between the commissioning functions within the Council and CERF as the parent company; - clarify the expectations of CERF as a company in its own right and as the holding company at the head of a group. <p>Following on from the decision reached in 2015/16 to bring the joint venture operation to an end, the Councils have worked to transfer transactional and ICT services back to in house shared service hosted by the Cheshire East and CWAC Council and to implement new working arrangements. Throughout this transition stage, progress has been reported to the Shared Services Joint Committee. These reports have provided Members with information on how the shared services have delivered their key objectives in areas including: financial performance; business continuity; development of a new target operating model; management restructure; strategic business plan; services and payment mechanism.</p> <p>The Councils have also considered the lessons that could be learnt and how this could be used to support any ASDV models going forward. The learning points highlighted the importance of robust and commercially focussed business cases, underpinned by realistic expectations and recognising the different skills that are needed to operate effectively in a commercial environment.</p> <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion, particularly with regard to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p> |

Value for Money - continued

| Risk identified | Work carried out | Findings and conclusions |
|--|---|---|
| <p>The Council's progress in maximising the benefits of HS2 and other major infrastructure initiatives and the way in which the Council is engaging with partners in the Northern Gateway Development Zone is an area that is of public interest. On the basis that we don't know much about these developments, this is highlighted as a significant risk in order that we can be assured that the Council has appropriate arrangements in place.</p> | <p>We discussed with key officers and reviewed any documents to assess the Council's approach to this engagement.</p> | <p>The Council is a part of the Northern Gateway Partnership, which is an economic partnership between seven local authorities and two Local Enterprise Partnerships. Cheshire East Council has the additional role of accountable body and is providing project management support to drive the development of the joint HS2 Growth Strategy.</p> <p>The objective for the Council is to deliver sustainable plan led growth in the Borough on the back of HS2 investment at Crewe. The report to cabinet in February 2017 provided members with an update on the progress to date and highlighted the work underway in order to deliver a comprehensive Growth Strategy in spring 2017.</p> <p>The work of the partnership, and the Council's engagement in that, is key to ensure that the wider benefits of growth in employment, housing, retail and leisure may be realised as the project moves from its planning phase to delivery.</p> <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion, particularly with regard to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p> |

Value for Money - continued

| Risk identified | Work carried out | Findings and conclusions |
|---|--|---|
| <p>In April 2017 the Council put temporary senior management arrangements in place affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer resulting in:</p> <ul style="list-style-type: none"> the appointment of the Executive Director for People and Deputy Chief Executive as Acting Chief Executive the appointment of an interim Director of Finance and Procurement (Section 151 Officer) the appointment of an Acting Director of Legal Services (Monitoring Officer). <p>Information coming to the auditor's attention after 31 March is relevant to the auditor's conclusion in so far as it informs our understanding of the arrangements in place during the year.</p> <p>The circumstances behind each of these appointments differ. However the matters that give rise to this course of action suggest signs of fundamental governance issues during the period of audit.</p> | <p>We note that:</p> <ul style="list-style-type: none"> there is an active police investigation underway. As a result, any investigation relating to the Chief Operating Officer is deferred. As a protective measure, responsibilities relating to finance, procurement and internal audit are transferred to the Interim Director of Finance and Procurement proper procedures are being followed for the independent investigation regarding the Chief Executive and the Director of Legal Services, who are suspended as a neutral act. <p>It is important that our audit considerations do not disturb these proper processes from being followed.</p> <p>Officers are currently working with us to provide the evidence we need to issue our VFM conclusion.</p> | <p>Officers updated us on developments during the latter stages of the audit. As both the police investigation and internal disciplinary investigations are ongoing, they have not been evaluated for the purposes of our VFM conclusion. However, in addition to these investigations, a number of new matters were identified and investigated by Internal Audit. The results of Internal Audit's work are sufficient evidence of weaknesses in the Council's governance arrangements for us to qualify our VFM conclusion on the basis of weaknesses in the Council's arrangements for acting in the public interest. As such, we concluded that the Council's arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making were inadequate.</p> |

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

| | Proposed fee £ | Actual fees £ | 2015/16 fees £ |
|--|-------------------|------------------|-------------------|
| Statutory audit of Cheshire East Council | 154,590 | 160,137 | 154,590 |
| Audit of subsidiary companies | 52,250 | 52,250 | 54,800 |
| Housing Benefit Grant Certification | 24,375 | 24,375 | 16,608 |
| Total fees (excluding VAT) | 231,215 | 236,762 | 225,998 |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA), apart from an agreed variation of £5,547 to support the ongoing police investigation.

Reports issued

| Report | Date issued |
|-----------------------|-------------------|
| Audit Plan | 8 March 2017 |
| Audit Findings Report | 15 September 2017 |
| Annual Audit Letter | 20 October 2017 |

Fees for other services

| Service | Fees £ |
|---|--------|
| Audit related services: | |
| Reasonable assurance report for teachers pension return (November 2016) | 4,800 |
| Reasonable assurance report for Local Authority Major Transport Scheme (November 2016) | 5,000 |
| Non audit related services: | |
| Employment taxes helpline service to January 2017 | 2,833 |
| CFO Insights, 3 year subscription from 2017/18 | 27,000 |
| Additional services provided to the Cheshire East Companies: | |
| • Tax compliance services for 5 of the wholly owned companies (work relating to 2016/17 but carried out during 2017/18) | 8,590 |
| • Tax compliance service for CoSocius (work relating to 2015/16 but carried out during 2016/17) | 1,435 |
| • VAT work for Orbitas – (work carried out during 2016/17) | 4,000 |
| • Liquidation work relating to Cosocius: | |
| • work carried out in 2016/17 | 6,593 |
| • work carried out in 2017/18 | 1,893 |

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report and in the following tables.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Group's auditor and have ensured that appropriate safeguards are put in place. We obtained approval from PSAA Ltd to carry out the work in 2017/18, as this work brings the total sum charged in respect of non audit services work to a total that is above the reporting threshold.

In each case we have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist and thus no safeguards are required.

| | Service provided to | Fees | Threat and Safeguard? | Comment |
|--|-----------------------|---------|-----------------------|---|
| Audit related services | | | | |
| Reasonable assurance report for teachers pension return | Cheshire East Council | 4,800 | No threat | These pieces of work are each connected to the audit of the financial statements and so it is appropriate that this is carried out by the audit engagement team. |
| Reasonable assurance report for Local Authority Major Transport Scheme | Cheshire East Council | 5,000 | No threat | |
| Non Audit Services | | | | |
| Employment taxes helpline service | Cheshire East Council | 2,833 | No threat | Helpline service provide to HR department to January 2017 for ad hoc queries relating to employment taxation. |
| CFO Insights | Cheshire East Council | 27,000 | No threat | Nature of the service presents no threat to independence as CFO Insights is an online software service offering that enables users to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority. The financial data, revenue outturn and budget data is provided by CIPFA and the socio-economic data is drawn from Place Analytics. The data is contextualised using a range of socio-economic indicators enabling the LA to understand their relative performance. |
| | TOTAL | £39,633 | | |

Independence and other services

| | Service provided to | Fees | Threat and Safeguard? | Comment |
|---|---|----------------|-----------------------|--|
| Non Audit Services (continued) | | | | |
| Tax compliance services | <ul style="list-style-type: none"> Engine of the North Limited ANSA Environmental Services Limited Orbitas Bereavement Services Limited Transport Service Solutions Limited Civicanace Limited | Total of 8,590 | No threat | <p>The work performed in the 2017/18 financial year is to complete a service that was commenced under previous ethical regulations, as allowed by the transitional rules of NAO Auditor Guidance Note 01.</p> <p>This service will not be provided in future.</p> <p>The tax team is independent of the audit team</p> |
| Tax compliance service (work in respect of 2015/16) | CoSocius | 1,435 | No threat | <p>This service will not be provided in future.</p> <p>The tax team is independent of the audit team</p> |
| VAT work for Orbitas concluding 2016/17 | Orbitas Bereavement Services Limited | 4,000 | No threat | Providing information to assist the company in its response to the HMRC challenge. |
| Liquidation work relating to Cosocius – two phases spanning 2016/17 and 2017/18 | Cosocius – joint venture company of Cheshire East Council and Cheshire West and Chester Council | 8,486 | No threat | The work performed in 2017/18 financial year is to complete a service that was commenced under previous ethical regulations, as allowed by the transitional rules of NAO Auditor Guidance Note 01 |
| | TOTAL | £22,511 | | |



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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 7th December 2017
Report of: Director of Finance and Procurement
Subject/Title: Certification Report 2016/17
Portfolio Holder: Councillor Paul Bates

1.0 Report Summary

- 1.1 The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2016/17 claims and returns.

2.0 Recommendation

- 2.1 That members receive and comment on the Certification letter for the Housing Benefits Subsidy claim which is attached as Appendix 1.

3.0 Reasons for Recommendations

- 3.1 To ensure that members consider the issues and recommendations raised within the report.

4.0 Wards Affected

- 4.1 Not applicable.

5.0 Local Ward Members

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 None.

7.0 Financial Implications

- 7.1 As covered in the report.

8.0 Legal Implications

- 8.1 There are no specific legal issues associated with this report.

9.0 Risk Management

- 9.1 The risks associated with the findings of this report relate to a position where the Council may not meet the requirements of the audit and receive a qualified opinion.

10.0 Background and Options

- 10.1 The report summarises the findings from the certification of the 2016/17 housing benefit subsidy claim. The fee associated with the certification work is £24,375, which is consistent with the planned fee.
- 10.2 In addition, Cheshire East Council is required to obtain a reasonable assurance report on their annual Teachers Pension return. Grant Thornton have provided this service, in accordance with the terms of their contract and the Terms of Engagement. The associated fee is £4,800. The return was unqualified and completed in accordance with the deadline.

11.0 Access to Information

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

Name: Jan Willis

Designation: Director of Finance and Procurement (Section 151 Officer)

Tel No: (01270) 686979

Email: jan.willis@cheshireeast.gov.uk

Appendix 1: Grant Thornton Certification letter 2016/17 for Cheshire East Council



Grant Thornton

Jan Willis
 Director of Finance and Procurement
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28 November 2017

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Dear Jan

Certification work for Cheshire East Council for year ended 31 March 2017

We are required to certify the Housing Benefit Subsidy claim submitted by Cheshire East Council ('the Council'). This certification takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2016/17 is £24,375. The amount of work required by the auditor to certify the housing benefit subsidy claim is consistent with that in the 'base' year and so there is no variation from the planned fee.

Overall we are pleased to report that the Council has appropriate arrangements to compile a complete, accurate and timely claim for audit certification. The claim is not subject to a qualification letter but the Council have made amendments to the claim. Further details of this are set out at Appendix A.

Yours sincerely

Jon Roberts
 Partner
 For Grant Thornton UK LLP

Chartered Accountants

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Appendix A - Details of claims and returns certified for 2016/17

| Claim or return | Value of claim submitted to audit | Amended? | Amendment (£) | Value of certified claim | Qualified? | Comments |
|--------------------------------|--------------------------------------|----------|---|-------------------------------------|------------|--|
| Housing benefits subsidy claim | Total subsidy claimed £79,530,685 | Yes | Decrease in total subsidy claimed £2,900 | Total subsidy claimed 79,527,785 | No | The amendment relates to classification adjustments required to the claim that were identified by the Council through its own enquiry procedures but that had not been actioned at the time that the draft claim was required to be submitted. |

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 7th December 2017
Report of: Corporate Assurance Group
Title: Annual Governance Statement (AGS) Update
Portfolio Holder: Cllr Rachel Bailey

1.0 Report Summary

- 1.1 The purpose of this report is to provide assurance that the Annual Governance Statement (AGS) is underpinned by an appropriate framework of assurance and to allow the Committee to monitor the implementation of actions to improve governance arrangements and respond to emerging issues.
- 1.2 The report also informs Committee of the proposed production process for the 2017/18 Annual Governance Statement.

2.0 Recommendation

- 2.1 That the Committee
 - (i) Note and endorse the progress and feedback provided on the issues reported in the 2016/17 AGS, including the recommendation to the Committee on whether items remain on the Annual Governance Statement ;
 - (ii) consider and endorse the process for the production of the 2017/18 AGS.

3.0 Reasons for Recommendation

- 3.1 Under the Accounts and Audit Regulations (England) 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

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Wards Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications

- 7.1 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.
- 7.2 The current production of the AGS is designed to align with the production of the Council's Financial Statements, which for 2017/18 will require a draft Statement by May 31st and a final approved by July 31st to be published alongside the audited accounts.

8.0 Legal Implications

- 8.1 The production of the AGS is required by the Accounts and Audit Regulations 2015 and the process outlined is designed to meet this obligation.
- 8.2 Under the new Regulations, the existing certification dates are brought Local Audit began in June 2014, giving three years notice to allow

authorities and auditing firms time to adjust. The 2017/18 process will be fully aligned to the new requirements.

9.0 Risk Assessment

- 9.1 An assurance framework that does not support the production, approval and on-going review of the AGS and associated management actions can result in problems with the integrity of the Council's Statement and lead to missed opportunities to strengthen the control environment and the management of risk.

10.0 Background

Progress against items reported in the AGS 2016/17

- 10.1 The 2016/17 AGS reported to, and approved by the Audit and Governance Committee in September 2017 included progress against previously reported governance issues, the recognition of a number of significant governance issues arising from 2016/17 and relevant proposed actions for implementation.
- 10.2 A detailed update on the actions proposed to improve the Council's governance arrangements and respond to emerging issues is included at Appendix A for consideration by Members.
- 10.3 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 or
 - whether there are further issues or concerns arising.
- 10.4 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.
- 10.5 Where items are removed from the progress update which is 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 – Summary of Recommendations

| Description (Summarised) | Responsibility | Recommendation to the Audit and Governance Committee: |
|--|--|---|
| Business Continuity Planning | Acting Director of Legal Services | <i>That this issue remains on the AGS progress update.</i> |
| Local Economic Partnerships | Executive Director of Place | <i>That this issue remains on the AGS progress update.</i> |
| Project Management | Chief Operating Officer | <i>As substantial progress has been made in implementing actions, the issue can now be removed from the AGS update and monitored locally.</i> |
| New Service Delivery Models | Chief Operating Officer | <i>That this issue remains on the AGS progress update</i> |
| Review of Contract Awards – Core Fit | Director of Finance and Procurement | <i>That this issue remains on the AGS progress update</i> |
| Council Funding | Director of Finance and Procurement | <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 | 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> |
| Air Quality Data | Executive Director of Place | <i>As substantial progress 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> |
| Berkley Academy Car Park | Executive Director of Place | <i>That this issue remains on the AGS progress update</i> |
| Sleep In Arrangements | Acting Executive Director People, COO, and Head of Strategic HR. | <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> |

Production of the 2017/18 Annual Governance Statement (AGS)

10.6 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
- publish the AGS

10.7 These requirements were introduced by the revised CIPFA/SOLACE Good Governance Framework (2012) and are necessary to meet the statutory requirement initially set out in the Accounts and Audit (England) Regulations 2011 and now in the Accounts and Audit Regulations 2015.

10.8 The 2017/18 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.

10.9 The Audit and Governance Committee has, through its terms of reference, been delegated some 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.

10.10 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/inspectorates. 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 inspectorates
- 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).

10.11 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 Corporate Leadership Team and consideration by the Audit and Governance Committee in May 2018.

11.0 Access to information

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

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| Description: |
| Business Continuity Planning |
| Current and tested business continuity plans are not consistently in place across all service areas. |
| Background: |
| Included in the 2013/14 AGS, not as a significant governance issue, but required further attention during 2014/15. |
| Responsibility: |
| Corporate Manager Governance and Audit |
| Proposed Action |
| <i>This is the action initially proposed when the issue was first reported</i> |
| Develop Business Continuity Planning to ensure service delivery in the event of business disruption. |
| Progress update for AGS 2016/17 |
| <p>A Business Continuity Action Plan is in place and aims to provide the following outcomes:-</p> <ul style="list-style-type: none"> • to identify the impact of losing key business processes, the likelihood of occurrence and recovery requirements • to identify suitable strategies to offset the risk to critical business processes • to ensure the organisation has fit-for-purpose plans and procedures in place to enable it to respond to any incident • to ensure staff are made aware of the business continuity management process and are able to perform their roles in an emergency • to ensure business continuity strategies remain up to date and fit for purpose and that guidance is available to ensure the consistency of approach • to ensure the business continuity management system is continually improved <p>Business Continuity is recognised as a risk on the Corporate Risk Register and is on the risk watch list. The risk is articulated as the risk “that an internal or external incident occurs which renders the Council unable to utilise part or all of its infrastructure (such as buildings, IT systems, resources, etc.) such that the Council is unable to deliver some, or in extreme cases all of its services; and putting residents at risk for a period of time, and resulting in a reduced achievement of Corporate Plan outcomes over the longer period.”</p> <p>The action plan should reduce the impact of this threat materialising as the various objectives within the action plan are implemented. Interdependencies with other corporate risks have been recognised such as Information Security and Cyber Threat, Increased Major Incidents, and Partnership Working.</p> |
| Progress update November 2017 |
| <p>Terms of Reference for a combined Business Continuity and Emergency Planning Liaison Group have been drafted and membership of the Group is being established. The purpose of this group is to ensure there is an overarching view of the two sets of arrangements and to provide guidance and support in the development and maintenance of the Council’s resilience.</p> <p>A draft Business Continuity statement outlining the Council’s commitment to Business Continuity Management and a framework identifying minimum standards has been drafted; this is being reviewed to ensure alignment with statutory legislation and central government policy before formal approval and rollout.</p> <p>An updated Business Continuity template has been drafted and will be communicated and issued to Heads of Service along with the Business Continuity Policy</p> <p>The Group will be looking at planning Business Continuity exercises the first of which is a Cyber Breach Exercise planned for early in new year.</p> |

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Business Continuity planning work has been undertaken with the Council's Information Governance Group with work begun on drafting Communication Templates. This helps with preparedness in terms of pre-planned communication which is pre-approved should an incident arise and provide clarity.

Draft Business Critical Activities have been identified and will be reviewed by the Joint Business Continuity and Emergency Planning Group.

Included within the Civil Contingencies Act are two distinct Business Continuity Management related duties, the first is to develop and maintain plans that will ensure they can continue to deliver their functions in an emergency so far as is reasonably practicable. The second is to promote and provide general BCM advice to commercial and voluntary organisations in their area. This duty is directly linked to the Government's overall resilience agenda. To assist with this the Council's Business Continuity Officer has given a Business Continuity presentation to an number of local businesses, giving advice on resilience and tips on how to prepare for an incident

Recommendation to A&G

That this issue remains on the AGS progress update.

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| Description: |
| Local Economic Partnerships Governance arrangements outlining the relationship between the Council, as accountable body, and the Local Economic Partnership (LEP) are out of date. |
| Background: |
| Included in the 2013/14 AGS, not as a significant governance issue, but required further attention during 2014/15. |
| Responsibility: |
| Director of Economic Growth and Prosperity in consultation with Chief Operating Officer |
| Proposed Action |
| This is the action initially proposed when the issue was first reported |
| 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 2016/17 |
| LEPs are required to adopt a Local Assurance Framework (LAF) to ensure that the necessary systems and processes are in place to manage delegated funding from Central government budgets. |
| The Cheshire and Warrington LEP (CWLEP) has an LAF in place which is based on the National Assurance Framework (government guidance on Assurance Frameworks from DCLG). This ‘Growth Programme Assurance and Accountability Framework’ has been developed as a mechanism for the Accountable Body, the CWLEP and key stakeholders to be clear about responsibilities and to ensure good governance. |
| The National Assurance Framework was updated by DCLG in 2016 to improve assurance, transparency and value for money in funding decisions. The CWLEP has reviewed the current arrangements to comply with the new standard and this revised version was agreed and signed off by the LEP Board and Cheshire East Council (CEC) S151 Officer representing the Accountable Body on 28 February 2017. |
| The CWLEP Board has ultimate responsibility for setting the corporate and strategic direction of the CWLEP as defined in its Articles of Association (Company No: 04453576) and delegated decision making and authority is set out in the CWLEP’s Scheme of Delegation. The Board membership was recently revised under the Nolan Principles (ethical standards for Public Office) with new appointments made to widen the business composition and scale (including voluntary and social enterprise and SME sectors). All three Local Authorities are represented on the Board. The Leader of the Council attends on behalf of CEC and is briefed on the agenda items prior to the meeting with specific reference to any items impacting on CEC business. |
| Some elements of operational and strategic responsibility are discharged through a series of formal Board sub-Committees each chaired by a member of the CWLEP Board and each with its own defined Terms of Reference. CEC has representation on all these sub-committees and minutes of all meetings are reported through the CWLEP Board. |
| One of the new requirements from the review of the LAF is to have provision for independent scrutiny in place to provide checks and balances in the operation of the partnership. Using guidance from DCLG and best practice from other LEPs the CWLEP Board approved the formation of a new Scrutiny Committee to be made up of a representative from each of the 3 LA’s (non-cabinet members) and 2 representatives from the private sector. |

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The role of the Accountable Body is set out in the CWLEP's LAF and is further detailed in a formal letter between the CWLEP and the S151 Officer. A Partnership Agreement is in place along with protocols to differentiate between the Council as Accountable Body (receiving and accountable for Government grant funds on behalf of the CWLEP) and the Council as the beneficiary of CWLEP grant funds (as a project deliverer).

Risk management is the responsibility of the Performance and Investment Committee and internal financial controls are managed by the Finance and Audit Committee. The Council's S151 Officer sits on both these committees where matters relevant to the Accountable Body role will be discussed. This includes approval of projects to be supported by Local Growth Fund grant (i.e. proper use of capital resources), and use of Core Funding grant to support the operational running costs of the LEP (i.e. use of revenue funding and assurance of local match funding in the LEP's budget).

CWLEP is a non-statutory body and, as such, is not subject to the Freedom of Information Act 2005 or the Environmental Information Regulations 2004. CEC will hold information about funding and payment decisions relating to the CWLEP. This is unlikely to be classified by the Information Commissioners Office as CEC information and will therefore not be subject to FOI. Any requests to CEC will be reviewed within the normal accountable body procedures.

The CWLEP also has a whistleblowing procedure which is monitored by the organisation's Finance and Audit Committee. The Accountable Body will be made aware of any whistleblowing submissions to the CWLEP.

Internal Officers from CEC Finance, Audit, Legal and Place continue to meet periodically as a group to manage the operational aspects of our Accountable Body role and monitor and review membership of CWLEP sub-committees and working groups to ensure CEC is best represented at all levels.

Progress update November 2017

Mary Ney, a Non-Executive Director in DCLG, was asked earlier this year to conduct a short review into the Governance and Transparency arrangements, following the publication of the National Assurance Framework. Mary Ney's review commenced on 28 April 2017 and concluded in six weeks. DCLG and BEIS Ministers also commissioned a wider review of LEPs which is due to report in Spring 2018. DCLG have confirmed that the National Assurance framework will be updated again, following the conclusion of that review.

Mary Ney's Review recognised that some LEPs had a history of establishing robust arrangements (some of our practices were pointed to as setting the benchmark during the review process), but there was a need for further clarity and direction to ensure consistency across all LEPs.

There are a number of recommendations coming out of the review, to be implemented quickly by all LEPs. Certain aspects are already covered by existing practices in the Cheshire & Warrington LEP, but there are matters which will require some action.

We are aware of these requirements and matters are in hand, to support the LEP and/ or respond as regards changes in the role of the S151 Officer, with Finance and Audit staff being particularly involved, in advance of the next "Annual Conversation" (the meeting of LEP and Government officials, scheduled for 11 December 2018).

Of particular note are two recommendations, which mention the developing role of the S151 Officer (Jan Willis) as regards commenting on decisions; and reporting on governance and transparency:

- Decision making process. ALL decisions must be subject to a business case, evaluation and scrutiny process. There must be a written report and the S151 officer should have the ability to

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provide comments, regardless of whether there is a formal meeting. All decisions to be published

- S151 Officer to provide a report to the annual conversation on their work for the LEP and their opinion with a specific requirement to identify any issues of concern on governance and transparency

As accountable body, CEC is now considering whether the governance arrangements in place are now fit for purpose, and that mechanisms are in place to ensure that further changes are identified and implemented. Once satisfied that this is indeed the case, this item can be removed from the Annual Governance Statement Review.

Recommendation to A&G

That this issue remains on the AGS progress update.

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| Description: |
| <p>Project Management</p> <p>The Council has a significant number of key projects currently in implementation and planned for the future. These include</p> <ul style="list-style-type: none"> • ambitious economic regeneration plans; and • ongoing commissioning reviews leading to new improved service delivery arrangements. <p>The Council is aware that if any of these are not delivered as planned it could result in aspects of service failure for residents, reputational issues or increased financial pressure.</p> |
| Background: |
| Emerging issues identified in the 2013/14 Annual Governance Statement which required further attention and monitoring to ensure they did not become significant governance issues |
| Responsibility: |
| Chief Operating Officer |
| Proposed Action |
| This is the action initially proposed when the issue was first reported |
| The Council's revised project and programme management approach is now an established part of the governance framework. Through its member led Executive Monitoring Board (EMB), all major change programmes and projects are subject to scrutiny and challenge at both development and delivery stage. The Council's new scrutiny committees also have an overview and help to highlight any issues and mitigate this risk. |
| Progress update for AGS 2016/17 |
| <p>Amendments to the Council's Finance Procedure Rules came into effect on 1st August 2016 which formally aligned the Constitution with the Executive Monitoring Board's revised Terms of Reference and extended remit. The membership of EMB has also been expanded from two Cabinet Members to three, and enhanced by the involvement of the Executive Directors of People and Place.</p> <p>The strategic review of Corporate Services has seen the Project and Programme Management and Business Improvement teams come together under the overall banner of Professional Services and has subsequently moved under Finance and Performance- this will further bolster the critical relationship between the business planning cycle and the effective governance and implementation of projects, this new team, managed by the Senior Manager (Projects and Change) continues to drive effective project and change management in the Council and its partner organisations.</p> <p>The expertise of qualified and experienced Project Managers is deployed across major change projects to ensure projects deliver on time, to cost and to expected governance standards. Project management processes have been standardised, including monitoring and reporting; monthly highlight reports and project dashboards have been utilised to ensure performance can be reported as part of the quarterly performance management framework, with escalation to CLT, EMB and Cabinet as and when required.</p> <p>Embedded and established project gateways ensure any deviations from the approved business case are articulated and escalated to the appropriate level. Continuous improvement is embedded through the Programme Management Office (PMO) Action Plan which has been audited, reviewed and refreshed in October 2016.</p> <p>Progress has continued on implementing the actions contained within it, including the collation and reporting of quarterly performance indicators for projects and programmes in 2016/17 for the first time, continued training provision and updated guidance on the Council's Centranet and the further development of a robust performance management framework for linking projects to other Council activities through the Business Intelligence Programme.</p> |

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In January 2017 a new Professional Services Management team was put in place. A priority has been to undertake a review of the current arrangements.

This review has incorporated the current operation of all stages of projects and programme, including EMB. In addition it is important to note that the budget setting process and associated team planning has required a more disciplined approach to the initiation of projects, which will support the delivery during the year. The Senior Manager (Projects and Change) also carries out additional reviews, in addition to the project health checks commissioned by EMB on key strategic projects and programmes to provide further reassurance and support.

Progress update November 2017

Plans are now progressing on developing the team structure and the support it offers to the organisation, a lot of work has been undertaken to ensure that robust project management methodologies are being adhered to and additional training material and guidance are being produced especially around benefits management.

Ideas are being explored about the coproduction of work especially with the Procurement team. This will further ensure that a holistic overview of projects and Programmes across the council is achieved.

Monthly Dashboards on progress of all capital projects is sent to Corporate Leadership Team (CLT) and Cabinet for review. As well as this, health checks are carried and reported back to Executive Monitoring Board (EMB). Performance reporting on projects is included within the quarterly performance reports that go to CLT and Cabinet.

Recommendation to A&G

Sufficient arrangements are now in place around Project Management that this no longer needs to be monitored as part of the Annual Governance Statement arrangements. The team drives the Project Management/Lean Systems/PMO governance on behalf of the council and will always look to improve on the process it carries out.

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| Description: |
| <p>New Service Delivery Models</p> <p>The Council launched four new 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 new vehicles were launched in early 2015: Transport Service Solutions Ltd (1st January 2015) and Civicance (1st April 2015)</p> |
| Background: |
| Emerging issues identified in the 2013/14 Annual Governance Statement which required further attention and monitoring to ensure they did not become significant governance issues |
| Responsibility: |
| Chief Operating Officer |
| Proposed Action |
| <p>This is the action initially proposed when the issue was first reported</p> <p>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.</p> |
| Progress update for AGS 2016/17 |
| <p>A review of CERF was commissioned in January 2017 to assess the effectiveness and appropriateness of the existing governance arrangements for the wholly owned companies and to clarify the expectations of CERF as a company in its own right.</p> <p>The CERF review, undertaken by an independent strategy/business growth consultant, concluded that there are clear opportunities to improve the way the ASDV companies are governed and that this should be addressed in order to ensure that "the whole is greater than the sum of the parts".</p> <p>An action plan has been developed to implement the recommendations of the review and address a number of recurring issues and themes that were identified during the review. This includes a fundamental review of the effectiveness and commercial prospects of all of the Council's ASDV companies and whether the current arrangements provide value for Cheshire East residents and the Council as stakeholder. The Portfolio Holder for Finance will be responsible for the implementation of the action plan.</p> |
| Progress update November 2017 |
| <p>Edge Consultants have been engaged to carry out a full review of all the ASDVs.</p> <p>Their recommendations will be reported to Cabinet in January 2018 and if approved a change programme will be set up to implement them.</p> |
| Recommendation to A&G |
| Continue to monitor, pending the outcome of the report to Cabinet and subsequent decisions. |

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| Description: |
| <p>Review of Contract Awards re Core Fit</p> <p>Following concerns raised about the awarding of contracts by the Council, the Council's Internal Audit team were asked by the 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 improper conduct, the internal audit work was suspended, pending the outcome of the police investigations which is ongoing at this time. The internal audit work will continue once the police investigation concludes.</p> |
| Background: |
| Governance issue arising in 2015/16 |
| Responsibility: |
| Chief Operating Officer |
| Proposed Action |
| <p>This is the action initially proposed when the issue was first reported</p> <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 MGB 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 2016/17 |
| <p>Audit and Governance Committee received reports (thematic report and individual review) on WARNs at the March, June, September and December 2016 and the March 2017 meetings.</p> <p>Procurement Board has continued to meet and progress improvement in procurement practices across the Council.</p> <p>Audit and Governance Committee received an update report on the findings of the Cardiff Checks which have been carried out to date by the Anti-Fraud Member/Officer Sub Group at the December 2016 meeting and agreed that the assurance received from this work provided them with assurance around procurement. It was agreed that the checks would continue.</p> |

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The Contracts Register update has enabled earlier engagement on re-procurement exercises. Over £500 expenditure reports continue to be published, now available with other data sets as part of the Council's "Open Data" site; <https://opendata.cheshireeast.gov.uk/>

The Police investigation from December 2015 in relation to procurement activity is ongoing. It was agreed at the December 2016 meeting of the Audit and Governance Committee that a new piece of work should be completed to provide assurance to both the Chief Operating Officer and Members that the arrangements currently in place to manage procurement activity are appropriate and effective.

Having received confirmation from the Senior Investigating Officer with TITAN, who is leading the investigation that the proposed audit would not impact upon the ongoing police work the audit commenced during March 2017 and has continued into the new financial year. The outcomes of this audit will be reported to a later meeting of Audit and Governance Committee.

Progress update November 2017

The police investigation is ongoing.

Internal Audit has undertaken some of the procurement review but has had to prioritise other investigation work, and therefore it has not yet been completed. The prioritisation has been done on the basis of conversations with the Council's Procurement Manager and assurances which have been received over the changes in practice which have been made.

The review will be completed at the earliest opportunity.

There will be a new board (Commissioning and Procurement) who will oversee the commercial activity within the Council to provide corporate assurance of the adequacy and effectiveness of commissioning, procurement and contract management arrangements and delivery of commissioning, procurement and contract management savings. It will ensure that commercial arrangements and decision making across the Council is robust, evidence based and embedded in commissioning and project plans, option appraisals, business cases, procurement strategies and contract management arrangements.

Recommendation to A&G

That this issue continues to be monitored as part of the Annual Governance Statement arrangements.

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| Description: |
| <p>Council Funding</p> <p>On-going and future changes to the financial framework - including several changes to national funding regimes - will increase the Council's reliance on self-financing. Many of these arise from changes to benefit administration, reductions in government grant and more schools becoming academies.</p> <p>While the Council is in a strong position it needs to accelerate its transition to a full commissioning model to ensure that the quality and cost base of services are appropriate and meet the needs of local residents and businesses within the future level of available resources.</p> |
| Background: |
| Recognised as a "Continuing Governance Issue" in the 2015/16 AGS, which had been included in previous Statements. |
| Responsibility: |
| Chief Operating Officer |
| Proposed Action |
| This is the action initially proposed when the issue was first reported |
| n/a |
| Progress update for AGS 2016/17 |
| <p>Cheshire East Council met on 23 February 2017 and agreed the Medium Term Financial Strategy Report for 2017/18 to 2019/20.</p> <p>The report set out the strategic overview for each outcome and more details of the actions each service area will be taking over the next three years to deliver the refreshed Corporate Plan Outcomes. This took account where possible of the feedback received from all stakeholders during the consultation period following the publication of the Pre- Budget Consultation document. A separate document detailing all the feedback received was taken to the same Council meeting in February.</p> <p>All proposals to vary the revenue or capital budgets were detailed in the Pre-Budget Consultation document and the MTFS. Supporting business cases, with equality assessments, were also produced for each proposal.</p> <p>The report set out forecasts on how the Council's expenditure will be balanced with funding from Government grants, Business Rates and Council Tax over the three years 2017/18 to 2019/20. The proposals in the Pre-Budget consultation document included the option to increase Council Tax by up to 3.99% each year, but the government settlement in December 2016 recognised that social care costs were in fact a national issue, that required greater focus. The consultation feedback and rising in-year costs led to the decision to increase Council Tax by 4.99% overall in 2017/18 with 3% of this increase directly funding Adult Social Care.</p> <p>Overall it is notable that net funding from Council Tax and Business Rates has increased to 88% in 2017/18 from 76% in 2014/15.</p> |
| Progress update November 2017 |
| <p>First & Second quarter reviews have been provided to the Corporate Overview & Scrutiny Committee and Cabinet detailing potential financial deficits in 2017/18. Overspends are prevalent in relation to Social Care and mitigating action is being taken to reduce the outturn through adjustments to Central Budgets where practical. Revised treatment of the Minimum Revenue Position and potential capitalisation of transformation costs (in line with recent government</p> |

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guidance) is within the Treasury Management Strategy, but is still a change in approach to previous years. It is forecast that transferring unused earmarked reserves to General Reserves will still be required to retain the risk based level of General Reserves in accordance with the Reserves Strategy approved in February 2017. Forecast spending contained within the Second Quarter Review is reflected in the Pre-Budget Consultation (see below).

The Council has also issued its Pre-Budget Consultation 2018/21. As in 2016, the process allows stakeholders to provide feedback on any proposal to vary the 2017/18 Base Budget. Feedback will be compiled and provided to members following the closure of the consultation period on 12th January 2018.

Strong growth in the tax base is positive in relation to the Council moving towards a self-funded position. However, delays in government announcements on Non-Domestic Rates, New Homes Bonus and Fairer Funding reviews raise significant risks in forecasting future funding options.

Recommendation to A&G

Note the ongoing reporting and activity to achieve a balanced outturn to the 2017/18 Budget. Note the process being followed to consult and engage stakeholders in relation to developing the 2018/21 MTFS.

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| Description: |
| <p>Health and Social Care Integration</p> <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 three acute providers 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 one of the initial aims of the work programme being to reduce non-elective admissions to hospitals 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> |
| Background: |
| Recognised as a "Continuing Governance Issue" in the 2015/16 AGS, which had been included in previous Statements. |
| Responsibility: |
| Strategic Director of Adult Social Care and Health |
| Proposed Action |
| This is the action initially proposed when the issue was first reported |
| n/a |
| Progress update for AGS 2016/17 |
| <p>The newly published national policy framework for the Improved Better Care Fund (IBCF) now incorporates integration as a key ambition. Whilst this IBCF requirement remains, and is likely to do so until at least 2019, there have been other significant developments regarding health and social care integration that the council may wish to consider and monitor as part of its governance. These include, most prominently, the development of the Cheshire and Merseyside Sustainability and Transformation Partnership (STP) - Five Year Forward View Delivery Plan, which was submitted to NHS England in October 2016. This plan is the main strategic driver regarding the transformation of health services and integration with social care. However, this is a NHS driven initiative not Local Government.</p> <p>The implementation of the plan has the potential to have significant implications for Cheshire East residents' healthcare and on the way that the Council works with NHS partners locally and within the rest of Cheshire, Wirral and Warrington. It also reiterates the importance of progressing the future model of the two transformation programmes in Cheshire East: Caring Together in Eastern Cheshire Clinical Commissioning Group (CCG) and Connecting Care in South Cheshire CCG.</p> <p>To ensure ongoing awareness of the proposals and progress with implementation, the Council attends the STP Senior Responsible Officer's System Management Group and the Cheshire and Wirral Local Delivery System meetings, but has no formal mandate for the Council either politically or from Chief Officers. However, the Officer attending is able to provide advice regarding when and how best to engage with the Council and to remind senior NHS colleagues to consider the wider system implications of their proposals. The Cheshire East Health and Wellbeing Board is also receiving updates on the progress of the implementation plans and held a joint meeting with the Cheshire West and Chester and Wirral Health and Wellbeing Boards in February 2017.</p> <p>It should be noted that 80% of the STP's proposed changes will be delivered through the Connecting Care and Caring Together (and West Cheshire Way in Cheshire West) transformation programmes, all of which have Council Officers involved in the detailed planning. There is also an Officer Working group involving colleagues from Cheshire West and Chester, the four Cheshire CCGs and Cheshire East, looking to help drive forward the integration agenda across the Cheshire footprint and where</p> |

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appropriate, adopt a consistent approach to service redesign, for example in developing a single specification for integrated neighbourhood teams.

Any formal service redesign or change proposals will be required to go through the usual consultation and overview and scrutiny process. The Council's Corporate Communications Team is also engaged with the NHS communications support team to ensure there is appropriate sharing of information. Regular meetings are held between the Acting Director of People and the Accountable Officers of the CCGs and with senior officers from NHS England.

The delivery of the Five Year Forward View will continue through until 2020 and will thus require ongoing engagement and involvement from the Council over the next three years.

Cheshire East's BCF plan for 2016/17 was fully assured by NHS England and ADASS and the previously reported areas requiring work were met within the required timescales to achieve this. Implementation of the 2016/17 plan is now complete. A programme of evaluation of all BCF schemes was undertaken and has informed the drafting of the 2017 – 2019 Plan in collaboration with the two CCGs. This is a two year plan in line with the Clinical Commissioning Groups' two year planning requirements for this period. The Narrative Plan was submitted to NHS England on 11th September. In summary it's aims are:

Cheshire East Better Care Fund Vision...

- Centre all care around the empowered individual, their goals, communities and carers
- Have shared decision-making and supported self-care, family and community care as integral components to all care
- Teams built around a person's needs and journeys, jointly accountable for outcomes and joint responsibility for continually improving care
- Focus its attention on health promotion, pro-active models of care and population level accountability and outcomes
- Continue to tackle health inequalities, the wider causes of ill-health and need for social care support e.g. poverty, isolation, housing problems and debt
- Have a strong clinically led primary care and community care system offering a comprehensive modern model of integrated care at scale
- Be delivering fully integrated and co-ordinated care, 7 days a week, close to home with a focus on the frail elderly and those with complex care needs

Supported by:

- System re-design of care – co-produced with our public and our workforce
- Strengthened and renewed primary care
- Shared information systems across health and social care so that people will only ever have to tell their 'story' once
- New contracting approaches that facilitate costs being moved from the acute sector to the community and that promote collaborations across multiple providers
- Joint commissioning utilising the Better Care Fund and other approaches
- A range of new roles to support models of care across traditional providers in the public, private and voluntary sector

To achieve:

- Accountability for all health and social treatment and care to the public
- High quality, safe care and a robust system of continuous improvement

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Through the delivery of 'Better Care' in Cheshire East 2017-19 to facilitate integrated health and social care, residents in Cheshire East will benefit from an ongoing programme of system-wide improvements that will provide care where possible at community level, reducing the need for inpatient stays and where this is not possible ensuring that time spent in hospital is minimal and follow-up care and support which is joined-up and meets a person's needs.

Integrated Communities: residents will be supported within their communities by employing a mind-set that builds on the principle of community capabilities rather than deficits.

Integrated Case Management: residents will receive a more co-ordinated experience of care and support services through the use of a single point of access and our support of seven-day working.

Integrated Commissioning: services commissioned for local residents will be based upon strong evidence and proven effectiveness and commissioned as part of a whole system approach to commissioning.

Integrated Enablers: On Cheshire East geography this enabling work-stream supports the changes that will enable long-term integration

In addition, by the end of 2017/18:

- Reablement services in Cheshire East will have become fully integrated to address both physical and emotional needs, and will provide an improved outcome for those in Cheshire East. This will be evidenced by an improved reablement score under National Metric 3 (Improved reablement services).
- Carer's services will be integrated, providing a single solution for support, which supports wellbeing, de-escalates crisis and maintains quality of life for both the person caring and the person being cared for. This will be evidenced under an improved score under National Metric 3 (Improved reablement services).
- Assistive technology reviews start to deliver technology enabled care, reducing the need for people to receive their care in the hospital setting and enabling them to self-care from home. This will be evidenced by an improvement in National Metric 2 (Reducing admissions to residential and nursing care).
- Improved Better Care Funded (iBCF) schemes will provide increased capacity and capability in the community; this is evidenced by a reduction in those requiring residential and nursing home care.

Improved use of data locally will mean that the Better Care Fund planning will react to trends much faster than previously, providing a much faster and evidence-based planning process.

Progress update November 2017

The governance framework of the NHS Cheshire and Merseyside Sustainability and Partnership has been changed and the Council's Acting Chief Executive is now a member of the Partnership Board. The Local Delivery System has been disestablished and the focus shifted to 'place-based' accountable care. As part of this there are discussions underway to merge the Caring Together and Connecting Care transformation programmes run by the two Clinical Commissioning Groups in Cheshire East.

On the 27th of October 2017 the, 'Delivering the Better Care Fund in Cheshire East Plan 2017-19,' was formally rated **Approved with Conditions**, by NHS England.

The condition requiring action was:

Planning Requirement 9 -

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Provide the full 'comprehensive risk log' referred to on page 32 (of your plan) that demonstrates how these risks will be proportionally mitigated or managed operationally.

On the 2nd of November 2017, the updated plan was resubmitted to NHS England for final approval.

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.

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.

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 Q2 report was completed and submitted to the Local Government Association on the 20th of October 2017.

This submission builds on the baseline set out in July 2017, which demonstrates how Cheshire East will invest its social care grant to support Delayed Transfers of Care and to maintain capacity in the social care system. However, government will consider in November, reviewing 2018/19 allocations of the adult social care for councils that are performing poorly in relation to DTOC performance. The funding will remain with local government, to be used for adult social care. For those with the worst performance, the government reserves the right to direct how this money is spent.

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 across all three Better Care Fund partners in Cheshire East.

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. On the 10th of October 2017, Cheshire East Council received correspondence from Sajid Javid and Jeremy Hunt confirming that the Cheshire East DTOC performance is not within the 32 poorest performers nationally. The data takes into account performance up to and including August 2017, where Cheshire East has performed well against the trajectory.

Areas where significant progress has been made are in the redesign of carers' services. Previously in Cheshire East, Carers Breaks have been a central part of BCF provision. However, as part of the Delivering the Better Care Fund Plan in Cheshire East, BCF partners set out an ambitious plan to integrate all carers services, those covered by the Social Care Act, services like 'carers breaks' and early intervention and prevention services, into one integrated service as part of a Hub and Spoke model, to support both health and social care.

Whilst rapid plans are being undertaken for the wholesale redesign of carers services to be procured and in place by April 2018, it also became necessary to provide an interim service to support carers, to provide them with a break from their caring role (in order to reduce and minimise carer crisis, use of A&E in the need of crisis and ultimately a non-elective admission for both carer and cared for) and to support carer health and wellbeing so that they are able to continue with their caring duties.

Recommendation to A&G

The Audit and Governance Committee acknowledge the significant efforts made by those working in the health and social care system to achieve the current targets set within the challenging trajectory

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set by NHS England.

The Audit and Governance Committee acknowledges the work being undertaken as part of 'Delivering the Better Fund Plan in Cheshire East 2017-19' Better Care Fund plan, which provides the overarching strategy for health and social care transformation.

The Audit and Governance Committee acknowledges how the new approach to data management adopted by Cheshire East Council, NHS Eastern Cheshire and NHS South Cheshire CCGs has provided the pivotal shift in the interpretation and use of information to create accurate trajectories.

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| Description: |
| <p>Air Quality Data</p> <p>During the preparation of the 2015 Air Quality Annual Status Report, anomalies were discovered between the data submission. Initial investigation identified further anomalies, which also appeared to have affected the previous year's submission.</p> <p>The Chief Executive requested a review of the data returns and the processes in place for monitoring, recording and disseminating air quality data to be undertaken by Internal Audit. This was completed and reported during October 2016, and confirmed that the figures submitted were incorrect and identified improvements to the monitoring process.</p> |
| Background: |
| Recognised as a Significant Governance Issue in the Annual Governance Statement 2016/17 |
| Responsibility: |
| Executive Director – Place |
| Proposed Action |
| <p>This is the action initially proposed when the issue was first reported</p> <p>One of the recommendations of the Internal Audit report was for further investigation to be carried out with a view to understanding the cause of the errors, to assess the full impact and implications of the errors made, and identify any actions required to ensure that the Council is fulfilling its statutory responsibilities with regards to air quality.</p> <p>The investigation into the Council's monitoring and reporting of Air Quality has been completed. The high level findings reported that ;</p> <ol style="list-style-type: none"> 1. Serious errors have been made in the council's air quality data for 2012, 2013 and 2014. It is clear that these errors are the result of deliberate and systematic manipulation of data from a number of diffusion tubes. 2. The council has been exposed to unacceptable risks to the security of its air quality data as a result of failings within the service to ensure that adequate processes, procedures and systems were in place to manage this data effectively. 3. These errors have caused a number of serious problems for the council. These are as follows: <ul style="list-style-type: none"> • Incorrect data has been submitted to Defra in an annual statutory return, which will need to be corrected and published in the public domain. • These errors and other methodological issues have resulted in a number of deficiencies in relation to Air Quality Management Areas (AQMA) requiring adjustments to be made to the detail of a number of AQMAs. • The errors may have affected the Detailed Assessments (DA) carried out to determine whether an AQMA should be declared. • The errors have impacted on Air Quality Assessments undertaken as part of the process of considering planning applications. 4. The data sets that are aligned to the diffusion tubes that were and are now known to be altered are spread over a wide geographical area, which implies that the manipulation was not motivated by a wish to favour specific sites. 5. Phase 2 of the external investigation included a review of planning applications where publication of revised air quality data may have affected the planning decisions. The findings |

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indicate that such planning applications are in the following towns:

- Nantwich
- Congleton
- Crewe
- Holmes Chapel
- Sandbach

The statutory return to Defra for 2016 (Annual Status Report) has been reviewed and quality assured as part of the investigation. The council will shortly be in a position to seek the approval of the Director of Public Health for both the 2016 and 2017 ASR submission to Defra. Both the 2016 and 2017 reports are based on corrected data and include actions as recommended by the investigation.

The Air Quality team have reviewed their internal processes and procedures to ensure that the risk of data adjustment is minimised. There are now a number of quality control measures in place.

A review of how other statutory data sets are compiled and reported will be undertaken by Internal Audit later in the year.

On 19th September, the Council confirmed that concerns over the manipulated air quality data had been referred to Cheshire Constabulary.

Progress update for AGS 2016/17

n/a

Progress update November 2017

Further to the progress previously reported;

- A number of internal processes and procedures have been revised to improve data integrity and security;
 - Random data validation checks will be carried out by supervising staff.
 - Access to master data sheets has been restricted with read only access provided to other users
 - Data is provided by the laboratory in a format which does not require manual entry
- The 2017 Annual Status Report (ASR) has been signed off by the Director of Public Health.
- The ASRs for 2016 and 2017 have been submitted to Defra. Once these have been signed off by Defra, they will be uploaded to the Council's website.
- The location and number of AQ monitoring tubes has been reviewed in accordance with the recommendations of the Local Air Quality report completed by Bureau Veritas. Additional tubes have been put out where there are exceedances or likely exceedances. Some tubes removed where there are duplicates or where the data is below the objective.
- Five new Air Quality Management areas have been declared, which have taken effect from 1st October 2017. Public engagement sessions will be carried out during 2017, and the Cheshire East Air Quality Action Plan will also be reviewed by October 2018.
- Air Quality Steering Group meetings have been reconvened and will be chaired by the new PH (?). The Group will also include a representative from Public Health and in future, the AQ steering group will have final oversight of future ASRs.
- There will be external quality assurance of the ASRs to ensure there is confidence in the integrity and security of data. The AQ steering group and senior management will determine when the external assurance is no longer required.
- Member briefings have been carried out and queries from individual wards have been responded to. Further briefings can be carried out if and when required.
- Environment and Regeneration Overview Scrutiny Committee have received an update on

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Air Quality and will receive an annual report.

- Prior to the adoption of the Local Plan Strategy the strategic housing allocations sites were reviewed to establish if the corrected air quality information would have affected any of the allocations. The review has concluded there is nothing to indicate that the corrected air quality information would have affected any of the allocations. The review has concluded there is nothing to indicate that the corrected air quality information would have affected any of the allocations.
- The planning applications identified in the Bureau Veritas report have been reviewed. The review has concluded that there is nothing to indicate that the corrected air quality information would have affected the outcome or mitigation levels of any of the applications. In one case a revised Air Quality Assessment was required. A revised Air Quality Assessment has been completed for the one application referred to in the report and is being analysed.

Recommendation to A&G

Note the additional progress reported and consider that this provides assurance that appropriate action has been taken to demonstrate that the issue is now being managed sufficiently to recommend removal of this issue as a significant governance issue.

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| Description: |
| <p>Designated Statutory Officers/Investigation and Disciplinary Committee</p> <p>During Q4 concerns relating to officer conduct 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 considered by the Council's Investigation and Disciplinary Committee (IDC). Those processes are still ongoing but a decision has been taken by the IDC to suspend the Chief Executive whilst an investigation is undertaken. The decision to suspend is a neutral act and will be kept under review.</p> |
| Background: |
| Recognised as a Significant Governance Issue in the Annual Governance Statement 2016/17 |
| Responsibility: |
| Acting Chief Executive |
| Proposed Action |
| This is the action initially proposed when the issue was first reported |
| <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. 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> <p>The Council's external auditors have confirmed that the external audit certificate for 2016/17 will be held open until the completion of these investigations.</p> |
| Progress update for AGS 2016/17 |
| n/a |
| Progress update November 2017 |
| <p>The Investigation and Disciplinary Committee (IDC) processes are ongoing and all appropriate investigations are underway. The Chief Executive and the Director of Legal Services and Monitoring Officer remain suspended, this position having been reviewed by the IDC at the required intervals.</p> <p>The Council will continue to ensure continuity of service provision and organisational governance.</p> |
| Recommendation to A&G |
| That this issue continues to be monitored as part of the Annual Governance Statement arrangements. |

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| Description: |
| <p>Berkeley Academy Car Park</p> <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> |
| Background: |
| Recognised as a Significant Governance Issue in the Annual Governance Statement 2016/17 |
| Responsibility: |
| Executive Director - Place |
| Proposed Action |
| <p>This is the action initially proposed when the issue was first reported</p> <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 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.</p> <p>On 19th September, the Council confirmed that concerns over the allocation of public funds in making a grant to Berkeley Academy had been referred to Cheshire Constabulary.</p> <p>The Council’s external auditors have confirmed that their Value for Money conclusion for 2016/17 has been qualified, due to the findings identified and reported by Internal Audit.</p> |
| Progress update for AGS 2016/17 |
| n/a |
| Progress update November 2017 |
| <p>The Executive Director has met with the Chair of Governors to agree the precise conditions for the allocation of this grant funding.</p> <p>Once these have been agreed an (Officer Decision Record) ODR will be prepared and signed and then instructions will be provided to draw up a funding agreement with the school.</p> |
| Recommendation to A&G |
| Note that the Executive Director is ensuring that appropriate steps are in place before any funding is transferred to the School. |

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Progress Updates for December 2017 Audit & Governance Committee

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| Description: |
| <p>Sleep In Arrangements</p> <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. It was not until April 2017, following the outcome of the national Mencap appeal that the employment appeals 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> |
| Background: |
| Recognised as a Significant Governance Issue in the Annual Governance Statement 2016/17 |
| Responsibility: |
| Acting Executive Director People; COO and Head of Strategic HR |
| Proposed Action |
| <p>This is the action initially proposed when the issue was first reported</p> <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. • Compliance with the NMW investigation underway. <p>The Council's external auditors are considering a formal objection to the Council's accounts under Section 27 of the Local Audit and Accountability Act.</p> |
| Progress update for AGS 2016/17 |
| n/a |
| Progress update November 2017 |
| <p>The Sleep in review has made considerable progress and its findings have been reported and approved:</p> <ul style="list-style-type: none"> • Arrears have been paid to all eligible employees with October salaries in a range of services for a 2 year retrospective period as advised by an external legal barrister. • Arrangements in place to pay new sleep-in allowances backdated from 1st September in December salaries to ensure compliance with National Minimum Wage going forward. • On-going dialogue continues with the Trade Unions to resolve outstanding staff grievances and discuss service reviews going forward. |

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National developments continue to be monitored as the Government continues to come to terms with the implications of this major national care provision issue and how it will be funded.

The police investigation into this being a criminal matter has now been closed. They have put in writing that no criminal matters have been found and will not be taking any further action.

Recommendation to A&G

That this issue continues to be monitored as part of the Annual Governance Statement arrangements.

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| Description: |
| Land Purchases Following an internal audit review of the Council's arrangements for asset disposals and purchases started in July 2017, concerns were identified over a number of acquisitions. |
| Background: |
| Recognised as a Significant Governance Issue in the Annual Governance Statement 2016/17 |
| Responsibility: |
| Internal Audit, reporting to the Chief Executive. |
| Proposed Action |
| This is the action initially proposed when the issue was first reported |
| Internal Audit work in this area is ongoing, and findings to date have been referred to Cheshire Constabulary for consideration and further investigation. The Council's external auditors have confirmed that their Value for Money conclusion for 2016/17 has been qualified, due to the findings identified and reported by Internal Audit. |
| Progress update for AGS 2016/17 |
| n/a |
| Progress update November 2017 |
| Internal Audit has appointed external resource to assist with this work. This work is ongoing and initial reports are due mid-December. The findings of this phase of will determine whether additional work is required and whether further police referrals are required. |
| Recommendation to A&G |
| Note the ongoing progress in this area of work and the potential for further work. |

Cheshire East Council

Audit & Governance Committee

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| Date of Meeting: | 7 December 2017 |
| Report of: | Director of Finance and Procurement |
| Subject/Title: | Draft Treasury Management Strategy and MRP Statement 2018/19 |
| Portfolio Holder: | Councillor Paul Bates |

1. Report Summary

- 1.1. The purpose of this report is to update Members on the contents of the Council's Treasury Management Strategy for 2018/19.
- 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.
- 1.4. The key elements of the strategy for 2018/19 are for the Council to:
 - Reflect the forthcoming changes in the CIPFA Treasury Management Code of Practice
 - Reduce capital financing costs in the short term through the change in the calculation of MRP (Minimum Revenue Provision)
 - Take an appropriate approach to risk for short term loans as required, by only borrowing from lenders identified in the strategy
 - Maintain security of investments by only using counterparties detailed in the strategy
 - Support a flexible approach to treasury management that can react to opportunities and market conditions to maximise effectiveness, whilst protecting the public funds managed within the strategy
- 1.5 The Prudential Indicators will be updated with the final capital programme before being reported to Cabinet on 6th February 2018 and then on to Full Council for approval on 22nd February 2018.

2. Recommendation

- 2.1 To receive and comment on the proposed Treasury Management Strategy and the MRP Statement for 2018/19 set out in Appendix A.

3. Reasons for Recommendation

- 3.1. The report presents the 2018/19 Treasury Management Strategy Statement (TMSS), incorporating the Minimum Revenue Provision (MRP) Policy Statement, Investment Strategy and Prudential and Treasury Indicators 2018/21, 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 2018/19. The Strategy for 2018/19 reflects the views on interest rates of leading market forecasts provided by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.
- 3.3. The CIPFA Code of Practice on Treasury Management requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

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 on a quarterly basis.
- 5.2. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's three year capital 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 major external influence on the Council's treasury management strategy for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the referendum, but there are indications that uncertainty over the future is now weighing on growth which is therefore forecast to remain sluggish throughout 2018/19.

- 5.4. Interest rates are forecast to remain at 0.5% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- 5.5. CIPFA is currently out to consultation on the Treasury Management Code of Practice 2011 Edition. Consultation is due to end on 22 December 2017 and any changes will apply from 2018/19 onwards. Some of the planned changes include:

- Extend to all investments “held primarily for financial returns”
 - Direct property purchases
 - Loans to and guarantees of other bodies
 - Shareholdings in other companies
- To cover “all financial assets” and non-financial assets held primarily to generate income
- Security and liquidity measures for property
- Some indicators dropped and others changed

Due to the timing of the publication of the new Code, the Strategy has been based on existing requirements and will be amended during 2018/19.

- 5.6. The need for temporary borrowing arose during 2017/18 due to the decision to pay past service pension deficit contributions for the next three years in one advance payment of £45m in April 2017. The discount available from early payment more than offsets the costs of borrowing. The longer term borrowing requirements for 2018/19 and future years will be discussed with Arlingclose during the quarterly advisory meetings and will be reported via the quarterly updates to Cabinet.
- 5.7. The Council currently has external borrowing of £133m of which £33m 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 3.1%). Currently long term interest rates are around 2.6%.
- 5.8. The Council has maintained the £7.5m investment in the CCLA managed property fund. The current value of the units in the fund if sold is £7.6m which is slightly higher than the original invested amount. The fund continues to generate income of 4.69%. Most other investments currently held are short term for liquidity purposes.
- 5.9. The rate of interest to be earned on the Council's cash balances that are temporarily invested is budgeted to be £0.36m.
- 5.10. 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, ensuring good value for money to local businesses and residents.

- 5.11. The Council amended its approach to calculating the Minimum Revenue Provision (MRP) during 2017/18, the use of the annuity method resulted in the ability to take an MRP holiday and reduce the budget by £6m in 2017/18 and £4m in 2018/19. This approach reduces current costs, although the overall total cost of capital financing, over the life of capital assets, will still be consistent
- 5.12. The capital financing budget has therefore reduced to £10m, 3.9% of the 2018/19 net revenue budget.

Capital Financing Budget 2018/19

| Capital Financing Budget | 2018/19 £m |
|--|---------------|
| Repayment of Outstanding Debt | 6.8 |
| Contribution re: Schools Transforming Learning Communities Schemes | -0.9 |
| Interest on Loans | 4.5 |
| Less: Interest Receivable on Cash Balances | -0.4 |
| Net Capital Financing Budget | 10.0 |

Source: Cheshire East Finance

6. Wards Affected and Local Ward Members

- 6.1. All.

7. Implications of Recommendation

7.1. Policy Implications

- 7.1.1. The impact of the Treasury Management Strategy 2018/19 feeds into the assumptions underpinning the 2018/21 medium term financial strategy.

7.2. Legal Implications

- 7.2.1. It is a requirement of the CIPFA's Treasury Management in the Public Services: Code of Practice; that Council receives an Annual Report on its Treasury Strategy; that Council sets Prudential Indicators for the next three years and approves an Annual Investment Strategy and an Annual MRP Policy Statement. There are stringent legislative requirements in place which dictate the way that a local authority deals with financial administration.

7.3. Financial Implications

- 7.3.1. Effective treasury management provides support towards the achievement of service priorities, it ensures that the Council's capital investment programme delivers value for money by demonstrating that capital expenditure plans are affordable, external borrowing is prudent and sustainable and treasury decisions are taken in accordance with good practice.

7.4. Equality Implications

- 7.4.1. Not applicable.

7.5. Rural Community Implications

- 7.5.1. Not applicable.

7.6. Human Resources Implications

- 7.6.1. Not applicable.

7.7. Public Health Implications

- 7.7.1. Not applicable.

7.8. Implications for Children and Young People

- 7.8.1. Not applicable.

7.9. Other Implications (Please Specify)

- 7.9.1. Not applicable.

8. Risk Management

- 8.1. The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.
- 8.2. 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.
- 8.3. 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.
- 8.4. The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

9. Access to Information

9.1 CIPFA Capital Finance – The Prudential Code

CIPFA Treasury Management in the Public Services – Code of Practice

Guidance and information provided by Arlingclose can be accessed via the Treasury Management team, Financial Strategy & Reporting.

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Appendices:

*Appendix A – Draft Treasury Management Strategy Statement & Investment Strategy
2018/19 – 2020/21*

Treasury Management Strategy Statement and Investment Strategy 2018/19 to 2020/21



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1. Background

- 1.1. On 23rd February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 1.2. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
- 1.3. The report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4. 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 risk are therefore central to the Authority's treasury management strategy.
- 1.5. **Revised strategy:** In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

2. External Context

- 2.1 **Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in negotiating a smooth exit from the European Union and agreeing future trading relationships. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.
- 2.2 Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.
- 2.3 In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.
- 2.4 **Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

- 2.5 Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.
- 2.6 The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.
- 2.7 **Interest rate forecast:** The Authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- 2.8 Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.
- 2.9 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at **Annex A**.
- 2.10 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 1.45%, which takes into account strategic fund investments, and that short term loans will be borrowed at an average of 0.60%.
3. **Local Context**
- 3.1 The Authority currently has borrowings of £133m and investments of £16m. 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

| | 31.3.17 Actual £m | 31.3.18 Estimate £m | 31.3.19 Estimate £m | 31.3.20 Estimate £m | 31.3.21 Estimate £m |
|---------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| General Fund CFR | | | | | |
| Less: Other long-term liabilities * | | | | | |
| Borrowing CFR | | | | | |
| Less: External borrowing ** | | | | | |
| Internal (over) borrowing | | | | | |
| Less: Usable reserves | | | | | |
| Less: Working capital | | | | | |
| Investments (or 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 £ m 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 2018/19.

4. Borrowing Strategy

- 4.1 The Authority currently holds loans of £133m, an increase of £23m on the previous year. 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 and reduce overall treasury risk. The benefits of 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. Arlingclose 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 2018/19 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 2018/19, 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:
- operating and finance leases
 - 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 2018/19, 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 limits on the maturity structure of borrowing and the net exposure to variable interest rates 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 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 £16m and £56m. Levels of around £25m are expected to be maintained in the forthcoming year.

- 5.2 Both the CIPFA Code and the CLG Guidance require 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 2018/19, 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 2018/19. 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 and money market funds.
- 5.5 The Authority may invest its surplus funds with any of the counterparties in table 2 below, subject to the cash and time limits shown.

Table 2: 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 | £12m per fund | | | | |

*Banks includes Building Societies

The above limits apply to individual counterparties and represent the maximum amount and maximum duration of any investment per counterparty.

- 5.6 **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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.
- 5.7 **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.
- 5.8 **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.
- 5.9 **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 an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- 5.10 **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.
- 5.11 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.
- 5.12 **Pooled Funds:** Shares 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.
- 5.13 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.
- 5.14 **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.

- 5.15 **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.
- 5.16 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.
- 5.17 **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 and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 5.18 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.
- 5.19 **Specified Investments:** The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".
- 5.20 The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a

sovereign rating of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

- 5.21 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

| | Cash limit |
|---|------------|
| Total long-term investments | £25m |
| Total investments without credit ratings or rated below A- (except UK Government and local authorities) | £20m |
| Total investments (except pooled funds) domiciled in foreign countries rated below AA+ | £15m |
| Total non-specified investments | £60m |

- 5.22 **Investment Limits:** The Authority’s revenue reserves available to cover investment losses are forecast to be £76m on 31st March 2018. In order that no more than 8% 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 or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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 | £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) |

- 5.23 **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. Non-Treasury Investments

- 6.1 Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example as equity investments or loans to partner organisations or the Authorities subsidiaries.
- 6.2 Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.
- 6.3 The Authority's existing non-treasury investments are listed in Appendix B

7. Treasury Management Indicators

- 7.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.
- 7.2 **Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

| | 2018/19 | 2019/20 | 2020/21 |
|--|---------|---------|---------|
| Upper limit on fixed interest rate exposure | 100% | 100% | 100% |
| Upper limit on variable interest rate exposure | 100% | 100% | 100% |

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months. All other instruments are classed as variable rate.

- 7.3 **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 fixed rate borrowing will be:

| | Upper | Lower |
|--------------------------------|-------|-------|
| Under 12 months | 60% | 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 under 12 months has been increased 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.

- 7.4 **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:

| | 2018/19 | 2019/20 | 2020/21 |
|---|---------|---------|---------|
| Limit on principal invested beyond year end | £25m | £15m | £10m |

8. Other Items

- 8.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.
- 8.2 **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).
- 8.3 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.
- 8.4 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.
- 8.5 **Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through regular meetings and periodic tendering for services.
- 8.6 **Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by our treasury management advisers, Arlingclose Limited and other relevant providers.
- 8.7 **Investment of Money Borrowed in Advance of Need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.
- 8.8 The total amount borrowed will not exceed the authorised borrowing limit of £267 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link particular loans with particular items of expenditure.

9. Financial Implications

- 9.1 Anticipated investment income in 2018/19 is £360,000, based on an average investment portfolio of £25 million at an interest rate of 1.45%. The budget for debt interest paid in 2018/19 is £4.5 million, based on an average debt portfolio of £200 million at an average interest rate of 2.25%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

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Annex A - Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.
- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

| | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Average |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Official Bank Rate | | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.19 |
| Arlingclose Central Case | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Downside risk | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.15 |
| 3-month LIBID rate | | | | | | | | | | | | | | |
| Upside risk | 0.10 | 0.10 | 0.10 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.22 |
| Arlingclose Central Case | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| Downside risk | -0.10 | -0.10 | -0.15 | -0.15 | -0.15 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.25 | -0.20 |
| 1-yr LIBID rate | | | | | | | | | | | | | | |
| Upside risk | 0.15 | 0.15 | 0.20 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 | 0.27 |
| Arlingclose Central Case | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.80 | 0.77 |
| Downside risk | -0.15 | -0.20 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.30 | -0.15 | -0.26 |
| 5-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.32 |
| Arlingclose Central Case | 0.75 | 0.75 | 0.80 | 0.80 | 0.80 | 0.85 | 0.90 | 0.90 | 0.95 | 0.95 | 1.00 | 1.05 | 1.10 | 0.89 |
| Downside risk | -0.20 | -0.20 | -0.25 | -0.25 | -0.25 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.33 |
| 10-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.32 |
| Arlingclose Central Case | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.30 | 1.30 | 1.35 | 1.40 | 1.45 | 1.50 | 1.55 | 1.55 | 1.36 |
| Downside risk | -0.20 | -0.25 | -0.25 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.40 | -0.33 |
| 20-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.32 |
| Arlingclose Central Case | 1.85 | 1.85 | 1.85 | 1.85 | 1.85 | 1.90 | 1.90 | 1.95 | 1.95 | 2.00 | 2.05 | 2.05 | 2.05 | 1.93 |
| Downside risk | -0.20 | -0.30 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.45 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.38 |
| 50-yr gilt yield | | | | | | | | | | | | | | |
| Upside risk | 0.20 | 0.25 | 0.25 | 0.25 | 0.30 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.35 | 0.40 | 0.32 |
| Arlingclose Central Case | 1.70 | 1.70 | 1.70 | 1.70 | 1.70 | 1.75 | 1.80 | 1.85 | 1.90 | 1.95 | 1.95 | 1.95 | 1.95 | 1.82 |
| Downside risk | -0.30 | -0.30 | -0.25 | -0.25 | -0.30 | -0.35 | -0.40 | -0.45 | -0.50 | -0.50 | -0.50 | -0.50 | -0.50 | -0.39 |

Annex B

Existing Investment & Debt Portfolio Position

| | 21/11/17 Actual Portfolio £m | 21/11/17 Average Rate % |
|-------------------------------------|------------------------------------|-------------------------------|
| External Borrowing: | | |
| PWLB - Fixed Rate | 80 | 3.96% |
| PWLB - Variable Rate | 0 | - |
| Local Authorities | 33 | 0.47% |
| LOBO Loans | 17 | 4.63% |
| Other | 3 | - |
| Total External Borrowing | 133 | 3.08% |
| Other Long Term Liabilities: | | |
| PFI | 24 | - |
| Finance Leases | 4 | - |
| Total Gross External Debt | 161 | - |
| Investments: | | |
| <i>Managed in-house</i> | | |
| Short-term investments: | | |
| Instant Access | 2 | 0.33% |
| Fixed Term Deposits | 2 | 1.00% |
| <i>Managed externally</i> | | |
| Fund Managers | 4 | 0.46% |
| Property Funds | 8 | 5.00% |
| Total Investments | 17 | 2.64% |
| Net Debt | 144 | - |

| | | |
|---------------------------------------|----------|--------------|
| Non-treasury investments: | | |
| Shares in companies | 2 | - |
| Loans to companies | 2 | 0.78% |
| Development investment funds | 2 | - |
| Total non-treasury investments | 6 | 0.25% |

Annex C

Prudential Indicators revisions to 2017/18 and 2018/19 - 2020/21

1. Background:

1.1 The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. Estimates of Capital Expenditure:

2.1 The Authority's planned capital expenditure and financing may be summarised as follows.

2.2 Capital expenditure will be financed or funded as follows:

3. Estimates of Capital Financing Requirement:

3.1 The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

3.2 The CFR is forecast to rise over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

4. Gross Debt and the Capital Financing Requirement:

4.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

4.2 Total debt is expected to remain below the CFR during the forecast period.

5. Authorised Limit and Operational Boundary for External Debt:

5.1 The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

5.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

- 5.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).
- 5.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 5.5 The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

6. Ratio of Financing Costs to Net Revenue Stream:

- 6.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs net of investment income.

7. Incremental Impact of Capital Investment Decisions:

- 7.1 This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

8. Adoption of the CIPFA Treasury Management Code:

- 8.1 This indicator demonstrates that the Authority has adopted the principles of best practice.

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Annex D - MRP Statement 2018/19

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 Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG 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 determined as 4% of the Capital Financing Requirement in respect of that expenditure. (*Option 2 in England & Wales*)

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 in equal instalments or as the principal repayment on an annuity with an average annual interest rate, 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 2018/19 will not be subject to a MRP charge until 2019/20.

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CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 7 December 2017
Report of: Corporate Manager Governance and Audit
Title: Internal Audit Interim Report 2017/18 & Internal Audit Charter
Portfolio Holder: Councillor Rachel Bailey

1.0 Report Summary

1.1 The purpose of the report is to:

- i) update the Audit and Governance Committee on progress against the Internal Audit Plan 2017/18, revisions to the plan and to summarise work during the first half of 2017/18 (see Appendix A).
- ii) present the updated Internal Audit Charter for approval by the Committee (see Appendix B).

2.0 Recommendation

2.1 That the Committee:

- i) note the issues identified, endorse the approach to achieving adequate audit coverage in the remainder of 2017/18 and discuss future audit issues and ways of working as appropriate.
- ii) approve the updated Internal Audit Charter.

3.0 Reasons for Recommendation

3.1 This interim report addresses emerging issues in respect of the whole range of areas to be covered in the annual report, due in June 2018.

3.2 The Internal Audit Charter is reviewed periodically (as a minimum annually) by the Corporate Manager Governance and Audit and presented to the Corporate Leadership Team and forwarded to the Audit and Governance Committee for approval.

4.0 Wards Affected

4.1 All wards.

5.0 Local Wards Affected

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

7.1 The Internal Audit team must be appropriately resourced to comply with statutory and best practice requirements.

8.0 Legal Implications

8.1 The requirement for an internal audit function flows from s151 of the Local Government Act 1972 requiring Councils to “make arrangements for the proper administration of their financial affairs” and the Accounts and Audit Regulations 2011 requiring a relevant body to “undertake an adequate and effective internal audit ...”

9.0 Risk Assessment

9.1 Failure to consider the effectiveness of the Council’s system of internal audit and the Internal Audit opinion on the Council’s control environment could result in non-compliance with the requirements of the Accounts and Audit Regulations 2015.

10.0 Background

10.1 The Public Sector Internal Audit Standards (PSIAS) Local Government Application Note states that, “in addition to the annual report, the Chief Audit Executive should make arrangements for interim reporting to the organisation in the course of the year. Such interim reports should address emerging issues in respect of the whole range of areas to be covered in the annual report and hence support a ‘no surprises’ approach, as well as assist management in drafting the annual governance statement”.

10.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the Council, via the Audit and Governance Committee, that these arrangements are in place and operating properly. The annual internal audit opinion informs the Annual Governance Statement. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the Council’s objectives.

10.3 The Public Sector Internal Audit Standards state that the purpose, authority and responsibility of internal audit must be formally defined in an Internal Audit Charter. The Charter establishes Internal Audit’s position within the organisation, including the nature of functional and administrative reporting, authorises access to records, personnel and physical properties relevant to

the performance of engagements; and defines the scope of Internal Audit activities. Final approval of the Internal Audit Charter resides with the Audit and Governance Committee as per their Terms of Reference.

- 10.4 The Internal Audit Charter was first approved by the Committee in November 2013. This has been updated and presented to the Committee on a regular basis to recognise changes in operational responsibilities and administrative changes within the Council.
- 10.5 The Public Sector Internal Audit Standards, which define proper practice for public sector internal audit functions were updated in March 2017. This version of the Charter has been prepared to ensure compliance with the changes required following the update to the Standards.
- 10.6 The changes to the standards require that the purpose, authority and responsibility of internal audit are formally defined in an Internal Audit Charter, which is consistent with a revised definition of internal auditing. The Charter also needs to refer to the Code of Ethics for internal auditors working in the public sector and a newly introduced “Mission of Internal Audit”. It should also now refer to the Core Principles for Professional Practice in internal auditing. The opportunity has also been taken to reflect operational changes in reporting lines for Internal Audit, to emphasise the organisational independence of Internal Audit, and Internal Audit’s relationships with senior management and Members.

11.0 Access to information

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

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Designation: Principal Auditors

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Internal Audit

Interim Report 2017/18

April – September 2017

www.cheshireeast.gov.uk

Internal Audit
First Floor, Westfields
Cheshire East Council
Sandbach CW11 1HZ

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Internal Audit Interim Report 2017/18 April – September 2017

1 Introduction

- 1.1 In accordance with the United Kingdom Public Sector Internal Audit Standards (PSIAS), the first Internal Audit Interim Report 2017/18 for Cheshire East Council contains “emerging issues in respect of the whole range of areas to be covered in the annual report”.
- 1.2 Internal Audit is required, at the end of the year, to form an opinion on the overall adequacy and effectiveness of the organisation’s control environment, which includes consideration of any significant risk or governance issues and control failures that have been identified.
- 1.3 The interim report contains the following:
- a summary of the audit work carried out in 2017/18 to date (Section 2)
 - any issues judged particularly relevant to the preparation of the Annual Governance Statement (AGS) (Section 3)
 - comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets (Section 4)
 - comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 5)

- other developments, including the Internal Audit Charter (Section 6)

2 Summary of Audit Work 2017/18

- 2.1 This is the first 2017/18 interim report on progress against the Internal Audit Plan. A summary comparison of the 2017/18 Audit Plan with actuals for the half year to 30 September 2017 is shown on page 3 (with comments on variances).
- 2.2 During the first half of the year, audit work was undertaken on the whole of the control environment comprising risk management, key control and governance processes. This work comprised a mix of risk based auditing, regularity, investigations and the provision of advice to officers.

Internal Audit Interim Report 2017/18 April – September 2017

Summary Comparison of Audit Plan 2017/18 and Actuals

| Area of Plan | | Plan | | Actuals (to 30/9/17) | | Comments on coverage |
|---|--------------------------------|-------------|------------|-------------------------|------------|--|
| | | Days | % | Days | % | |
| Chargeable Days | | 1407 | | 682 | | Reduced impact of vacancies due to increased hours and outstanding leave/bank holidays |
| Less: Corporate Work | | 327 | | 74 | | Reduced involvement due to increased investigation requirement |
| Available Audit Days: | | 1080 | 100 | 608 | 100 | |
| Corporate Governance and Risk | | 80 | 7 | 42 | 7 | Coverage in line with plan |
| Anti-Fraud and Corruption | Proactive Reviews | 60 | 5 | 19 | 3 | Coverage in line with plan |
| | Reactive Investigations | 30 | 3 | 162 | 27 | Includes fraud investigations and also other unplanned work as discussed later in the report |
| Chief Operating Officer (COO) | Key Financial Systems | 250 | 23 | 114 | 19 | Coverage in line with plan |
| | Corporate Core & Cross Service | 120 | 11 | 62 | 10 | Coverage in line with plan |
| Children and Families | | 90 | 8 | 42 | 7 | Coverage in line with plan |
| Adult's Social Care | | 90 | 8 | 17 | 3 | Work planned for Q3/Q4 |
| Community and Partnerships | | 40 | 4 | 15 | 2 | Work planned for Q3/Q4 |
| Public Health | | 10 | 1 | 0 | 0 | Work planned for Q3/Q4 |
| Planning and Sustainable Development | | 30 | 3 | 6 | 1 | Work planned for Q3/Q4 |
| Infrastructure and Highways | | 50 | 5 | 53 | 9 | Coverage weighted to Q1/Q2 |
| Growth and Regeneration | | 40 | 4 | 14 | 2 | Work planned for Q3/Q4 |
| Rural and Green Infrastructure | | 20 | 2 | 17 | 3 | Coverage in line with plan |
| Providing Assurance to External Organisations | | 40 | 4 | 17 | 3 | Coverage in line with plan |
| Advice & Guidance | | 30 | 3 | 12 | 2 | Coverage in line with plan |
| Other Chargeable Work | | 100 | 9 | 16 | 2 | Includes Certification of grants arising in year, follow up and additional reporting on the implementation of agreed audit actions |
| Total Audit Days | | 1080 | 100 | 608 | 100 | |

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Internal Audit Interim Report 2017/18 April – September 2017

Summary of Audit Work to support the overall opinion

| Area | Description of Audit Work | Output |
|------------------------------------|--|--|
| Assurance Work | Audits with formal assurance level. | Audit Reports |
| Schools | Assessment against Schools Financial Value Standard and completion of thematic reviews. | Audit Reports |
| Supporting Corporate Governance | Support and contribution to production of the Annual Governance Statement, including assurance statements from Heads of Service. | Annual Governance Statement, and supporting evidence |
| | Support and contribution to update reports from the Corporate Governance Group. | Reports to Corporate Leadership Team |
| | Support and contribution to AGS Action Plan, Compliance with Contract Procedure Rules reports etc. | Report to Audit & Governance Committee |
| Counter Fraud and Investigations | Review of Anti-Fraud and Corruption arrangements. | Report to Audit & Governance Committee |
| | National Fraud Initiative – co-ordination of data extract, submission and investigation of matches. | Results published on Cabinet Office website/update reports to Corporate Assurance Group/Investigation Reports. |
| | Investigations | Investigation Reports |
| Consultancy & Advice | Ad-hoc consultancy and advice provided to services. | Various – reports etc. |
| Statutory Returns/ Grant Claims | Audit/assurance work on programme/project and subsequent report to statutory/funding body. | Return/Claim sign off |
| Implementation of Recommendations | Targeted follow up of audit recommendations based on audit opinion/recommendation. | Follow up reports/action plans/Key Corporate Indicator (see: Implementation of Audit Recommendations, (2.41 to 2.47) |

Internal Audit Interim Report 2017/18 April – September 2017

Assurance Work

- 2.3 A summary of the reports produced in the first half of 2017/18 with the formal assurance level is included below (some of the audit reports may still be at draft stage i.e. awaiting management comments).
- 2.4 The assurance levels reported in the table below include a combination of opinions at a broad level for the Council as a whole (macro-level opinion) and opinions on individual business processes or activities within a single organisation, department or location (micro-level opinion).
- 2.5 Where control weaknesses are identified recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level.
- 2.6 Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.
- 2.7 It should be noted that Internal Audit's risk based approach includes focussing on areas where issues are known or expected to exist. Clearly this approach adds value to the organisation, but, by its nature, may also result in lower overall assurance levels.

Summary of reports by assurance level

| Assurance Level | Half year to 30/9/17 Audit Reports | Full Year 2016/17 Audit Reports |
|-----------------|---------------------------------------|------------------------------------|
| Good | 3 | 3 |
| Satisfactory | 7 | 7 |
| Limited | 5 | 12 |
| No | 1 | 1 |
| Total | 16 | 23 |

- 2.8 Further detail is provided on those audits with 'Limited' or 'No' assurance during the period under review.

Limited Assurance Reports

- 2.9 In each case a number of recommendations have been made. When implemented these will address the identified weaknesses and improve the control environment.
- 2.10 All actions from these audits have been, or are currently being, agreed with management and progress on implementation will be monitored through normal processes. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.

Internal Audit Interim Report 2017/18 April – September 2017

Summary of Assurance Reports 2017/18

| Audit Report | Driver/ Background | Assurance Level | Key Findings/Actions (for 'Limited' and 'No' Assurance reports) | Management Response |
|---|--|-----------------|---|---|
| Key Financial Systems – Council Tax 2016/17 | Key Financial System | Good | | All actions agreed Final Report issued |
| Housing Benefits | Key Financial System | Good | | All actions agreed Final issued |
| KFS – Business Rates | Key Financial System | Good | | All actions agreed Final Report issued |
| SFVS High Schools Consolidated Report | Assurance to s151 Officer | Satisfactory | | All actions agreed Final Report issued |
| School's Capacity Survey | Identified via Audit Planning Process | Satisfactory | | All actions agreed Final Report issued |
| ERP Replacement – Phase 1 | Joint work with CWAC. Issued as a CWAC Report | Satisfactory | | All actions agreed Final Report issued |
| KFS – Accounts Receivable | Key Financial System | Satisfactory | | All actions agreed Final Report issued |
| Facilities Management | Identified via Audit Planning Process | Satisfactory | | All actions agreed Final Report issued |
| Adults Personal Budgets | Identified via Audit Planning Process | Satisfactory | | All actions agreed Final Report Issued |
| Schools Finance team | Identified via Audit Planning Process | Satisfactory | | All actions agreed Final Report Issued |
| Purchase Cards | Identified via Audit Planning Process | Limited | More detailed guidance required to clarify roles and responsibilities in relation to the use, particularly online, and compliance checking of Purchase Cards. | All actions agreed Final Report Issued |
| CCTV | Identified via Audit | Limited | Plans were already in place for the majority of identified | All actions agreed |

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Internal Audit Interim Report 2016/17 April – September 2016

| Audit Report | Driver/ Background | Assurance Level | Key Findings/Actions (for 'Limited' and 'No' Assurance reports) | Management Response |
|-------------------------|---------------------------------------|-----------------|---|---|
| | Planning Process | | issues which included formalisation of disaster recovery arrangements including decisions around back up servers, completion of asset registers for both equipment and information and completion of the ongoing project to update CCTV signage across the Borough. | Final Report Issued |
| LEP Assurance Framework | Assurance to CEC as Accountable Body | Limited | The Assurance Framework has been reviewed, amended, formally approved and is being implemented but further consideration is required to ensure that; independent overview and scrutiny arrangements are in place, and additional supporting information relating to projects is available on the CWLEP website. | All actions agreed Final Report issued |
| Children's Placements | Identified via Audit Planning Process | Limited | Robust guidance and strategies are required to ensure a consistent approach to contract management rather than the current reliance on the skill sets of individual officers. A 'Lean Review' of the Placement Service will be undertaken and address the detailed findings of the audit review. | All actions agreed Final Report issued |
| Children's Centres | Identified via Audit Planning Process | Limited | The day to day management of the budgets and the staff related objective setting are in place and are working effectively, however improvements were recommended relating to high level such as the local scheme of delegation, operational risk register and strategic service plan. | All actions agreed Final Report issued |
| Adults Direct Payments | Identified via Audit Planning Process | None | Direct Payment accounts were not being audited in accordance with the Policy and procedures for the recovery of surplus or misspent funds were not sufficiently robust. | All actions agreed Final Report Issued |

Internal Audit Interim Report 2016/17 April – September 2016

Schools

- 2.11 The Department for Education requires the Council's Section 151 Officer to sign off an Annual Assurance Statement. That statement confirms:
- the number of School's Financial Value Standard (SFVS) self-assessment returns received; and
 - that an appropriate audit programme is in place to provide adequate assurance over the standard of financial management, and the regularity and propriety of spending in schools.
- 2.12 The School's Audit Programme for 2017/18 and 2018/19 has been designed to ensure that coverage of all schools not yet audited, since the responsibility for undertaking SFVS assurance work returned to the Internal Audit team, will be achieved by the end of 2018/19.
- 2.13 The School's Audit Programme for 2017/18 will cover the following work areas:
- A thematic review on the effectiveness of governance arrangements at 20 schools;
 - An audit review of the School's Governance Team.
- The same programme of work will be carried out 2018/19.
- 2.14 Visits to the schools began in September 2017 and should be completed by the end of December 2017. Individual reports will be produced and issued to schools detailing any

areas of weakness identified and any actions required to address these weaknesses and improve the control environment. This year we have also introduced an assurance opinion on the arrangements, in line with other audit reports issued.

- 2.15 Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin".
- 2.16 Findings from all areas will inform a consolidated schools report which provides assurance to the Director of Finance and Procurement and the Director of People. This will also inform the completion of the Annual Assurance Statement completed by the Director of Finance and Procurement under Section 151 responsibilities.

Supporting Corporate Governance

- 2.17 In accordance with Regulation 6 of the Accounts and Audit Regulations 2015 the Council is required, each financial year, to conduct a review of the effectiveness of the system of internal control and publish an Annual Governance Statement (AGS).
- 2.18 During the first half of this financial year Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2016/17 by:

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Internal Audit Interim Report 2016/17 April – September 2016

- collecting evidence for and production of the 2016/17 Annual Governance Statement.
- contribution to and production of Audit & Governance Committee reports on Corporate Governance.
- Principal Auditor representation on and contribution to the Corporate Assurance Group (CAG) in order to advise on risk management, control, and governance issues that have been identified through audit work and ensure that the findings have been considered when determining the 2016/17 AGS action plan.

2.19 Audit and Governance Committee approved the Final Annual Governance Statement 2016/17 at their September meeting, in line with statutory deadlines. A progress update on issues recognised in the AGS 2016/17 has been prepared for the Committee's December meeting. This paper also outlines the proposed production process for the 2017/18 AGS.

Risk Management

2.20 Internal Audit no longer has operational responsibility for Risk Management. This currently sits with the Business Governance and Risk Manager who reports to the Director of Legal Services.

Counter Fraud and Investigations

2.21 Internal Audit has provided advice and guidance to both Human Resources colleagues and Service Managers to support them in the completion of a small number of investigations relating to suspected fraud and theft by employees. Where required, action has been taken in accordance with the appropriate policies and referrals made to the police for further investigation. There are no significant issues arising from this work to bring to the attention of the Committee.

2.22 Work continued in ensuring that the matches received in January 2017 as part of the National Fraud Initiative data matching exercise are being investigated by the appropriate services.

2.23 Additional work has also been completed in preparation for the supplementary data matching exercise that will take place in December 2017.

Consultancy and Advice

2.24 During the year, Internal Audit has continued to support management with the provision of advice - at the specific request of management. The nature and scope of these engagements are generally aimed at improving governance, risk management and control and contribute to the overall

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audit opinion as well as building good relationships across the Council.

- 2.25 So far this year, advice and guidance has included the application of Finance and Contract Procedure Rules, suspected scams/frauds in schools and across the council, management of client monies in social care settings.

Statutory Returns/Grant Claims

- 2.26 Internal Audit is often required to certify statutory returns and grant claims. This may be related to funding provisos or similar. In most cases the work required is either an audit or an assurance statement on a specific programme/project.

- 2.27 During 2017/18 this has included work on the following grants which were successfully signed off and submitted to the appropriate central government department:

| | |
|-------------------------------------|--------------------|
| Family Focus (year to date) | £77,000 |
| Bus Service Operators Grant 2016-17 | £348,000 |
| CWLEP Local Growth Fund 2016-17 | £45,787,000 |
| Crewe Green Roundabout | £585,000 |
| Sydney Road Bridge | £909,000 |
| Middlewich Eastern By-pass | £1,257,000 |
| Total | £48,963,000 |

Work for Other Bodies

- 2.28 In addition to the work described above, Internal Audit carried out the following work for an external body.
- 2.29 PATROL (Parking and Traffic Regulations Outside London) – Cheshire East Council is the Host Authority to the PATROL Joint Committee & Bus Lane Adjudication Service Joint Committee.
- 2.30 In accordance with the Service Level Agreement the Council has delivered the Body's Internal Audit service and is responsible for the completion of Section 4 of the Small Bodies Annual Return.
- 2.31 The Annual Internal Audit Report was presented to the Joint Committee in July 2017.

Implementation of Audit Recommendations

- 2.32 Throughout 2017/18, Internal Audit has continued to carry out a range of follow up exercises to ensure recommendations are implemented. This work is done in a number of different ways:
- Major pieces of audit work, such as the AGS have detailed action plans which are monitored and reported separately to the Committee.

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- Investigations – follow up work is usually dependent on both the nature of the investigation and any recommendations made e.g. a follow up audit may be done at the request of management.
- Formal assurance audits.

2.33 Audits with ‘limited’ or ‘no’ assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited each year with recommendations followed up as part of the work.

2.34 As previously reported, Internal Audit has, with the support of senior management, raised the profile of audit recommendations which in previous years had been a cause for concern. This resulted in the 2016/17 figures demonstrating the highest recorded percentage of recommendations implemented since Cheshire East Council was created. The figures for the first half of the current year have revealed a similarly high implementation rate as detailed in the following table:

Implementation of agreed recommendations as at 30 September 2017

| On time | After the agreed date | Total implemented | In progress, part implemented or overdue | Superseded or no longer valid |
|----------------------|-----------------------|-------------------|--|-------------------------------|
| 2016/17 ¹ | | | | |
| 85% | 12% | 97% | 3% | 0 |
| 2017/18 ² | | | | |
| 62% | 32% | 94% | 6% | 0 |

2.35 Whilst these figures show that a high percentage of agreed recommendations are implemented, the proportion put in place after the agreed deadline remains an area for improvement that will be subject to further attention during the second half of the year.

2.36 The timely implementation of audit recommendations is a good indicator of both the effectiveness of Internal Audit in securing action and the Council’s commitment and capacity to improve. Internal Audit will continue to work with senior managers to improve this important indicator, to include the escalation of common themes or emerging patterns in

¹ Updated from Annual Report to Include actions issued in 2016/17 but due for implementation in 2017/18

² Revised to take account of actions that were not due for implementation as at 30.09.17

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relation to agreed recommendations (high and medium rated) that are not being progressed to CLT as necessary.

Ongoing Work

2.37 The following audits commenced during the first half of the year, with work ongoing in the third quarter of 2017/18:

- Schools Audit Programme – Assurance to S151 Officer in accordance with the schools audit programme.
- Performance Management – the review will include the arrangements for the completion of statutory.
- Section 106 Monies – assurance around the controls in place to manage the collection, management, implementation and expenditure of S106 schemes.
- Key Financial Systems General Ledger – assurance that arrangements are in place to ensure that transactions are recorded accurately and completely.

2.38 Other planned work, subject to final agreement with management in terms of timing and content, includes:

- Free School Meals
- GDPR Preparedness
- Key Financial System reviews

Reliance placed on the work of other assurance bodies

2.39 Internal Audit place assurance on the work of the Council's external auditors, OFSTED and other external bodies, where appropriate.

3 Annual Governance Statement

3.1 Each year the Council produces an Annual Governance Statement that explains how it makes decisions, manages its resources and promotes its values and high standards of conduct and behaviour. Any significant issues that are assessed as falling short of the Council's expected high standards are reported in the Annual Governance Statement.

3.2 The findings and opinions of 2017/18 Internal Audit work will be considered in preparing the 2017/18 AGS. The contents of this interim report will form part of that process.

4 Internal Audit Performance

4.1 Internal Audit's performance is measured against a number of performance indicators which are detailed in the table below. The performance relating to the implementation of recommendations is detailed earlier in this report.

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| Performance Indicator | 2017/18 Actual | 2017/18 Target | 2016/17 Actual | Comments on 2016/17 Actuals |
|---|----------------|----------------|----------------|---|
| % of Audits completed to user's satisfaction | 94% | 92% | 94% | Above Target |
| % of significant recommendations agreed | 100% | 90% | 100% | Above Target |
| Productive Time (Chargeable Days) | 87% | 80% | 83% | Above Target |
| Draft report produced promptly (per Client Satisfaction Form) | 83% | 95% | 90% | Below target as reduced resources caused delay in review process. |

5 Compliance with the Public Sector Internal Audit Standards

- 5.1 Regulation 6 of the Accounts and Audit Regulations 2015 requires the Council to conduct an annual review of the effectiveness of its system of internal control and prepare an annual governance statement. A review of internal audit that includes the contribution made by the audit committee should form part of the review of internal control required by Regulation 6.

- 5.2 This review has been carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.3 The review concluded that although there are areas for improvement, the internal audit service is being delivered to the required standard. This contributes to the assurances received for the AGS and was shared with members of the Committee as part of the AGS process in September.
- 5.4 An improvement action plan has been drawn up and will be monitored on an ongoing basis. Progress on improvements will be shared with the Committee as part of the regular Internal Audit reports.
- 5.5 As reported to Committee in September 2017, the Internal Audit function will receive an external assessment as part of peer review arrangements with other North West internal audit teams. This is scheduled for late January and the results of the assessment will be reported to the next available Audit and Governance Committee.

6 Other Developments (including Internal Audit Charter)

- 6.1 In light of the continued Corporate Manager Governance and Audit and Audit Manager vacancies, interim acting up arrangements have continued within the team.
- 6.2 In addition to the work carried out in accordance with the Audit Plan, a number of specific reviews in relation to legacy

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matters have been undertaken by members of the Internal Audit team. These matters have subsequently been referred to the police and as such it is not possible to comment further at this time.

- 6.3 Following on from these reviews, and in recognition of the resource pressures that they were placing upon the team, external resource was commissioned to complete two further pieces of related work. This will help to ensure that the team can focus on providing sufficient coverage to inform the Annual Internal Audit Opinion.
- 6.4 The external resource work is expected to be completed by the end of November 2017 with draft reports received in mid December.
- 6.5 As previously reported, Internal Audit issued a report relating to Air Quality Management during 2016/17 and an update was provided to the September 2017 meeting of the Audit and Governance Committee.
- 6.6 The actions arising from the Internal Audit report have been incorporated into a wider Air Quality Action Plan that also includes recommendations from the external investigations commissioned in response to the original audit.
- 6.7 Assurance has been provided that the actions have been implemented, and at the time of producing this update, work was underway to validate this assurance.

- 6.8 Internal Audit will also monitor the implementation of the wider action plan and report any concerns back to Audit and Governance Committee.
- 6.9 The Internal Audit Charter was approved by the Committee in November 2014, with review due on an annual basis. An updated Charter was reviewed by the Committee in November 2016 but not adopted at that time.
- 6.10 A revised and updated version, that takes account of changes in structural and operational responsibility, and complies with the changes made in the update to the Public Sector Internal Audit Standards in March 2017 is included as Appendix B.

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1. Purpose of the Charter and Internal Audit's Mission

- 1.1. The Internal Audit Charter outlines the framework in which Internal Audit operates; defining its purpose, authority and responsibility and its obligations to meet the Public Sector Internal Audit Standards (PSIAS). The charter sets out Internal Audit's position within the organisation, and the arrangements for functional and administrative reporting.
- 1.2. The mission of Internal Audit is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight.
- 1.3. Internal Audit is an independent and objective assurance and consulting activity designed to add value and improve the operations of Cheshire East Council. It assists the Council in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

2. Statutory Basis

- 2.1. The requirement for an internal audit function in local government is detailed within the Accounts and Audit Regulations (England) 2015, which states that a relevant body must:

 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 2.2. In addition, the need for an internal audit function is implied by Section 151 of the Local Government Act 1972, which states that local authorities are required to "make arrangements for the proper administration of their financial affairs"
- 2.3. The standards in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2017 ['the Standards'].
- 2.4. The Council's Constitution establishes Internal Audit's role and rights of access as required in carrying out any engagement.

3. Definitions

- 3.1. For the purpose of this Charter, the following definitions of terms used in the Standards apply;

*Cheshire East Council Internal Audit Charter
December 2017*



Board

The Council's Audit and Governance Committee

Chief Audit Executive

The Role of the Chief Audit Executive is undertaken by the Corporate Manager Governance and Audit

Senior Management

Senior Management is defined as the Corporate Leadership Team

Section 151 Officer

The Director of Finance and Procurement is the Council's Section 151 Officer. The Section 151 Officer is required to ensure that appropriate arrangements are made for the provision of an internal audit service in accordance with the requirements of the Accounts and Audit Regulations 2015

Monitoring Officer

The Council's Director of Legal Services has the role of Monitoring Officer

4. Ethics and Professionalism

- 4.1. Internal Audit will govern itself by adherence to 'the Standards'. The mandatory Standards constitute the fundamental requirements for the professional practice of internal auditing in the public sector and for evaluating the effectiveness of Internal Audit's performance.
- 4.2. The Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN) will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to Cheshire East Council's relevant policies and procedures and the Internal Audit Manual.
- 4.3. Internal audit staff must adhere to the Code of Ethics established by the Standards and adopted by the Council. Internal Audit officers are also governed by the ethical codes of the professional bodies to which they belong, and to the Council's Code of Conduct for all employees.
- 4.4. The Internal Audit officers are reminded of the need to comply with the Code of Ethics on an annual basis, and complete a Code of Ethics declaration form on an annual basis. Staff are also required to declare any real or perceived impairment to their independence in undertaking any specific engagements.
- 4.5. The Standards outline ten Core Principles for internal audit activity, which must be achieved in to demonstrate the effective operation of the internal audit function;

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- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence
- Aligns with the strategies, objectives and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk based assurance
- Is insightful, proactive and future focused
- Promotes organisational improvement

4.6. The arrangements set out in this Charter demonstrate how the Council's Internal Audit Service meets these core principles.

5. Authority, Independence and Objectivity

- 5.1. Internal Audit, in accordance with the Accounts and Audit Regulations, the Council's Constitution and with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access, without necessarily giving prior notice, to any and all of Cheshire East Council's records, physical properties, and personnel pertinent to carrying out any engagement, or other matters under investigation.
- 5.2. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.
- 5.3. Where the Council works in partnership with other organisations, or undertakes work for other organisations, the role of Internal Audit and its rights of access should be set down in the relevant partnership agreements, and where not specified, should be agreed in advance by discussion with partners.
- 5.4. The Corporate Manager Governance and Audit has direct access to the Council's Chief Executive, all levels of management, the Chair of the Audit and Governance Committee and the Leader.
- 5.5. Internal Audit will also have free and unrestricted access to the Audit and Governance Committee.
- 5.6. Internal Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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- 5.7. Any assurance activity in areas where the Corporate Manager Governance and Audit has operational responsibility will be carried out by auditors with no involvement in the process and overseen by the Director of Finance and Procurement, thus maintaining independence and objectivity in line with the 'the Standards'.
- 5.8. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 5.9. The Corporate Manager Governance and Audit will confirm to the Audit and Governance Committee, at least annually, the organisational independence of Internal Audit.

6. Organisation

- 6.1. The Corporate Manager Governance and Audit will report functionally to the Audit and Governance Committee and administratively (i.e. day to day operations) to the Director of Finance and Procurement, who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972 for ensuring an effective system of internal financial control and proper administration of the Council's affairs..
- 6.2. The Audit and Governance Committee will:
 - Approve the Internal Audit Charter.
 - Approve the risk based internal audit plan.
 - Receive communications from the Corporate Manager Governance and Audit on Internal Audit's performance relative to its plan and other matters.
 - Make appropriate inquiries of management and the Corporate Manager Governance and Audit to determine whether there is inappropriate scope or resource limitations.
 - Receive the annual report, which includes:
 - the annual opinion,
 - a summary of the work on which internal audit has based the opinion,
 - a statement on conformance with PSIAS and the LGAN and
 - the results of the quality assurance and improvement programme.
- 6.3. The Corporate Manager Governance and Audit will have free and unfettered access to the Chief Executive, who carries the responsibility for the proper management of the Council and ensuring that the principles of good governance are reflected in sound management arrangements.

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- 6.4. The Corporate Manager Governance and Audit has direct access to the Council's Monitoring Officer where matters arise relating to responsibilities of the Chief Executive, legality, and standards.
- 6.5. The Corporate Manager Governance and Audit will communicate and interact directly with the Chair of the Audit and Governance, or other elected Members of the Council, particularly those who serve on committees charged with governance (for example, the Audit and Governance Committee).

7. Responsibility

- 7.1. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organisation's stated goals and objectives. This includes:
 - Evaluating risk exposure relating to achievement of the Council's strategic objectives.
 - Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
 - Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the Council.
 - Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - Evaluating the effectiveness and efficiency with which resources are employed.
 - Evaluating operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
 - Monitoring and evaluating governance processes.
 - Monitoring and evaluating the effectiveness of the Council's risk management processes.
 - Evaluating the degree of coordination between internal and external providers of assurance – sharing information and coordinating activities to ensure proper coverage and minimise duplication of effort.
 - Performing consulting and advisory services related to governance, risk management and control as appropriate for the organisation.
 - Reporting periodically on Internal Audit's purpose, authority, responsibility, and performance relative to its plan.



- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit and Governance Committee.
 - Evaluating specific operations at the request of the Audit and Governance Committee or management, as appropriate.
- 7.2. The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal Audit plays a vital part in advising the organisation that these arrangements are in place and operating properly.
- 7.3. The provision of assurance is, therefore, the primary role for internal audit. This role requires the Corporate Manager Governance and Audit to provide an annual internal audit opinion and report which is timed to inform the Annual Governance Statement and is based on an objective assessment of the framework of governance, risk management and control.
- 7.4. Internal Audit may also undertake non-assurance work including fraud related and consultancy work, at the request of the organisation, and work for other bodies, subject to there being no impact on the core assurance work and the availability of skills and resources. External assurance work will result in an assurance report containing recommendations, to the organisation's senior management and Board.
- 7.5. The Corporate Manager Governance and Audit will be made aware of major new systems and proposed initiatives. The Corporate Manager Governance and Audit will consider what if any audit work needs to be done to help ensure risks are properly identified and evaluated and appropriate controls built in.
- 7.6. It should be noted that the existence of Internal Audit does not diminish management's responsibility to establish systems of internal control to ensure that activities are conducted in a manner which promotes the economical, efficient and effective use of resources and that the Authority's assets and interests are safeguarded.

8. Role of Internal Audit in Fraud Related Work

- 8.1. Managing the risk of fraud and corruption is the responsibility of management. The Corporate Manager Governance and Audit will be informed of all suspected or detected fraud, corruption or impropriety to inform their opinion on the internal control environment and Internal Audit's work programme.
- 8.2. At the request of management, Internal Audit may go beyond the work needed to meet its assurance responsibilities and assist with, for example, the investigation of

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suspected fraud and corruption. This will be subject to there being no impact on the core assurance work and the availability of skills and resources.

9. Internal Audit Plan

- 9.1. At least annually, the Corporate Manager Governance and Audit will submit to the Corporate Leadership Team and the Audit and Governance Committee an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next financial year.
- 9.2. The Corporate Manager Governance and Audit will communicate the impact of resource limitations and significant interim changes to the Corporate Leadership Team and the Audit and Governance Committee.
- 9.3. The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of the Corporate Leadership Team and the Audit and Governance Committee.
- 9.4. The Corporate Manager Governance and Audit will review and adjust the plan, as necessary, in response to changes in the Council's business, risks, operations, programmes, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the Corporate Leadership Team and the Audit and Governance Committee through periodic activity reports.

10. Reporting and Monitoring

- 10.1. A written report will be prepared and issued by the Corporate Manager Governance and Audit or designee following the conclusion of most internal audit assignments and will be distributed as appropriate. Draft reports will be issued in the first instance to the responsible manager to agree the factual accuracy of findings and Internal Audit results will also be communicated to the Audit and Governance Committee.
- 10.2. The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 10.3. Where a responsible manager does not agree with the finding, or wishes to implement an action which Internal Audit believe will not fully mitigate the risk or issue identified, Internal Audit will, where necessary, escalate this to a manager

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within the organisation who is sufficiently senior to accept the level of risk exposure associated with the decision.

- 10.4. Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations.
- 10.5. The Corporate Manager Governance and Audit will periodically report to the Corporate Leadership Team and the Audit and Governance Committee on Internal Audit's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Corporate Leadership Team and the Audit and Governance Committee.
- 10.6. The Corporate Manager Governance and Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

11. Quality Assurance and Improvement Programme

- 11.1. Internal Audit will maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity. The programme will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of Internal Audit and identifies opportunities for improvement.
- 11.2. The Corporate Manager Governance and Audit will communicate to the Corporate Leadership Team and the Audit and Governance Committee on Internal Audit's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

CHESHIRE EAST COUNCIL

REPORT TO: Audit and Governance Committee

Date of meeting: 7th December 2017
Report of: Corporate Manager Governance and Audit
Title: Work Plan 2017/18
Portfolio Holder: N/A

1.0 Report Summary

- 1.1 The report presents an updated Work Plan (Appendix A) to the Committee for consideration.

2.0 Recommendation

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

3.0 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.

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Affected

- 5.1 Not applicable.

6.0 Policy Implications

- 6.1 Not applicable.

7.0 Financial Implications

- 7.1 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.

8.0 Legal Implications

- 8.1 The Work Plan for 2017/18 takes account of the requirements of the Accounts and Audit (England) Regulations 2015.

9.0 Risk Assessment

- 9.1 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:

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

10.0 Background and Options

- 10.1 Aspects of the Audit and Governance Committee 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.
- 10.2 In order to help with their deliberations, Members are asked to consider whether:
- the inclusion of each item on its agenda results in added value; as
 - the assurance process has a cost to the organisation and it should therefore be proportional to the risk
 - 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.

- 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
 - 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.

10.3 The Work Plan will be re-submitted to the Committee for further development and approval.

11.0 Access to Information

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

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Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|--|--|-----------------------------------|--|
| Agenda Item | Description | No | Detail |
| 7th December 2017 | | | |
| Grant Thornton - Annual Audit Letter 2016/17 | Summary of the External Audit findings from 2016/17 audit. The letter will also confirm the final audit fee. | 31 | To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. |
| Certification Report | The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2016/17 claims and returns. | 31 | To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. |
| Draft Treasury Management Strategy and MRP Statement | Update on the contents of the Council's Treasury Management Strategy for 2017/18 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. | 17 | To review and monitor the Council's Treasury Management arrangements in accordance with the CIPFA Treasury Management Code of Practice. |
| Risk Management Update | This report will update the Committee on Risk Management and Business Continuity activity in the Council. | 10 | To monitor the effective development and operation of risk management in the council. |
| | | 11 | To monitor progress in addressing risk related issues reported to the committee. |
| Annual Governance Statement (AGS) Update | Update on actions to improve governance arrangements and respond to emerging issues identified in the 2016/17 Annual Governance Statement. Proposed process for the production of the | 6 | To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances. |

Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|--|---|-----------------------------------|--|
| Agenda Item | Description | No | Detail |
| | 2017/18 Annual Governance Statement. | | |
| Internal Audit Interim Report 2017/18 and Internal Audit Charter | Progress report against the Internal Audit Plan 2017/18. Review of Internal Audit Charter in accordance with Public Sector Internal Audit Standards. | 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. |
| | | 18 | To approve the Internal Audit Charter. |
| | | 21 | To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements. |
| | | 23 | To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. |

Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|---|--|-----------------------------------|---|
| Agenda Item | Description | No | Detail |
| | | 25 | To consider summaries of specific internal audit reports as requested. |
| WARNS | Report to update Committee on the quantity and reasons for WARNs approved since the last Committee. Approved WARNs will also be presented as a Part 2 item. | | As requested by Members at December 2015 meeting |
| Work Plan. | Forward looking programme of meetings and agenda items 2017/18 to ensure comprehensive coverage of the Committee's responsibilities. | All | |
| Thursday 15th March 2018 | | | |
| External Audit Plan for 2017/18 | To receive and comment on External Audit's planned work for the audit of financial statements and the value for money conclusion 2017/18. | 33 | To comment on the scope and depth of external audit work and to ensure it gives value for money. |
| Informing the Audit Risk Assessment - Cheshire East Council | To present and consider Management's responses to questions posed by the External Auditor. | 32 | To consider specific reports as agreed with the external auditor. |
| Update on the Arrangements for the Appointment of External Auditors | To update the Committee on the arrangements for appointing the Council's External Auditors under the Public Sector Audit Appointments Ltd (PSAA) process. | 4 | It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place. |
| Members Code of Conduct: Standards Report | To note the numbers and outcomes of complaints made under the Code of Conduct for Members between 1st | 5 | To promote high standards of ethical behaviour by developing, maintaining and monitoring Codes of Conduct for Members of the Council (including co- |

Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|-------------------------------|---|-----------------------------------|---|
| Agenda Item | Description | No | Detail |
| | September 2017 and the end of February 2018. | | opted Members and other persons acting in a similar capacity). |
| Risk Management Update | This report will update the Committee on Risk Management and Business Continuity activity in the Council. | 10 | To monitor the effective development and operation of risk management in the council. |
| | | 11 | To monitor progress in addressing risk related issues reported to the committee. |
| Internal Audit Interim Report | To consider a summary of Internal Audit Work undertaken between October and December 2017 | 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. |
| | | 18 | To approve the Internal Audit Charter. |
| | | 21 | To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements. |
| | | 23 | To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include: a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application |

Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|--|---|-----------------------------------|---|
| Agenda Item | Description | No | Detail |
| | | 25 | Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement. To consider summaries of specific internal audit reports as requested. |
| Internal Audit Plan 2018/19 | Approval of the summary risk based Internal Audit Plan for 2018/19 | 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 those other sources |
| WARNS | Report to update Committee on the quantity and reasons for WARNs approved since the last Committee. Approved WARNs will also be presented as a Part 2 item. | | As requested by Members at December 2015 meeting |
| Work Plan | Forward looking programme of meetings and agenda items 2017/18 to ensure comprehensive coverage of the Committee's responsibilities. | All | |
| <i>It should be noted that the following items will be presented to the Committee but have not, as yet, been allocated to a specific agenda</i> | | | |
| Review of the Council's procurement arrangements | Following agreement with TITAN, an audit has commenced during March 2017. The purpose of the audit is to provide assurance that arrangements currently in place to manage procurement activity are appropriate and effective. The outcome of this work will be reported to | 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. At the request of Members, 8 th December 2016 Audit and Governance Committee. |

Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|---|--|-----------------------------------|---|
| Agenda Item | Description | No | Detail |
| | a future meeting of the Audit and Governance Committee. | | |
| 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.</p> <p>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. | <p>6</p> <p>42</p> <p>43</p> | <p>To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.</p> <p>To seek assurance that customer complaint arrangements are robust.</p> <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> |
| Work Programme for Member/Officer | Forward looking programme of meetings and agenda items to: | 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 |

Work Plan 2017/18

| | | Terms of Reference – October 2016 | |
|---|---|-----------------------------------|---|
| Agenda Item | Description | No | Detail |
| Working Groups | <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. | | 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. |

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CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of meeting: 7 December 2017
Report of: Daniel Dickinson, Interim Director of Legal Services
Title: Risk Management Update Report
Portfolio Holder: Councillor Paul Findlow

1.0 Report Summary

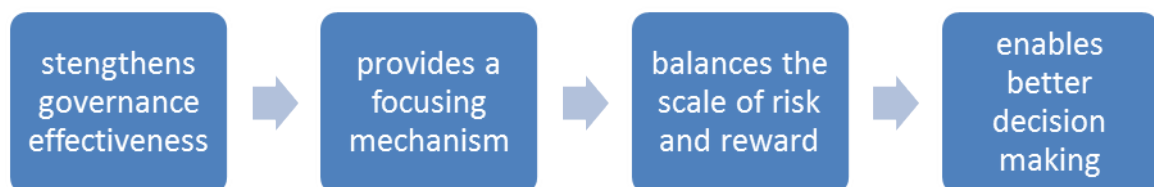
- 1.1 This report provides the Audit and Governance Committee with a summary of the most significant threats and opportunities facing the Council which may prevent, or assist with, the achievement of the Council's Corporate Plan 2016-20.
- 1.2 The Audit and Governance Committee Chair requested a short briefing at the meeting from the Risk Owner / Manager for the corporate opportunity risk "CR4 Contract and Relationship Management" to briefly explain the threat, and the Council's response to this.

2.0 Recommendation

- 2.1 Audit and Governance Committee is requested to note and comment on the update report on risk management, which is for information and assurance.

3.0 Reasons for Recommendations

- 3.1 It is the role of Audit and Governance Committee to provide independent assurance to the Council on the adequacy of the risk management framework and the internal control environment. Risk management is not about being risk averse, indeed some amount of risk taking is inevitable if the Council is to achieve its objectives. It is about effectively managing risks that could affect the achievement of the Council's objectives and ensuring that an appropriate risk culture is in place.
- 3.2 A risk is concerned with a threat, or a possible future event, which will adversely or beneficially affect the Council's ability to achieve its objectives. Risk management is central to good governance; managing risk is all about people making the best decisions at all levels within the organisation. It is not just about strategy and tactics but also judgements and behaviours of people. Decision makers fundamentally want to do the right thing; an open and respectful risk culture mitigates risk and reputational damage. It encourages higher performance and efficiency, and develops a sustainable and ethical business model.
- 3.3 A strong risk management framework seeks to ensure the following benefits:-



- 3.4 As the Council looks towards 2020, even over this relatively short period of time, there will be a host of factors which influence the nature of the Council's relationships with its residents, businesses, communities, neighbouring authorities, and other key partners. These factors will challenge the Council to review its current systems and approaches, and experiment with new ideas to allow mixed and flexible use of its resources. In this constantly evolving environment, with a need to continually adapt internal organisation to meet legal

requirements, economic challenges, urban changes, demographic and social changes, it is possible for managers and decision makers to miss risks that may arise suddenly or unexpectedly. Through risk identification we anticipate eventualities and it helps us to respond to changes in need. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving the Council's desired outcomes in the Corporate Plan 2016-20.

4.0 Corporate Risks

4.1 There are presently ten threats and four opportunities detailed on the Council's corporate risk register. There has been some movement of the risks since the previous update to Audit and Governance Committee; these include:

- CR7a Cheshire East Local Plan Adoption has been included on the watch list as a medium risk,
- CR2 NHS Funding and STP impact has increased in likelihood and is now 16 high risk.
- CR3 Financial Resilience which has moved this risk back up to 12 high risk
- CR5 Information Security and Cyber Threat has seen a marginal increase to 9 and a medium risk rating.
- CRO3 Partnership Working has a slightly decreased likelihood rating but remains within 6 medium risk.

The tables below inform the Audit and Governance Committee on progress against key risks; attached at **Appendix A** is a more detailed definition of these risks including the Risk Owner, Cabinet Strategic Lead, and comments on the net risk rating. **Appendix B** shows a heat map of the threats and opportunities.

4.2 For this meeting, the risk manager for CR4 Contract and Relationship Management will attend the meeting to talk through the risk.

Table 1: Highest Rated Corporate Risks

| Ref | Type | Risk Title | Rating | Direction |
|-----|--------|---|---------|-----------|
| CR2 | Threat | NHS Funding and Sustainability and Transformation Plan (STP) Impact | 16 High | ↑ |
| CR3 | Threat | Financial Resilience | 12 High | ↑ |
| CR1 | Threat | Increased Demand for People Services | 12 High | ↔ |
| CR4 | Threat | Contract and Relationship Management | 12 High | ↔ |

Table 2: Risk Watch List

| Ref | Type | Risk Title | Rating | Direction |
|------|--------|---------------------------------------|----------|-----------|
| CR5 | Threat | Information Security and Cyber Threat | 9 Medium | ↑ |
| CR6 | Threat | Countering Fraud and Corruption | 6 Medium | ↔ |
| CR9 | Threat | Increased Major Incidents | 6 Medium | ↔ |
| CR10 | Threat | Business Continuity | 6 Medium | ↔ |

Table 3: Emerging Risk

| Ref | Type | Risk Title | Rating | Direction |
|------|--------|-----------------------------------|----------|-----------|
| CR7a | Threat | Cheshire East Local Plan Adoption | 8 Medium | ↑ |

4.3 Discussion around the articulation of an emerging risk around adult social care market failure is currently underway and this risk will be drafted and scored as appropriate.

4.4 The assessment methodology used to score the risks is attached at **Appendix C** to this report for information.

5.0 Wards Affected and Local Ward Members

5.1 Risk management is inherent in everyone's role and responsibilities but no specific ward members have been consulted on this report.

6.0 Implications of Recommendation

6.1 **Policy:** Risk management is integral to the overall management of the authority and, therefore, key policy implications and their effective implementation are considered within team and department risk registers and as part of the risk management framework.

6.2 **Financial:** There are no direct financial implications in relation to this report. However, a risk around financial resilience is included as a corporate risk and general reserves are focused on the Council's potential exposure to risk. In addition, where a particular area has been identified as specific risk or investment opportunity, then an amount will be earmarked for that specific purpose as part of the Medium Term Financial Strategy (MTFS) process.

6.3 **Legal:** This report is aimed at addressing the requirement that the Council achieves its strategic aims and operates its business, under general principles of good governance and that it identifies risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework.

7.0 Risk Management

7.1 This report relates to overall risk management; the Audit and Governance Committee should be made aware of the most significant risks facing the Council and be assured that the risk management framework is operating effectively. The content of this report seeks to achieve the following risk objectives:-

| Key Risk Objectives |
|---|
| That Cheshire East Council properly develops, implements and demonstrates an effective risk management framework |
| That Cheshire East Council applies its risk management policy consistently across the Council |
| That Cheshire East Council recognises risks and makes correct decisions to tolerate, treat, transfer or terminate threats or to exploit, share, enhance or ignore opportunities |



8.0 Access to Information/Bibliography

8.1 Risk Management Policy Statement and Strategy

The updated Risk Management Policy was approved by Cabinet at its meeting on 10 February 2016. The background papers relating to this report can be inspected by contacting the report writer:


Name: Daniel Dickinson
Designation: Interim Director of Legal Services
Tel No: 01270 685850
Email: daniel.dickinson@cheshireeast.gov.uk

Corporate Risks

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|----------------|--|--------------------------------------|--|---|--|
| CR 1 Threat | Increased Demand for People Services (Cause) Risk that Cheshire East's local social, economic and demographic factors lead to an increase in the level of need and demand for adults and children's care services, (threat) such that the capacity of the Council's systems in these areas is unable to continue to absorb the pressures, (impact) resulting in a possible lack of continuity of social workers/service providers, unmet need, potential safeguarding issues, and difficulty in achieving the Council's outcomes that people live well and for longer, and have the life skills and education they need to thrive. | Interim Executive Director of People | Joint: Portfolio Holder, Adult Social Care and Integration Portfolio Holder, Children and Families | 12 High  | Likelihood of this risk occurring has been scored as 'likely' as it is known that both adult demand, and children's demand is increasing alongside population growth, and longer life expectancy for both adults and children with complex needs. Taking a prudent approach to the risk scoring, if the increase in demand was significant the impact of this risk if it were to materialise could be critical with possible increase in safeguarding issues due to the nature of the service delivery areas. Further work is planned to mitigate the impact of this risk in both service areas but presently the net score remains at 12 high risk. |
| CR 2 Threat | NHS Funding and STP Impact (Cause) Risk that due to the financial deficit in the NHS, the five-year Sustainability and Transformation Plan (STP) to reshape the delivery of NHS services across the wider region, may cause a reduction in Cheshire East Council shared service delivery and NHS service delivery, (threat) shifting costs and demand which places additional strain on Council resources (impact) resulting in unmet need and potential difficulty in achieving the Council's outcomes that people live well and for longer and local communities being strong and supportive. | Interim Executive Director of People | Joint: Portfolio Holder, Health Portfolio Holder, Adult Social Care and Integration | 16 High  | The STP has been drawn up on a regional basis and the likelihood of this risk occurring is increasing as the financial deficit across the health and care system increases. There have been delays in the implementation of the STP workstreams as a result of a new STP leadership team being appointed and a review of the governance structure taking place between August and November. The net risk score has been increased because exiting controls have not to date seen a reduction in the anticipated deficit position. |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|----------------|--|---|---|---------------------|---|
| CR 3 Threat | Financial Resilience (Cause) The reduction in funding from Central Government means the Council must manage funding shortfalls over the next four years, through reduced expenditure , managing demand or increased local income. (Threat) There is a possibility that the Council does not adopt its financial plans in sufficient detail quickly enough, either by deferring the difficult decisions about services, using over-optimistic planning assumptions, or not rethinking sources of income. (Impact) This may result in difficulties in closing and managing the funding reductions, financial stress and may impede the Council's ability to meet its statutory requirements, and deliver all of its intended outcomes and objectives in full. | Interim Director of Finance and Procurement | Portfolio Holder, Finance and Communication | 12 High ↑ | This risk is not exclusive to Cheshire East, and is presently a national risk for local government. Although the impact of this risk should it materialise is reduced because the Council has a track records of managing year end positions within the parameters of the Reserves Strategy, following the analysis to prepare the pre-budget report and mid-year review, the likelihood of funding shortfalls has increased. The overall net risk rating has therefore increased to 12, high risk. |
| CR4 Threat | Contract and Relationship Management: (Cause) Risk that the Council does not improve the effectiveness of its contract management arrangements, including skilled staff, to manage contracts and ongoing relationships with the Council's providers, in a timely manner (Threat) such that contractual arrangements may not be robustly specified, or that they fail to deliver expected outcomes and/or within contracted costs and/or within expected timescales and/or fail to comply with contract agreements. (Impact) This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for failing to deliver on our promises. | Executive Director Place | Portfolio Holder, Finance and Communication | 12 High ↔ | The new Contract Management Framework has been developed and the new Commissioning and Procurement Board established but the framework needs to be implemented and embedded within Council procedures. Work has begun but is unlikely to demonstrate a reduction in the likelihood of this risk occurring in the short-term. The net risk therefore remains at 12 high risk as the impact of contract management across the Council is significant. |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|---------------|--|-------------------------|---|--------------------|--|
| CR5 Threat | Information Security and Cyber Threat (Cause) Risk that as the Council continues to move towards using new technology systems to reduce costs and fulfil communication, accessibility and transaction requirements, (threat) it becomes increasingly at risk of a security breach, either malicious or inadvertent from within the organisation or from external attacks by cyber-criminals. (Impact) This could result in many negative impacts, such as distress to individuals, legal, financial and reputational damage to the Council, possible penetration and crippling of the Council's IT systems preventing it from delivering its Corporate Outcomes. | Chief Operating Officer | Portfolio Holder, Finance and Communication | 9 Medium ↑ | <p>The Council handles large quantities of data on a daily basis and receives a large amount of emails, of this volume 78% is malware, viruses or spam. The risk of a security breach of some nature is 'likely', the likelihood of this risk is increasing globally as the number of incidents of corporate and public sector bodies having their IT systems hacked and data being stolen is rising. There is a rise in the number of ransomware attacks, with the outage of the NHS systems highlighting the effects such an attack can have on the operations of an organisation.</p> <p>The more the Council is aware of information, its importance and its value; it is increasingly likely that the number of Information Breaches will increase.</p> <p>Although existing mitigation controls reduce the likelihood the threat is ever increasing. The Council has a number of technologies to reduce the risk of infection. If the risk materialises there is the potential of a 'major' impact on the corporate plan which may affect services in one or more areas for a short period and so the net risk rating is 9 Medium risk and is on the 'watch' list.</p> |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|---------------|---|---|---|--|---|
| CR6 Threat | Countering Fraud and Corruption (Cause) Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption, particularly in a time of financial austerity, (Threat) such that public money is misappropriated. (Impact) This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation. | Interim Director of Finance and Procurement | Portfolio Holder, Finance and Communities | 6 Medium  | In line with CIPFA Code of Practice guidance, the Council's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users. Although the Council has a robust anti-fraud and corruption framework, as the Council commissions and lengthens its supply chain with uncertainty of the level of controls and assurance arrangements within the chain, the likelihood of this risk is increased. Alongside this, the increased demand on staff time may result in less rigorous application of existing controls, which may also increase the risk of unexplained or suspicious expenditure being undetected. The impact of this risk should it occur is a 3 'significant' as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. As the Council's maturity levels increase in this area the risk should reduce, at present, the overall net risk rating is 6 medium risk and remains on the 'watch' list. |


| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|------------|---|-----------------------------|---|--------------------|--|
| CR7a | Cheshire East Local Plan Adoption (Cause) Risk that a successful Statutory Legal Challenge reverses all or elements of the adoption of the Cheshire East Local Plan Strategy, (threat) resulting in further delays to the planning framework, leaving Cheshire East vulnerable to unwanted development, budget pressures, loss of public and government confidence, (impact) impacting upon Cheshire East's ability to provide the right type of housing and development sites in the right places to stimulate growth in the local economy affecting the achievement of all of the Council's outcomes. | Executive Director of Place | Portfolio Holder, Housing, Planning and Regeneration | 8 Medium ↑ | Whilst the probability of this threat is unlikely, the decision of the Courts is outside of the Council's control. The impact of a delay could possibly be critical to the achievement of the Council's objectives, as such; the net risk rating for this risk is 8 medium risk and is on the 'watch' list as an emerging risk. |
| CR9 | Increased Major Incidents (Cause) Risk that there is a lack of capacity, planned reserves and resources to deal with an increased frequency and severity of major incidents which affect Cheshire East (e.g. extreme weather events, flooding, sinkholes, fire incidents, chemical incidents, dangerous structures, pandemic, or deliberate incidents such as terrorist acts) such that (threat) the Council needs to shift capacity and resources away from day to day operational activity and may be unable to sustain an effective response or to act in a timely manner alongside emergency responder partners, (impact) resulting in potential public safety issues and a reduced level of achievement across all of its intended outcomes. | Executive Director of Place | Portfolio Holder, Corporate Policy and Legal Services | 6 Medium ↔ | The net risk rating for this risk is 6 medium. Whilst it is unlikely that there will be a significant increase in the number of major incidents, this is outside of our control, and if this was to materialise the impact on the Council's objectives would be major. There have been a number of major incidents over the last year that the Council has responded well to (e.g. Macon House Fire, Crewe; M6 tanker crash near Knutsford; and the Manchester Arena Terrorist Attack) which highlight this risk for inclusion on the 'watch' list and the risk score will be reviewed if and when any further incidents occur. |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|------------|--|-------------------------|---|--------------------------------|---|
| CR10 | Business Continuity (Cause) Risk that an internal or external incident occurs which renders the Council unable to utilise part or all of its infrastructure (such as buildings, IT systems etc) such that (threat) the Council is unable to deliver some, or in extreme cases all of its services and (impact) putting residents at risk for a period of time and resulting in a reduced achievement of Corporate Plan outcomes over the longer period | Chief Operating Officer | Portfolio Holder, Corporate Policy and Legal Services | 6 Medium ↔ | <p>The net risk rating is 6 medium.</p> <p>Whilst the majority of incidents are outside of the Council's control this risk remains unlikely but could have a major impact if it materialised.</p> <p>Contingency planning to reduce the impact is progressing, a Terms of Reference for a Joint Business Continuity and Emergency Planning Liaison Group have been drafted and membership of the Group is being established.</p> <p>The purpose of this group is to ensure there is an overarching view of the two sets of arrangements and to provide guidance and support in the development and maintenance of the Council's resilience.</p> <p>The implementation of the Business Continuity Action plan is ongoing and so this risk remains on the 'watch' list.</p> |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|-----------------|---|-----------------------------|---|--------------------|--|
| CR11 Threat | Employee Engagement and Retention (Cause) Risk that as demand increases, resources decrease, and the Council faces negative reputational issues, the Council's most skilled and experienced staff may feel under more pressure and become less engaged, and (threat) because of the specialist nature of some of the roles, the Council is less able to recruit and retain core professional employees (e.g. social workers, solicitors and planners). This may result in (impact) high recruitment costs and loss of talent and organisational knowledge which may have a damaging impact on service users and the Council being unable to fully deliver across all of its outcomes. | Chief Operating Officer | Portfolio Holder, Corporate Policy and Legal Services | 6 Medium ↔ | The Council recognises that retention of skilled staff remains a threat. Employee engagement and retention is an area the Council continues to improve. Increase in demand with fewer resources is likely and may impact on core areas which could be significant. There is a programme of events around improving wellbeing at work and a full staff survey is planned for June 2018. The outcomes of the LGA culture review will help to inform the next review of this risk which is presently rated at 6, medium risk. |
| CRO 1 Opp'ty | EU Exit, Single Market and Local Growth (Cause) Keeping abreast of discussions about exiting the EU and access to the single market means that the Council can anticipate which areas are going to be significantly affected in Cheshire East e.g. changes in demand, changes to economic sectors, including the rural economy, and the labour market in the local area, significant impacts on local companies, possible successor regional aid funding schemes, changes to state aid and procurement laws. (Opportunity) This creates an opportunity to seize the initiative and influence the debate on the new UK legislative agenda for how a new regime should be shaped, including more entrepreneurial models that (impact) may benefit Cheshire East's local economy and local growth. | Executive Director of Place | Portfolio Holder, Housing, Planning and Regeneration | 6 Medium ↔ | Note that risk scoring for opportunities is the opposite way around to threats so a better risk outcome is to travel towards a higher score. The likelihood of this risk is presently unlikely as this is a possible opportunity which has yet to be fully investigated by management but some surveys are being undertaken. The impact remains relatively unknown but could be significant to Cheshire East's rural and local economy. The net risk rating remains at 6 Medium Risk and the Council monitors information as the governments' plans progress. |

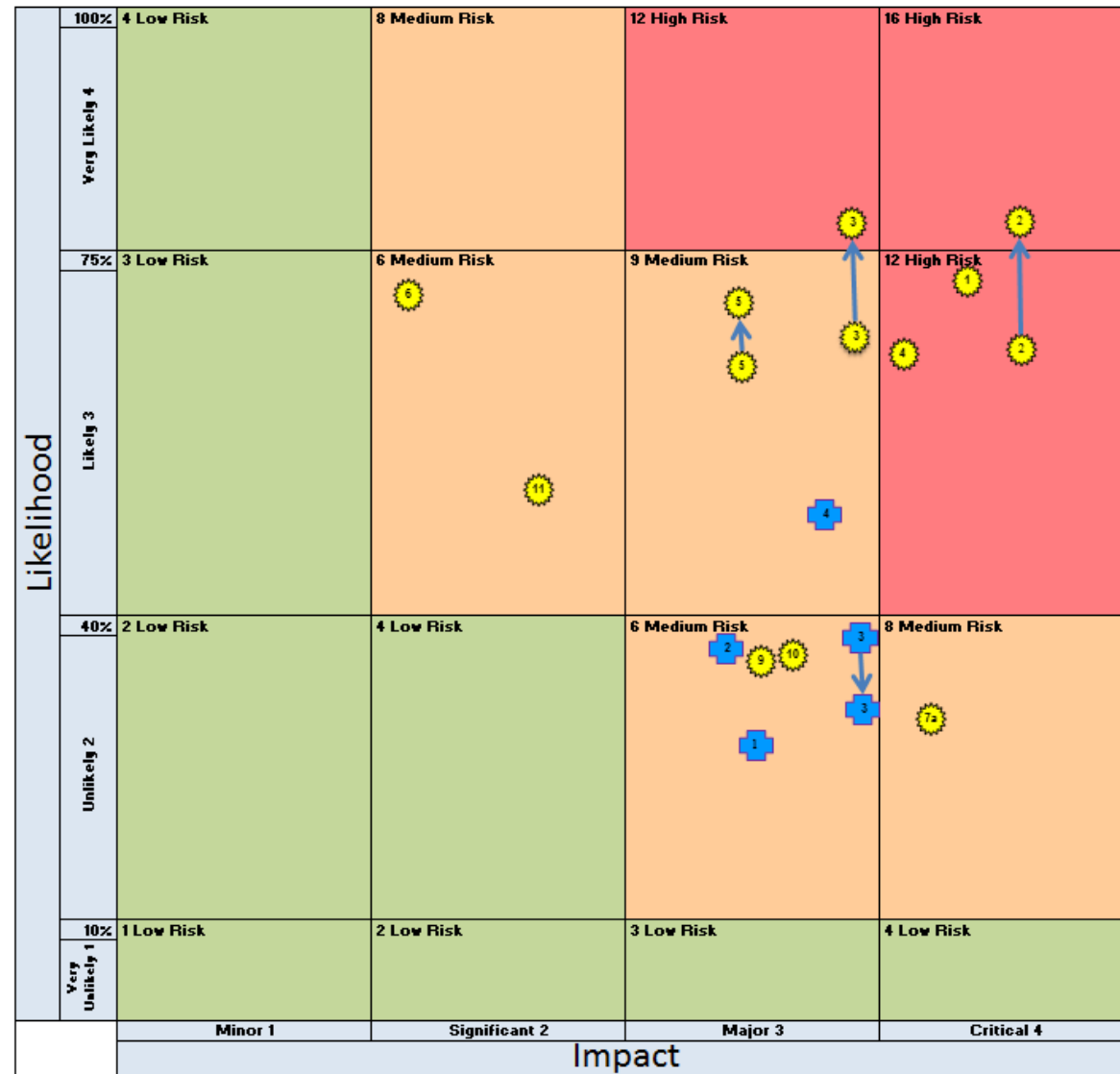
| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|-----------------|---|-----------------------------|--------------|--------------------|--|
| CRO 2 Opp'ty | Devolution (Cause) Central Government has been working with various cities and sub-regions to achieve devolution of powers and funding from central government to local areas which presents an opportunity for Cheshire East to (opportunity) work with key partners to bring an informed, coherent and persuasive case to secure more funding and powers through a devolution deal which would (impact) support Cheshire East's outcomes of protecting and enhancing its Quality of Place, improving local economic growth assisting with the achievement of all of its corporate outcomes. | Executive Director of Place | Leader | 6 Medium ↔ | Whilst the government's position on devolution to the sub regions is still unclear, our growth conversation with DCLG is ongoing. Recent indications suggest that the government may be open to new discussions about devolution and we will be seeking to define the scope, process and timeframe of the opportunity. |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|----------------|---|--------------------------------------|--------------|--------------------------------|--|
| CRO3 Opp'ty | Partnership Working (Cause) Public Service delivery is currently under-going reform, impacting upon capacity and resources of agencies and organisations partnered by the Council and other public sector agencies. (Opportunity) This presents an opportunity for co-production with joint strategic planning to reduce contradictory and duplication of efforts, minimise delivery gaps, exploit new business models and maximise best use of public and private sector resources to (impact) achieve joint and complementary objectives and assist with the achievement of the Council's corporate outcomes. | Interim Executive Director of People | Leader | 6 Medium ↓ | <p>The Leaders' Board is working with the Council's key strategic partners, including Town and Parish Councils, and the Voluntary, Community and Faith Sector to exploit this opportunity and so the likelihood of this risk requires careful relationship management to increase the likelihood rating. The financial pressure across the public sector, including the impact of the Council's budget savings, means that partners may look inwardly rather than externally which has slightly reduced the likelihood of this opportunity.</p> <p>The impact could see a major increase in the Council's ability to achieve one or more strategic outcomes. The opportunity requires further work and monitoring to ensure that it comes to fruition. The net risk rating is 6 medium risk.</p> |

| Ref & Type | Risk Description (Including cause, threat and impact upon outcomes) | Risk Owner | Cabinet Lead | Rating & Direction | Comments |
|----------------|---|-----------------------------|--|---|---|
| CRO4 Opp'ty | Regeneration Funding (Cause) The Council has a number of ambitious regeneration and development initiatives (e.g. Crewe Regeneration including HS2, and Macclesfield Regeneration) involving many third party organisations. (Opportunity) There is an opportunity to create the right conditions and confidence to lever in significant investment (public and private) to deliver these initiatives and to create (impact) further significant growth and prosperity in the Borough. | Executive Director of Place | Portfolio Holder, Housing, Planning and Regeneration | 9 Medium  | The Council has strengthened its working arrangements with partners and government and has received notification of significant government funding. The Council is working to be in the strongest possible position to make bids and have access to this funding, which increases the likelihood of this opportunity. The net risk rating is medium risk but requires further work and monitoring to ensure that the opportunity comes to fruition. |

| Corporate Risk Titles | |
|-----------------------|---|
| Threat | |
| CR1 | Increased Demand for People Services |
| CR2 | NHS Funding and STP Impact |
| CR3 | Financial Resilience |
| CR4 | Contract and Relationship Management |
| CR5 | Information Security and Cyber Threat |
| CR6 | Countering Fraud and Corruption |
| CR7a | Cheshire East Local Plan Adoption |
| CR9 | Increased Major Incidents |
| CR10 | Business Continuity |
| CR11 | Employee Engagement and Retention |
| Opportunity | |
| CRO1 | EU Exit, Single Market and Local Growth |
| CRO2 | Devolution |
| CRO3 | Partnership Working |
| CRO4 | Regeneration Funding |

| | |
|-------------|---|
| Threat |  |
| Opportunity |  |



| SCORING CHART FOR IMPACT | | | | SCORING CHART FOR LIKELIHOOD | | | | |
|--------------------------|-------------|-------|--|------------------------------|---------------|-------|--|--|
| | Factor | Score | Effect on Corporate Objectives | | Factor | Score | Description | Indicator |
| Threats | Critical | 4 | Critical impact on corporate objectives and performance and could seriously affect reputation. Long term damage that may be difficult to restore with high costs. | Threats | Very likely | 4 | >75% chance of occurrence | Regular occurrence Frequently encountered - daily/weekly/monthly |
| | Major | 3 | Major impact on corporate objectives and performance, could be expensive to recover from and would adversely affect reputation in the medium to long term. | | Likely | 3 | 40% - 75% chance of occurrence | Within next 1-2 yrs Occasionally encountered (few times a year) |
| | Significant | 2 | Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from. | | Unlikely | 2 | 10% - 40% chance of occurrence | Only likely to happen 3 or more years |
| | Minor | 1 | Minor impact on the corporate objectives and performance, could cause slight delays in achievement. However if action is not taken, then such risks may have a more significant cumulative effect. | | Very unlikely | 1 | <10% chance of occurrence | Rarely/never before |
| | Factor | Score | Effect on Corporate Objectives | | Factor | Score | Description | Indicator |
| Opportunities | Exceptional | 4 | Result in major increase in ability to achieve one or more strategic objectives | Opportunities | Very likely | 4 | >75% chance of occurrence or achieved in one year. | Clear opportunity, can be relied on with reasonable certainty to be achieved in the short term. |
| | Significant | 3 | Impact on some aspects of the achievement of one or more strategic objectives | | Likely | 3 | 40% to 75% chance of occurrence. Reasonable prospects of favourable results in one year. | May be achievable but requires careful management. Opportunities that arise over and above the plan. |
| | | | | | Unlikely | 2 | <40% chance of occurrence or some chance of favourable outcome in the medium term. | Possible opportunity which has yet to be fully investigated by management. |

CHESHIRE EAST COUNCIL

Audit and Governance Committee

| | |
|-------------------------|---|
| Date of Meeting: | 7 th December 2017 |
| Report of: | Section 151 Officer |
| Subject/Title: | Waivers and Non Adherences (WARNs) and Contract Management Update |

1.0 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 of September 2017 and the 31st of October 2017.

The approved WARNs are presented to the committee for review. The number of WARNs to be presented to the December Audit and Governance Committee is 5; 3 waivers and 2 non adherences.

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 or Officer details. The main report will be presented in Part 1.

This report will also provide an update on the progress of the Contract Management Audit findings and next steps.

2.0 Recommendation

- 2.1 That the Audit and Governance Committee note the number and reason for Waivers and Non Adherences (WARNs) approved between 1st of September 2017 to the 31st of October 2017.

3.0 Reasons for Recommendations

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

4.0 Wards Affected

- 4.1 All wards.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 Not applicable.

7.0 Financial Implications

7.1 The Council's Constitution (Finance Procedure Rule B25) 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.

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).

8.0 Legal Implications

8.1 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.

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.

9.0 Risk Management

9.1 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.

10.0 Background and Options

10.1 All WARNs approved in the period between Audit and Governance Committee's will be presented to the following Committee. This report contains all WARNs approved from the 1st of September 2017 to the 31st of October 2017.

The WARN process records the following;

- Waivers to the Contract Procedure Rules – These are agreed waivers in accordance with 5.2.1 of the Contract Procedure Rules.
- Non Adherence to the Contract Procedure Rules – This is a breach of the Contract Procedure Rules in accordance with 5.3.1.

Waivers are a compliant part of the constitution in accordance with 5.2.1 of the Contract Procedure Rules.

The number of WARNs approved from the 1st of September 2017 to the 31st of October 2017 is 5; 3 waivers and 2 non adherences.

| | | | | Approved Total |
|---|----------|----------|----------|----------------|
| Row Labels | E | H | J | |
| Non Adherence to CPRs | | | | 2 |
| 24/10/2017 | | | | |
| Agency fee for the appointment of an Interim S151 Officer | | 1 | | 1 |
| Direct Award to Network Rail to continue with additional scope/works to HS2 Project | | | 1 | 1 |
| Waiver to Requirements of Competition | | | | 3 |
| 05/09/2017 | | | | 1 |
| Actuarial reviews of Cheshire County Council and Cheshire East insurance funds | 1 | | | 1 |
| 15/09/2017 | | | | 1 |
| IKiosk For Libraries Shared Services Support and maintenance | | | 1 | 1 |
| 20/10/2017 | | | | 1 |
| A review of the culture within the Council to be undertaken by the LGA | | 1 | | 1 |
| Grand Total | 1 | 2 | 2 | 5 |

| Code | Description of Category/code |
|----------|--|
| 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. |
| H | Other – Any other valid general circumstances up to the EU threshold |
| J | Procurement from any other source would be uneconomic at this time |

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

| WARNs | 2014-2015 | 2015-2016 | 2016-2017 | April 2017- Oct 2017 |
|-----------------------|------------------|------------------|------------------|---------------------------------|
| Non Adherence to CPRs | 20 | 25 | 33 | 9 |
| Waiver to the CPR's | 62 | 45 | 40 | 21 |
| Grand Total | 82 | 70 | 73 | 30 |

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 is 30.

- 10.3 In June of 2016 internal audit issued a report which had reviewed Cheshire East Council's approach to contract management. The report concluded that

- The arrangements for effective contract management are insufficient
- Those improvements are required to training and guidance and that there needs to be a cultural change to embrace effective contract management.

To address this a new Commissioning and Procurement Board has been created to provide corporate assurance of the adequacy and effectiveness of commissioning, procurement and contract management and to promote a "one council" approach, facilitating and sharing best practice and knowledge.

As part of this a Contract Management Framework has been developed which maps out the Councils approach over the next 12 months to create a consistent approach across Cheshire East Council. The framework draws upon existing good practice and National Audit Office and Government Procurement Service guidance. The framework includes both contract management processes and gives a foundation to build the skills and competencies of staff in commercial and contractual best practise. This is due to be formally approved in December and implemented in January.

11.0 Access to Information

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

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