Public Document Pack

Audit and Governance Committee Agenda

Date:	**Thursday 5th December 2019**
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 foot of each report.

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

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

1. **Apologies for Absence**

2. **Declarations of Interest**

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

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

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

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

For requests for further information
Contact: Rachel Graves
Tel: 01270 686473
E-Mail: rachel.graves@cheshireeast.gov.uk with any apologies

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.

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

To approve the minutes of the meeting held on 3 October 2019 as a correct record.

5. **External Audit Report 2019/20** (Pages 11 - 34)

To receive the Audit Strategy for the year ending 31 March 2020.

6. **Certification of Claims and Returns 2018/19** (Pages 35 - 38)

To receive a summary of the key findings that have been identified during the External Auditors certification process for the 2018/19 Housing Benefit Subsidy claim and the Teachers' Pension End of Year Certificate.

7. **Review of Cheshire East Group Accounting Policies** (Pages 39 - 60)

To receive a report which provides an update on the accounting arrangements for the Local Government Pension Scheme in respect of the Council's wholly owned companies, and the full set of accounting policies for the Cheshire East Group for review.

8. **Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2020/21** (Pages 61 - 84)

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

9. **Member Code of Conduct: Standards Report** (Pages 85 - 88)

To receive a report on the number and status of Member Code of Conduct complaints received in relation to Cheshire East Councillors and our Town and Parish Councillors.

10. **Maladministration Decision Notices from Local Government and Social Care Ombudsman – July – August 2019** (Pages 89 - 94)

To consider and note a report on the Decision Notices issued by the Local Government and Social Care Ombudsman when their investigations have found maladministration causing injustice to complainants.

11. **Inspection by the Investigatory Powers Commissioners' Office** (Pages 95 - 108)

To receive a summary of the findings, recommendations and action plan from the remote desktop inspection by the Investigatory Powers Commissioners' Office.

12. **Risk Management Update** (Pages 109 - 124)

To receive an update on Corporate Risk Management arrangements and activity in the year to date.

13. **Internal Audit Interim Update Report April – September 2019** (Pages 125 - 142)

To receive an update on progress against the Internal Audit Plan 2019/20, revisions to the Plan and a summary of work undertaken to the end of September 2019.

14. **Annual Governance Statement 2018/19 – Progress Update** (Pages 143 - 168)

To consider an update on the issues reported in the 2018/19 Annual Governance Statement and the process for the production of the 2019/20 Annual Governance Statement.

15. **Committee Work Plan** (Pages 169 - 182)

To consider the Work Plan for 2019/20, to ensure comprehensive coverage of the Committee's responsibilities.

16. **Contract Procedure Rules Non-Adherences** (Pages 183 - 188)

To receive an update on the quantity and reasons for non-adherences approved between the period 1 September and 31 October 2019.

17. **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 and 2 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

18. **Contract Procedure Rules Non-Adherences**

To note the approved WARNs issued between 1 September and 31 October 2019.

Membership: Councillors R Bailey (Vice-Chairman), D Edwardes, B Evans, R Fletcher (Chairman), A Gregory, S Handley, S Hogben, M Houston, A Kolker and M Sewart
Independent Co-opted Member: Mr P Gardener

CHESHIRE EAST COUNCIL

Minutes of a meeting of the **Audit and Governance Committee** held on Thursday, 3rd October, 2019 at Committee Suite 1,2 & 3, Westfields, Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor R Fletcher (Chairman)

Councillors C Bulman (substitute for Cllr S Handley), D Edwardes, B Evans, S Hogben, M Houston, A Kolker and M Sewart

Councillors in attendance
Councillors J Rhodes and A Stott

Officers in attendance
Frank Jordan, Executive Director Place
Jane Burns, Executive Director Corporate
Jan Bakewell, Director of Governance and Compliance
Josie Griffiths, Head of Audit and Risk Management
Michael Todd, Acting Internal Audit Manager
Paul Goodwin, Deputy S151 Officer
Juan Turner, Compliance and Customer Relations Officer
Lianne Halliday, Senior Manager - Procurement
Rachel Graves, Democratic Services Officer

30 **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors R Bailey, A Gregory and S Handley.

31 **DECLARATIONS OF INTEREST**

No declarations of interest were made.

32 **PUBLIC SPEAKING TIME/OPEN SESSION**

There were no members of the public in attendance.

33 **MINUTES OF PREVIOUS MEETING**

Consideration was given to the minutes.

Minute 19 – Annual Report of the Monitoring Officer
The Director of Governance and Compliance reported that the pervious Monitoring Officer had dealt with the questions but had not shared the responses with all Committee members.

There were a number of new councillors who had not attended code of conduct training and a training session would be arranged shortly.

At the time of the last meeting, the number of code of conduct complaints outstanding for over 3 months was 3, and the average time taken to deal with complaints was around 8 weeks.

Minute 25 Annual Governance Statement
It was confirmed that the director for Cheshire Residents First ltd would not be taking part in commissioning any services.

RESOLVED:

That the minutes of the meeting held on 30 July 2019 be confirmed as a correct record.

34 **EXTERNAL AUDIT UPDATE AND ANNUAL AUDIT LETTER 2018/19**

Alistair Newall of Mazars presented the Annual Audit Letter 2018/19 and an update on the external audit work.

With regards to the Annual Audit Letter, Other Reporting Responsibilities section, he reported that the WAG Group audit reporting requirements had been completed and submitted to the National Audit Office.

The audit work for 2018/19 had been completed and he had met with Officers to debrief them on the audit.

He highlighted that consultation was being carried out on the new Code of Audit Practice 2020/21. It was also highlighted that a review of local authority financial reporting was to be carried out and a 'call for views' had been issued.

It was noted that 40% of councils had not met the 2018/19 audit deadline. The Committee recorded their thanks to Officers for their work to ensure that the Council had met these audit deadlines.

RESOLVED: That

1 the Annual Audit Letter and the Audit Progress Report be noted; and

2 Officers be thanked for their work to ensure that the Council met the audit deadlines.

35 **MALADMINISTRATION DECISION NOTICES FROM LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN:**

The Committee considered a report on the decision notices issued by the Local Government Ombudsman between 1 July and 31 August 2019.

It was reported that three decision notices had been issued which concluded that there had been maladministration causing injustice – details of which were set out in Appendix 1 to the report.

The Committee requested that another column be added to the report format in Appendix 1 to detail the processes and actions which had been put in place to stop a complaint happening again.

The Committee sought clarification on enforcement action undertaken by the Council and were informed that the range of enforcements actions carried out was being reviewed to ensure the resources available were better used.

RESOLVED:

That the contents of the report be noted.

36 **TREASURY MANAGEMENT ANNUAL REPORT 2018/19**

The Committee considered the Treasury Management Annual Report 2018/19.

The report detailed the Council's capital expenditure and financing during the year and the impact of this on the Council's underlying capital financing requirements. The report identified how the Council had borrowed in relation to the capital financing requirement and also set out investment and debt activity.

RESOLVED:

That the Treasury Management Annual Report for 2018/19 be noted.

37 **ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE 2018/19**

The Committee considered the Annual Report of the Audit and Governance Committee 2018/19.

The report had been deferred from the last meeting to allow members to forward any comments to the Head of Audit. It was reported that no comments had been received.

The Annual Report would be presented to Council on 17 October 2019.

RESOLVED:

That the Audit and Governance Committee Annual Report 2018/19 be presented to Council.

38 **COUNTER FRAUD UPDATE**

The Committee considered a report which provided an overview of developments taking place nationally, an update on counter fraud activity in Cheshire East and the ongoing work to ensure compliance with best practice and improvements to resilience to the threat of counter fraud and corruption.

RESOLVED:

That the contents of the report be noted.

39 **COMMITTEE WORK PLAN**

The Committee considered the Work Plan for 2019/20.

The report detailed the items which had been re-scheduled for later meetings.

The Work Plan session for committee members arranged for 30 September had been cancelled and would be re-scheduled to take by the December meeting of the Committee.

RESOLVED:

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

40 **CONTRACT PROCEDURE RULE NON-ADHERENCES**

The Committee considered a report on the number and reasons for Waivers and Non-Adherences (WARNs), which had been approved between 1 July 2019 and 31 August 2019.

RESOLVED:

That the report be noted.

41 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED:

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

42 CONTRACT PROCEDURAL RULES NON-ADHERENCES

The Committee considered the WARNs.

RESOLVED:

That the WARNs be noted.

The meeting commenced at 2.00 pm and concluded at 3.00 pm

Councillor R Fletcher (Chairman)

This page is intentionally left blank

Cheshire East Council

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: External Audit Report 2019/20

Senior Officer: Alex Thompson, Director of Finance & Customer Services

1. Report Summary

1.1. The Audit Strategy for the year ending 31 March 2020 is set out in Appendix A.

2. Recommendation

2.1. That Members note the report.

3. Reasons for Recommendation

3.1. The Audit Strategy sets out the work that the Council's Auditors, Mazars will be carrying out in their statutory audit on the Council's financial statements and arrangements for securing value for money.

4. Other Options Considered

4.1. Not applicable

5. Background

5.1. Mazars have been appointed as the Council's independent external auditors. Their annual work programme is set in accordance with the Code of Audit Practice issued by the Audit Commission and includes nationally prescribed and locally determined work.

5.2. The report summarises their audit approach, highlights significant audit risks and areas of key judgements.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. There are no legal implications identified.

6.2. Finance Implications

6.2.1. The audit fees will be met from within the revenue budget.

6.3. Policy Implications

6.3.1. There are no policy implications identified.

6.4. Equality Implications

6.4.1. There are no equality implications identified.

6.5. Human Resources Implications

6.5.1. There are no human resources implications identified.

6.6. Risk Management Implications

6.6.1. Mazars will complete a risk based audit whereby they will focus audit effort on those areas where they have identified a risk of material misstatement in the accounts.

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. Implications for Children & Young People / Cared for Children

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

6.9. Public Health Implications

6.9.1. There are no direct implications for public health.

6.10 Climate Change Implications

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.2. Not applicable.

8. Access to Information

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

9. Contact Information

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

Name: Joanne Wilcox

Job Title: Financial Strategy and Reporting Manager

Email: Joanne.wilcox@cheshireeast.gov.uk

Appendix A – External Audit Plan 2019-20

This page is intentionally left blank

Audit Strategy Memorandum

Cheshire East Council

Year ending 31 March 2020

MAZARS

CONTENTS

Mazars LLP
1 St Peter's Square
Manchester
M2 3DE

Audit & Governance Committee
Cheshire East Council
Westfields
Middlewich Road
Sandbach
CW11 1HZ

21 November 2019

Dear Audit & Governance Committee members

Audit Strategy Memorandum – Year ending 31 March 2020

We are pleased to present our Audit Strategy Memorandum for Cheshire East Council for the year ending 31 March 2020.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 8 of this document also summarises our considerations and conclusions on our independence as auditors.

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

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

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

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

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0113 394 5316.

Yours faithfully

Mark Dalton

Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Cheshire East Council (the Council) for the year to 31 March 2020. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/

Our responsibilities

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

Audit opinion

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

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

Value for money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to the value for money conclusion in section 6 of this report.

Reporting to the NAO

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

Electors' rights

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

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

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

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

For the purpose of our audit, we have identified the Audit & Governance Committee as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

- **Mark Dalton, Director and Audit Engagement Lead**
- E: mark.dalton@mazars.co.uk
- T: 0113 394 5316 M: 07795 506766

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

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

In addition, an engagement quality control reviewer has been appointed for this engagement.

3. AUDIT SCOPE, APPROACH AND TIMELINE

Audit scope

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

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

Audit approach

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

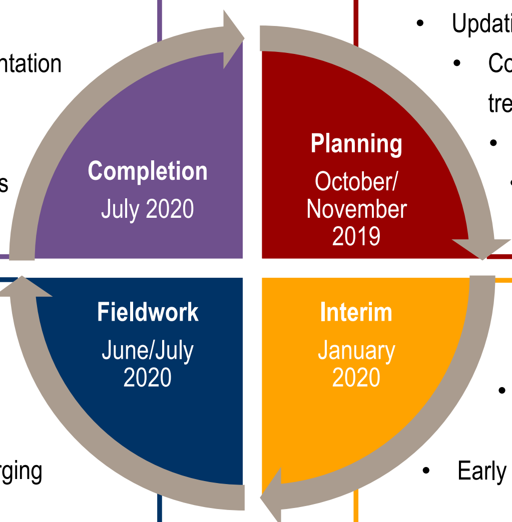
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures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

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 4.

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

- Final review and disclosure checklist of financial statements
- Final Director and EQCR review
- Agreeing content of letter of representation
- Reporting to Audit & Governance Committee
- Reviewing post balance sheet events
- Signing our opinion

- Initial opinion and value for money risk assessments
- Updating our understanding of the Council
- Considering proposed accounting treatments and accounting policies
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

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

Where we intend to rely on the work of internal audit, we will evaluate the work performed by your internal audit team and perform our own audit procedures to determine its adequacy for our audit.

Management's and our experts

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

Items of account	Management's expert	Our expert
Defined benefit liability	Hyman Robertson Actuaries	PwC, consulting actuary, on behalf of National Audit Office
Property, plant and equipment valuation	Montagu Evans and Farms Estate Shared Service	We will use available third party information to challenge the key valuation assumptions.
Financial instrument disclosures	Arlingclose Treasury Advisors	We will review Arlingclose's methodology to gain assurance that the fair value disclosures of the Council's financial assets and liabilities are materially correct.

Service organisations

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

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

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Group audit approach

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

Our approach will reflect the size and complexity of the transactions from the subsidiary companies that are consolidated into the Council's Group financial statements. Our plan, based on our cumulative understanding obtained from the 2018/19 audit, and the values reported in the prior year financial statements is that we will obtain assurance from analytical procedures and we do not plan to obtain specific assurance from the component auditors of the Council's subsidiary companies.

4. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Group materiality	Council single entity materiality
Overall Group and Council materiality	£14,000,000	£13,800,000
Performance materiality	£10,500,000	£10,350,000
Specific lower materiality – Related Party Transactions	£50,000	£50,000
Specific lower materiality – Officer Remuneration bandings	£5,000 *	£5,000 *
Trivial threshold for errors to be reported to the Audit Committee	£420,000	£414,000

* Reflecting movement from one salary band to another

Materiality

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

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

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

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

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

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

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

4. MATERIALITY AND MISSTATEMENTS (CONTINUED)

Our provisional materiality is set based on a benchmark of the 2018/19 gross expenditure at the net cost of services level. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Audit & Governance Committee.

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

We have set our materiality threshold at 1.9% of the benchmark based on the 2018/19 audited financial statements. Based on the 2018/19 financial statements we anticipate the overall materiality for 2019/20 to be £14 million for the audit of the Group financial statements and £13.8 million for the audit of the Council's single entity financial statements.

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

Performance Materiality
Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Specific materiality levels

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

- Related Party Transactions; and
- Officer Remuneration bandings.

Reporting Misstatements Threshold

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit & Governance Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £420,000 for the Group and £414,000 for the Council single-entity financial statements based on 3% of overall materiality.

Reporting to the Audit & Governance Committee

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

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

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS

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

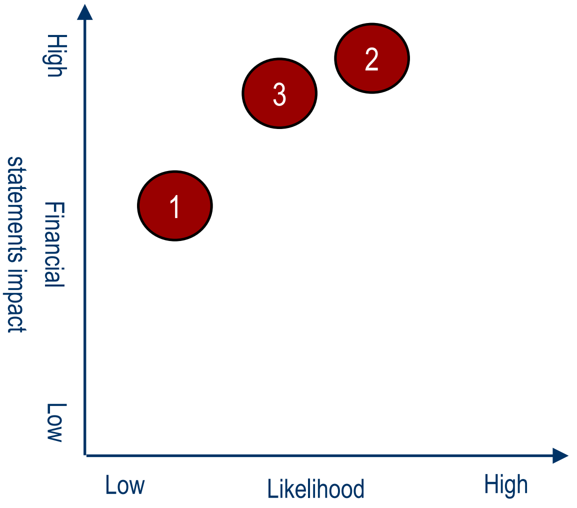
Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

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



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

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

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

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual.
2	**Property, plant and equipment valuation** The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty. In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.	In relation to the assets which have been revalued during 2019/20 we will: assess the Council's valuer's qualifications, objectivity and independence to carry out such valuations, and review the valuation methodology used, including testing the underlying data and assumptions. We will review the approach that the Council has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Council's valuers. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Defined benefit liability valuation** The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Cheshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.	As part of our work we will review the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the scheme Actuary, Hymans Robertson. We will review the appropriateness of the methodology applied, and the key assumptions included within the valuation, compare them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office. We will review the methodology applied in the valuation of the liability by Hymans Robertson.

Revenue recognition

International Standard on Auditing (ISA) 240 includes a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk.

We recognise that the nature of revenue in local government differs significantly to the sources of income in the private sector. We also consider that there are limited incentives and opportunities to manipulate the way income is recognised in local government.

Based on our understanding of the Council's revenue streams we have rebutted the presumption that revenue recognition is a significant risk at the Council. Our testing of revenue is focused on our standard procedures and does not incorporate specific work on the risk of fraud in recognising revenue.

5. SIGNIFICANT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis, and include the management judgement areas the Council discloses in its financial statements

	Area of management judgement	Planned response
1	**Group Financial Statements consolidation process** The Council has made judgements around which of its group entities it consolidates into its Group Financial Statements, and how it consolidates the transactions and balances into the Group.	Our approach to auditing the Group Financial Statements has been detailed on page 8. We will complement this work by our work over the Council's Group consolidation process. In particular we will review the Council's judgements relating to the entities that are consolidated into the Group financial statements, and we will review and test the method of consolidation of those group entities into the Group financial statements.
2	**Private Finance Initiative (PFI) scheme** The Council has no new PFI schemes in 2019/20, and continues to make judgements that result in the Council accounting for the PFI assets and liabilities in its financial statements.	We will consider the continued accounting treatment of the PFI scheme assets and liabilities as being in the Council's financial statements. In addition we are aware that a fire has destroyed one of the Council's PFI buildings, and our approach will consider the Council's accounting treatment of the impact.
3	**Accounting for Schools** The Council continues to account for schools in its single entity financial statements. In addition the Council discloses that it includes in its financial statements the following categories of schools: Community, Voluntary Aided, Voluntary Controlled and Foundation.	We will consider the continued accounting treatment of the Council's schools and its compliance with the requirements of the CIPFA Statement of Recommended Practice (SORP) and other sector guidance.

6. VALUE FOR MONEY CONCLUSION

Our audit approach

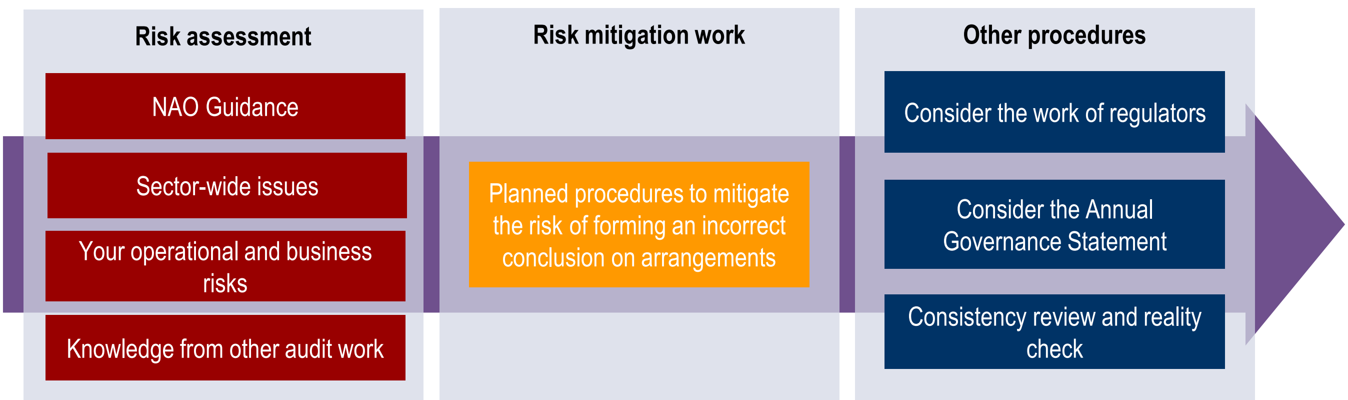
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria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

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

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

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

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



Significant audit risks

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

For the 2019/20 financial year, we have set out overleaf a significant risk to our VFM conclusion. In addition we have still to complete our consideration of other possible risk areas, in particular the Council's arrangements relating to its IT system project, known as 'Better for Business'. When we have completed our VFM planning considerations we will report any additional significant risks to the Audit & Governance Committee.

6. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks (continued)

Description of significant risk	Planned response
Financial sustainability The Council's medium term financial strategy for the period 2016/17 to 2019/20 sets out the financial challenges it faces. The mid year reporting for 2019/20 indicates that the Council is projecting to overspend this year's budget by £7.5m, placing further pressure on service delivery and increasing the use of reserves to support the revenue expenditure. The continuing challenges the Council faces are not new and are not unique to Cheshire East Council. The challenges do, however, present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability over the medium term.	We will review the arrangements the Council has in place for ensuring financial resilience, specifically that the medium term financial plan has taken into consideration factors such as future funding sources and levels, levels of other income, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We will also review the arrangements in place to monitor progress delivering the 2019/20 budget and related savings plans.

7. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 17 April 2019.

Service	2018/19 fee	2019/20 fee
Audit of the financial statements and VFM conclusion work	£119,034	£119,034

Fees for non-PSAA work

We have not been engaged by the Council to carry out any additional work over and above the audit of the Council's statutory audit.

Should we be engaged to undertake any additional work we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 8.

Services provided to other entities within the Council's group

We have not been engaged by any of the Council's group entities to provide any audit, or non-audit, services in 2019/20.

8. OUR COMMITMENT TO INDEPENDENCE

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

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

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

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

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

Prior to the provision of any non-audit services Mark Dalton will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence. Included in this assessment is consideration of Auditor Guidance Note 01 as issued by the NAO, and the PSAA Terms of Appointment.

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

APPENDIX A – KEY COMMUNICATION POINTS

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

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

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Financial reporting changes relevant to 2019/20

There are no significant changes in the Code of Practice on Local Authority Accounting for the 2019/20 financial year.

Financial reporting changes in future years

Accounting standard	Year of application	Commentary
IFRS 16 – Leases	2020/21	The CIPFA/LASAAC Code Board has determined that the Code of Practice on Local Authority Accounting will adopt the principles of IFRS 16 Leases, for the first time from 2020/21. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes to the way bodies account for leases, which will have substantial implications for the majority of public sector bodies. The most significant changes will be in respect of lessee accounting (i.e. where a body leases property or equipment from another entity). The existing distinction between operating and finance leases will be removed and instead, the new standard will require a right of use asset and an associated lease liability to be recognised on the lessee's Balance Sheet. In order to meet the requirements of IFRS 16, all local authorities will need to undertake a significant project that is likely to be time-consuming and potentially complex. There will also be consequential impacts upon capital financing arrangements at many authorities which will need to be identified and addressed at an early stage of the project.

Cheshire East Council

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Certification of Claims and Returns 2018/19

Senior Officer: Alex Thompson, Director of Finance & Customer Services

1. Report Summary

1.1. The report provides a summary of the key findings that have been identified during the External Auditors certification process for the 2018/19 Housing Benefit Subsidy claim and the Teachers' Pension End of Year Certificate.

2. Recommendation/s

2.1. That Members note the findings of the external audits regarding these certification processes.

3. Reasons for Recommendation/s

3.1. To ensure that members consider the findings of the certification process.

4. Other Options Considered

4.1. Not applicable

5. Background

5.1. KPMG were appointed as external auditors following a joint procurement with the Greater Manchester Councils to complete the Housing Benefit (Subsidy) Assurance Process and to certify the Teachers' Pension annual statement of contributions. The contract commenced on 1 April 2019. This is in addition to the main audit of the Council's financial statements which is undertaken by Mazars LLP.

5.2. The audit of the Housing Benefits Subsidy Claim was completed in accordance with HBAP Modules 1 and 6 2018/19 issued by the Department of Work and Pensions (DWP).

5.3. Following the completion of the Housing Benefit Subsidy Claim the auditors reported that no errors or exceptions were found as a result of their testing. In addition no recommendations for improvements to the Council's claims completion process were made to the DWP.

5.4. The certification of the Teachers' Pension End of Year Certificate was carried out in accordance with the Teachers' Pension Scheme Regulations 2014.

5.5. Variances of -£27.48 and -£168.04 between expected and actual Teachers' and Employers' contributions were identified and the claim was adjusted accordingly.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. There are no legal implications identified.

6.2. Finance Implications

6.2.1. The audit fees will be met from within the revenue budget.

6.3. Policy Implications

6.3.1. There are no policy implications identified.

6.4. Equality Implications

6.4.1. There are no equality implications identified.

6.5. Human Resources Implications

6.5.1. There are no human resources implications identified.

6.6. Risk Management Implications

6.6.1. The risks associated with the findings of this report relate to a position where the Council may not meet the requirements of the certification process and a financial liability is incurred.

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People / Cared for Children**

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

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10 **Climate Change Implications**

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.2. Not applicable.

8. Access to Information

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

9. Contact Information

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

Name: Joanne Wilcox

Job Title: Financial Strategy and Reporting Manager

Email: Joanne.wilcox@cheshireeast.gov.uk

This page is intentionally left blank

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Review of Cheshire East Group Accounting Policies

Senior Officer: Alex Thompson, Director of Finance & Customer Services

1. Report Summary

1.1. The report provides an update on the accounting arrangements for the Local Government Pension Scheme (LGPS) in respect of the Council's wholly owned companies.

1.2. The report also provides the full set of accounting policies for the Cheshire East Group for review; an extract from the 2018/19 Statement of Accounts is set out in Appendix A.

2. Recommendations

2.1. That Members note and comment on the changes to the pension scheme in respect of the Cheshire East Group of Companies as set out in the report.

2.2. That Members note and comment on the group accounting policies as set out in Appendix A.

3. Reasons for Recommendations

3.1. As part of the Committees role to review and approve the annual Statement of Accounts, Members are asked specifically to consider whether appropriate accounting policies have been followed.

4. Other Options Considered

4.1. Not applicable

5. Background

<u>Accounting for the Local Government Pension Scheme (LGPS) in respect of employees of the Cheshire East Group of Companies</u>

5.1. The accounting policy in respect of post-employment benefits (pension schemes) is described as part of the policy on Employee Benefits (pages 5 - 6 of Appendix A [extract from the Statement of Accounts 2018/19]). The policy statement refers to Note 26 of the Accounts relating to Defined Benefit Pension Schemes. Within Note 26, a section (page 95 of the 2018/19 Accounts) regarding “effect of business combinations” states:

The Council operates a ‘pass through’ agreement with regard to its pension arrangements with its owned and controlled companies. Within this agreement all pension assets and liabilities are held with the Council and the amounts and related accounting entries are contained in the Council’s financial statements. The ‘pass through’ agreement with each wholly owned company specifies a fixed rate of employer contribution payable by the company to the Cheshire Pension Fund and, as a consequence, each company will disclose these contributions to the scheme in its Profit and Loss account, consistent with the accounting treatment of a defined contribution scheme.

5.2. Pass-through is a mechanism for limiting a (company) service provider’s exposure to pensions risk as a scheme employer. Under pass-through, each company pays a fixed contribution rate for the life of the contract; and the Council retains the responsibility for any shortfall in contributions (deficit at end of contract), as well as the benefit of any surplus.

5.3. As such, pass-through is a pragmatic and efficient arrangement that provides certainty for both parties, avoids volatility and any consequent need for “risk premium” costs to be factored in to management fees, and recognises that it is ultimately the Council that will meet the costs in any event, via management fees or other charges (due to the underlying guarantee provided by the Council to the Cheshire Pension Fund).

5.4. The pass-through approach as a form of risk-sharing is not a new concept; it has been an option for many years and recent developments nationally have effectively made it the norm.

5.5. However, whilst the accounting arrangements for pass-through as described above have been advocated nationally by auditors, actuarial and legal firms previously (and adopted by a number local authorities) it is understood that there is a concern within audit circles that the accounting treatment may not be appropriate. Rather, even though a pass-through agreement is in place, there is a view that accounting regulations still require pension liabilities and assets to be accounted for within company accounts, rather than the Council's accounts.

5.6. As a consequence of this emerging view we are reviewing our accounting policy in this regard; and may make a change for the 2019/20 Accounts.

5.7. It is worthy of note that:

- the related accounting regulations are quite old, and arguably were written at a time when "commercialisation" and the establishment of wholly owned local authority trading companies to the extent that we have today were not anticipated; and

- the Government's LGPS Fair Deal policy consultation (January 2019) not only encouraged the use of pass-through, but also proposed a "deemed employer" approach whereby the Council would be the deemed employer of the staff in the LGPS, rather their actual employer company

5.8. Consequently, whilst there is a prospect that the Fair Deal consultation may result in changes to regulations that will clarify the required accounting treatment (and confirm our existing approach as appropriate) it may well be that, due to "Brexit" and other Government priorities, such clarity is not obtained until later in 2020.

5.9. As such, we need to carefully review our policy for the 2019/20 Accounts, considering the current audit view, albeit in advance of any further clarity and change that may follow from the Fair Deal consultation.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. There are no legal implications identified.

6.2. Finance Implications

6.2.1. As covered in the report.

6.3. Policy Implications

6.3.1. There are no policy implications identified.

6.4. Equality Implications

6.4.1. There are no equality implications identified.

6.5. **Human Resources Implications**

6.5.1. There are no human resources implications identified.

6.6. **Risk Management Implications**

6.6.1. The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

6.7. **Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People / Cared for Children**

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

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.1. Not applicable.

8. Access to Information

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

9. Contact Information

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

Name: Alex Thompson

Job Title: Director of Finance & Customer Services (Section 151 Officer)

Email: alex.thompson@cheshireeast.gov.uk

Appendix A: Group Accounting Policies

Appendix A

Group Accounting Policies

General Principles

The group accounts have been prepared in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounting policies used in preparing the Group Accounts are generally those used by Cheshire East Council in their single entity financial statements. In order to align group entities accounting policies to those used by the Council and ensure consistency of accounting treatment across the group, the following principles have been adopted:

(a) Consolidation of Subsidiaries

Subsidiaries have been consolidated using the acquisition accounting basis. This is a full, line by line consolidation of the financial transactions and balances of the Council and its subsidiaries. To avoid overstating the figures within the group financial statements, all transactions and balances between members of the group (the Council and its subsidiaries) have been eliminated.

The Group Accounts include Cheshire East Council and wholly owned subsidiaries ANSA Environmental Services Limited, Transport Service Solutions Limited, Orbitas Bereavement Services Limited and Civicance Limited. The wholly owned subsidiary Tatton Park Enterprise Limited and associate company Cheshire and Warrington Local Enterprise Partnership Limited are excluded from the Group Accounts on the grounds of materiality.

(b) Alignment of accounting framework and policies

Where group organisations use different accounting policies to the Council, their accounts have been restated to align their accounting policies with those of the Council where the effect of not doing so would be material to the reader's interpretation of the accounts.

(c) Unrealised profits from intra-group transactions

Any unrealised profit reflected in the carrying amount of property, plant and equipment and inventory arising from trading between the Council and its group companies will be eliminated to avoid the double counting of gains.

(d) Company losses Accounting Treatment

The Group Comprehensive Income and Expenditure Statement includes the profits / losses arising in each of the wholly owned subsidiary companies.

Cheshire East Council ~ Accounting Policies

General Principles

The Council is required by The Accounts and Audit (England) Regulations 2015 to prepare an annual Statement of Accounts, and those regulations require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

(a) Accounting for Council Tax and Non-Domestic Rates (NDR)

The collection of council tax and non-domestic rates (NDR) is, as identified in the Code of Practice for Local Authority Accounting, in substance, an agency arrangement for both billing authorities and major preceptors. The Council is the billing authority in this arrangement, while Police and Fire are the preceptors. Therefore, the income included in each body's Comprehensive Income and Expenditure Statement for the year is their proportion of accrued income for the year. The cash collected belongs proportionately to the Council and the preceptors.

There is, therefore, a debtor / creditor position between the billing authority and each major preceptor recognised in the balance sheets. The Council only recognises in its balance sheet the Council's share of any outstanding arrears, receipts in advance, receivables impairment allowance and provision for alteration of lists and appeals allowance.

The difference between the income included in the Comprehensive Income and Expenditure Statement, and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included in the Movement in Reserves Statement.

The cost of collection allowance received by Cheshire East Council is the billing authority's income and is included in the Comprehensive Income and Expenditure Statement.

(b) Accruals of Income and Expenditure

Income and expenditure is included in the accounts on an accruals basis, apart from housing benefit payments and minor cash income, which are shown in the accounts when the expenditure is incurred or the income is received. In particular:

- Sales, fees, charges and rent due from customers are accounted for as income at the date the Council provides the relevant goods and services.

- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Works are charged as expenditure when they are completed. Prior to this they are carried as work in progress on the balance sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows determined by the contract.
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. The Council's policy is to provide in full for the non-payment of all debts over 6 months old unless a payment arrangement is in place or the debt is otherwise secured.
- Where income has been received in the year in relation to activities to be carried out in the following financial year, a receipt in advance is recorded in the balance sheet.
- Where payment has been made in relation to activities to be carried out in the following financial year, a payment in advance is recorded in the balance sheet.
- Severance costs arising from redundancies agreed on or before the balance sheet date are accrued in the accounts.
- Non-exchange transactions are recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably.
- Revenue is defined as income arising as a result of the Council's normal operating activities and where income arises from contracts with service recipients it is recognised when or as the Council has satisfied a performance obligation by transferring a promised good or service to the service recipient.

(c) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions that are immediately repayable without penalty. Cash equivalents are highly liquid investments held at the balance sheet date that are readily convertible to known amounts of cash on the balance sheet date with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's approach to cash management.

(d) Charges to Revenue for Non-Current Assets

Service Income and Expenditure Accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

(e) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, paid annual leave and paid sick leave for current employees. These are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of leave entitlements which were not taken before the year end and which employees can carry forward to the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

Termination Benefits

Termination Benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Central Budgets line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognised costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year end.

Details of Termination Benefits are contained in Note 21.

Post-Employment Benefits

Local authorities are required by the Code to account for post-employment benefits in accordance with IAS19 'Employee Benefits as amended in 2011'. Most employees of the Council participate in one of three pension schemes which meet the needs of employees in particular services (further details are provided in Note 25 and Note 26 to the financial statements). These Schemes provide defined benefits to members (retirement lump sums and pensions) based on membership earned during the time that the employee was a member of the Scheme.

There are two types of scheme:

1) Defined Benefit Schemes

A defined benefit scheme is one for which post-employment benefits are determined independently of the investments of the plan, with employers having an obligation to make further contributions where assets are insufficient to meet employee benefits. Employer contributions are accounted for as revenue expenditure in the period to which they relate. Additionally, liabilities are recognised as benefits are earned and, for funded schemes, are matched with the organisation's attributable share of scheme assets. Liabilities are the post-employment benefits that have been promised under the formal terms of a pension scheme, measured on an actuarial basis; assets are the Authority's attributable share of the investments held in the pension scheme to cover the liabilities and are measured at fair value at the balance sheet date.

- **Local Government Pension Scheme (LGPS)**

  The LGPS is a funded scheme, meaning that the Scheme's liabilities are backed by investment assets. It is a statutory defined benefit scheme and all employees of Cheshire East Council (excluding teachers and employees in the NHS Pension Scheme) may participate in the Scheme. The Council and its employees pay contributions into the Cheshire Pension Fund, which is administered by Cheshire West and Chester Council. The Council contributes to the Fund at a rate which is intended to fund the growth in pensions over the longer term, as calculated by the Fund's independent Actuary.

  The LGPS Scheme is accounted for as a defined benefit scheme in accordance with International Accounting Standard 19 (IAS19). The liabilities of the Scheme attributable to Cheshire East Council are included in the balance sheet on an actuarial basis, using the projected unit method. The assets of the Fund are included at their fair value. Any changes in the present value of the defined benefit obligation resulting from experience adjustments and / or changes in actuarial assumptions are accounted for in the year in which they arise.

- **Teachers Unfunded Scheme (Discretionary Benefit Scheme)**

  The Council is also responsible for any discretionary retirement benefits awarded by the Council to teachers on a discretionary basis. These awards fall outside the scope of the Teachers' Pension Scheme and are referred to in the accounts as the Teachers Unfunded Scheme. This Scheme is accounted for on a defined benefit basis using the same policies that are applied to the

Local Government Pension Scheme. The liabilities of the Scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method.

2) Defined Contribution Schemes

Defined contribution schemes are pension plans where the level of benefits depends on the value of the contributions paid in respect of each member and the investment performance achieved on those contributions. The rate of contribution is determined by the scheme's rules and the employer's liability is limited by the contributions it has agreed to pay. The employer has no obligation to pay further amounts if the scheme does not have sufficient assets to pay employee benefits. Employer contributions for defined contribution schemes are accounted for as revenue expenditure in the period to which they relate, with the balance sheet reflecting only the extent of any prepaid or outstanding contributions.

The following schemes are technically defined benefit schemes. However, the Council is not able to identify its share of either Scheme's underlying surpluses or deficits with sufficient reliability for accounting purposes. Therefore, for the purposes of this Statement of Accounts, they are accounted for on the same basis as a defined contribution scheme, with the Council's obligation being limited to the contributions payable to the Scheme for the financial year in question. No actuarial assumptions are required to measure the obligation or expense, and there are no remeasurement gains or losses.

- **Teachers' Pensions Scheme (TPS)**

  Teachers employed by the Council are members of the Teachers' Pension Scheme, a multi-employer defined benefit scheme which is administered by Teachers Pensions on behalf of the Department for Education (DfE). The scheme is unfunded and the DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The Council is not liable for any other entities' obligations under the plan.

- **NHS Pension Scheme**

  A small number of Council employees are members of the NHS Pension Scheme.

(f) Financial Instruments

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value and are carried at their amortised cost (carrying value). Interest payable on such amounts is charged to the CIES by multiplying the carrying value by the effective interest rate. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Penalties on the early repayment of existing loans are debited to the Financing and Investment Income and Expenditure line in the CIES in the year of early repayment.

Where the early repayment involves the exchange of an existing loan for a new replacement loan (modification), then the cost of any penalty for the early repayment of the loan is added to the carrying value of the new replacement loan and charged to the CIES over the life of the replacement loan as part of the interest charge on the loan. Where penalties for early repayment have been charged to the CIES, regulations allow the impact on the General Fund to be spread over future years. The Council has a policy of spreading such penalties over the remaining term of the replacement loan. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified and measured according to the reason the Council has for holding the financial assets and the asset's cash flow characteristics.

There are three main classes and measurement bases for financial assets:

- at amortised cost.
- at fair value through profit or loss (FVPL).
- at fair value through other comprehensive income (FVOCI).

The Council's business model is to buy and hold investments in order to collect contractual cash flows i.e. payments of interest over the term of the asset and repayment of the principal amount invested at the end. Most of the Councils financial assets are therefore classified as being at amortised cost.

Financial Assets Measured at Amortised Cost

For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest). Likewise the amount of interest credited to the CIES is the amount receivable for the year as per the loan agreement. Any profit or loss on the sale of the financial asset is debited / credited to the Financing and Investment Income and Expenditure line in the CIES in the year of sale.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

These assets are initially measured at fair value (market price). At each balance sheet date the asset's fair value is re-measured to the current fair value (market price). Changes in fair value between balance sheet dates are charged or credited to the Surplus / Deficit on the Provision of Services (SDPS).

The fair values of such assets are determined as follows:

- instruments with quoted market prices – the market price.
- other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the accounting policy set out in section Fair Value Measurement.

When an asset measured at FVPL is sold any profit or loss on sale is credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

IFRS 9 Financial Instruments sets out that equity type investments should be classified as fair value through profit and loss unless there is an irrevocable election to recognise changes in Fair Value through other Comprehensive Income. The Council will assess each equity type investment on an individual basis and assign an IFRS 9 category. The assessment will be based on the underlying purpose for holding the financial instrument. Any changes in the fair value of instruments held at fair value through profit or loss will be recognised in the net cost of service in the CIES and will have a General Fund impact.

Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI)

The Council has equity instruments designated at fair value through Other Comprehensive Income (FVOCI) whether this be by election or by reason of statute. The Council has made an irrevocable election to designate certain financial assets as FVOCI on the basis that they are not held for trading but are held for longer term strategic purposes which includes the collection of dividend income.

The asset is initially measured and subsequently re-measured to current fair value at each balance sheet date. Dividend income is credited to Financing and Investment Income and Expenditure in the CIES when it becomes receivable by the Council. Changes in fair value between balance sheet dates are charged / credited to Other Comprehensive Income and Expenditure and are matched by an entry in the Financial Instruments Revaluation Reserve. This matching entry means that there is no impact on the SDPS at that time. When the asset concerned is finally sold the cumulative profits or losses previously recognised in Other Comprehensive Income and Expenditure (i.e. sale proceeds less original cost) is transferred from the Financial Instruments Revaluation Reserve and recognised in the SDPS. The same accounting treatment was adopted in the prior year when the assets were classified as Available for Sale. The accumulated gains and losses on the available for sale asset were previously held in an Available-for-Sale Financial Instruments Reserve at 31 March 2018. The balance on this reserve was transferred to the new Financial Instruments Revaluation Reserve as at 1 April 2018.

Expected Credit Loss Model

The Council recognises expected credit losses (i.e. non-payment of principal and / or interest) on all of its financial assets held at amortised cost (or where relevant FVOCI). Usually only credit losses arising in the next 12 months are calculated. Lifetime losses are only recognised when the risk of the amount lent out not being made in full, increases significantly over the year. Trade receivables (debtors) and HRA tenant debtors are permitted to use the simplified approach to expected credit losses. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

(g) Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement (CIES) until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the CIES.

Where a capital grant or contribution has been received, and conditions remain outstanding at the balance sheet date, the grant or contribution is recognised as part of the Capital Grants Receipts in Advance. Once the condition has been met, the grant or contribution is transferred from the Capital Grants Receipts in Advance and recognised as income in the CIES.

(h) Investment Property

Investment properties are measured initially at cost and subsequently at fair value. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

(i) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases are recognised on the balance sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the Property, Plant or Equipment – applied to write down the lease liability.
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the balance sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the balance sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the

Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the balance sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received).
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

(j) Pooled Budgets

The Better Care Fund was announced in June 2013 with the intention to drive the transformation of local services and was to be operated through pooled budget arrangements between the Council and local Clinical Commissioning Groups. Specific resources were earmarked for the Better Care Fund by NHS England in its allocation to Clinical Commissioning Groups. The remainder of the fund was made up of the Social Care Capital Grant and the Disabled Facilities Grant which were paid to local authorities.

In accounting for the pooled resources, in agreement with the Clinical Commissioning Groups:

- Activity where funding was received and expended under the control of Clinical Commissioning Groups has been accounted for in their accounts.
- Activity where funding was received and expended under the control of the Council has been accounted for in its accounts.
- Activity where funding was under joint control has been accounted for on the basis of the share for each organisation.

(k) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition and Measurement

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council applies a capital expenditure de minimis level of £10,000.

Assets are initially measured at cost, comprising the purchase price, and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended.

Assets are then carried in the balance sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost.
- Council offices – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- School buildings – current value, but because of their specialist nature, are measured at depreciated replacement cost using the Modern Equivalent Asset approach.
- Surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective.
- Vehicles, plant, furniture and equipment – depreciated historical cost is used as an estimate for current value.
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (EUV).

The values of properties used in the accounts are based on certificates issued by the Assets Manager, District Valuation Service, Deloitte Real Estate and the Farms Estate Shared Service manager.

Revaluations

Where assets are revalued (i.e. the carrying amount is based on current value), revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. Valuations shall be carried out at intervals of no more than five years.

Any increases in the valuation of properties since April 2007 arising from general price level movements are matched by corresponding credits to the Revaluation Reserve. Any revaluation increases/decreases that took place prior to 1 April 2007 are recorded in the Capital Adjustment Account.

Gains recognised on revaluation of Property, Plant and Equipment are matched by credits to the Revaluation Reserve to recognise an unrealised gain, unless the asset has previously been subject to an impairment loss or revaluation decrease charged to the Surplus or Deficit on the Provision of Services. In this case the gain is credited to the Comprehensive Income and Expenditure Statement.

Where a revaluation loss occurs as a result of revaluation to account for downward changes in market value, the decrease is recognised in the Revaluation Reserve to the extent the asset had previously been revalued upwards and thereafter in the surplus or deficit on the Provision of Services.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as below:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset is recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

The following strict criteria have to be met before an asset can be classified as held for sale:

- The asset must be available for immediate sale in its present condition and is being marketed for sale at a price that is reasonable in relation to its fair value.
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated.
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification.

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non-Current Assets and valued at the lower of their carrying amount before they were classified as held for sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale) and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

Capital Receipts

Capital receipts are the amounts derived from the sale of capital assets. The Capital Receipts policy is to ensure that capital receipts are used in the most beneficial way to support corporate priorities and strategic objectives of the Council. This will mean that all receipts will be pooled centrally. The policy is intended to separate the use of resources from the means of acquiring resources therefore supporting the strategic approach to capital investment. The Council has implemented a Disposals Policy as part of the Asset Management Plan; where property assets are not meeting the Council's objectives, their retention will be subject to asset challenge and a process of rationalisation and disposal for surplus/under-performing property will be adopted.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets), assets that are not yet available for use (i.e. assets under construction), investment properties carried at fair value and land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites). It is not charged in the year of acquisition, or on revaluations in the year of revaluation. In the year of disposal, depreciation is calculated for the whole year.

Depreciation is calculated on the following bases:

- dwellings and other buildings (including surplus assets) – straight-line allocation over the useful life of the property, (ranging up to 50 years) as estimated by the valuer.
- vehicles, plant, furniture and equipment – a straight line allocation over the useful life of the asset, (ranging up to 15 years) as advised by a suitably qualified officer.
- infrastructure – straight-line allocation over 40 years.

No depreciation charges are made for land, assets under construction, investment properties and community assets.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

IAS16 requires all components of an asset with a significant cost in relation to the total cost of the asset to be depreciated separately. The principal distinction is between Land (no depreciation) and Buildings (depreciable).

Where an item of Property, Plant and Equipment has major components with costs significant in relation to the total cost of the item, the components are depreciated separately. The main components of buildings are identified as 'main structure', 'temporary buildings and external works', and 'services and specialist equipment'. The requirement for componentisation for depreciation purposes only applies to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2011.

The Council has determined a de-minimis asset value of £1.9 million as a basis for componentising depreciation charges.

(l) Private Finance Initiative (PFI) and Similar Contracts

PFI and Similar Contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide services passes to the PFI contractor. The Council is deemed to control the services that are provided under its PFI scheme and, as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contract for no additional charge, the Council carries the Property, Plant and Equipment used under the contracts on the balance sheet.

The Council is party to one PFI contract in respect of Extra Care Housing. The contract also involves Cheshire West and Chester Council and will terminate in 2039.

The recognition of these assets has been balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The Property, Plant and Equipment recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operator each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- finance cost – an interest charge on the outstanding balance sheet liability, debited to Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement.
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator.
- operator lifecycle replacement costs – recognised as Property, Plant and Equipment on the balance sheet.

(m) Provisions

Provisions are made when the Council recognises that it has an obligation as a result of a past event, when it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year when the Council becomes aware of the obligation, based on the best estimate of the likely settlement.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year and, if no longer required, are reversed and credited back to the Comprehensive Income and Expenditure Statement. Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

(n) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies and are split between usable and non-usable. Usable Reserves are those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use. Unusable reserves cannot be used to provide services; this category includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve).

Resources set aside for specific purposes or to meet predicted liabilities are held as ‘earmarked reserves’. The Council also sets aside sums as a more general reserve, called the General Fund, to cover the impact of unexpected events or emergencies or provide a working balance to help manage the effect of uneven cash flows. The Council seeks to maintain the General Fund at a level consistent with a detailed assessment of risk as set out in its Reserves Strategy. This assessment is updated annually as part of the Council’s Medium Term Financial Planning.

(o) Schools Accounting

In line with accounting standards and the Code on group accounts and consolidation, all maintained schools are now considered to be entities controlled by the Council. Rather than produce group accounts the income, expenditure, assets, liabilities, reserves and cash flows of each school are recognised in the Council’s single entity accounts. The Council has the following types of maintained schools:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

Dedicated Schools Grant (DSG) is credited to the Comprehensive Income and Expenditure Statement within Net Cost of Service, based on amounts due from the Department for Education. The DSG is allocated between central Council Budget and budgets allocated to individual schools (delegated school budgets). Expenditure from central Council budgets and delegated schools budgets is charged to the Comprehensive Income and Expenditure Statement under Education and Children's services.

Individual schools' balances are included in the balance sheet of the Council under the heading Earmarked Reserves and Balances held by Schools.

Schools Non-Current (fixed) Assets are recognised on the balance sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them. Where schools transfer to Academies, the value of school buildings are removed from the balance sheet.

(p) Value Added Tax

Income and expenditure excludes any amounts related to Value Added Tax (VAT), as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them. At the year end any amounts outstanding are represented by debtor or creditor on the balance sheet**.**

Source: Statement of Accounts 2018/19, Note 39. (pages 118 – 132)

Agenda Item 8

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2020/21

Senior Officer: Alex Thompson, Director of Finance & Customer Services

1. Report Summary

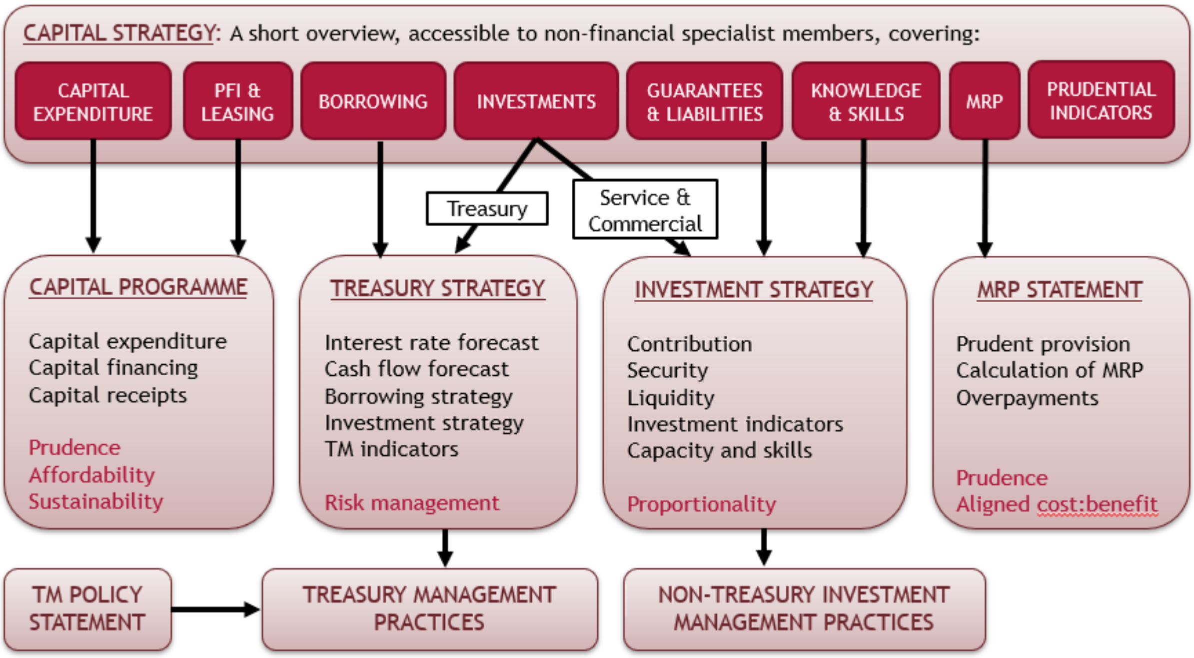
1.1. The purpose of this report is to update Members on the contents of the Council's draft Treasury Management Strategy and the Minimum Revenue Provision (MRP) Statement.

1.2. The CIPFA Treasury Management Code of Practice requires all local authorities to make arrangements for the scrutiny of treasury management. This responsibility has been nominated to the Audit & Governance Committee.

1.3. The Treasury Management strategy is an important element in the overall financial health and resilience of Cheshire East Council. The strategy focuses on the management of the Council's investment and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.4. The balance sheet forecast and liability benchmark in Section 3 will be updated when the capital programme is agreed, therefore the Strategy is currently in a draft stage.

1.5. The Treasury Management Strategy forms part of a range of financial strategies which will be reported as part of the Medium Term Financial Strategy to Cabinet on 4th February 2020 and then on to Full Council for approval on 20th February 2020.



Source: Arlingclose Strategy Report Templates

2. Recommendation/s

2.1. To receive and comment on the draft Treasury Management Strategy and the MRP Statement for 2020/21 set out in Appendix A.

3. Reasons for Recommendation/s

3.1. The report presents the 2020/21 draft Treasury Management Strategy Statement (TMSS), required under Part 1 of the Local Government Act 2003.

3.2. The Treasury Management Strategy details the activities of the Treasury Management function in the forthcoming year 2020/21. The Strategy reflects the views on interest rates of leading market forecasts by Arlingclose, the Council's advisor on treasury matters. It also includes the Prudential Indicators relating to Treasury Management.

4. Other Options Considered

4.1. None.

5. Background

5.1. The treasury management team work closely with the Council's advisors Arlingclose to gain the maximum benefit from their expertise and guidance, including benchmarking performance against other local authorities.

5.2. The Treasury Management Strategy takes into account future borrowing requirements, based on the Council's four year spending plans, projected cash flow requirements and money market opportunities. The aim is to maintain control over borrowing activities, with particular regard for longer term affordability; but also to allow sufficient flexibility to respond to changes in the capital and money markets as they arise.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. As noted in paragraph 4.53 of the Finance Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. Paragraphs 4.54 – 4.58 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report will be presented to Cabinet under rule 4.58.

6.2. Finance Implications

6.2.1. Contained within the report.

6.3. Policy Implications

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

6.4. Equality Implications

6.4.1. None.

6.5. Human Resources Implications

6.5.1. None.

6.6. Risk Management Implications

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

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

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

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

6.7. **Rural Communities Implications**

6.7.1. None.

6.8. **Implications for Children & Young People / Cared for Children**

6.8.1. None.

6.9. **Public Health Implications**

6.9.1. None.

6.10. **Climate Change Implications**

6.10.1. None.

7. Ward Members Affected

7.1. Not applicable.

8. Access to Information

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

9. Contact Information

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

Name: Alex Thompson

Job Title: Director of Finance & Customer Services (Section 151 Officer)

Email: alex.thompson@cheshireeast.gov.uk

Appendix A – Draft Treasury Management Strategy Statement 2020/2021

This page is intentionally left blank

Appendix A

Treasury Management Strategy Statement 2020/2021

Contents

Annexes

1. Background

1.1. Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. In preparing this strategy the Council has had regard to the advice received from it's appointed Treasury Management advisors, Arlingclose Ltd who have helped shape the content of this strategy. The current contract for advice expires 31st December 2020.

1.4. Investments held for service purposes or for commercial profit are not part of the treasury management strategy and are considered in a separate Investment Strategy.

2. External Context

2.1 **Economic background:** The UK's progress negotiating its exit from the European Union, together with future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21.

2.2 UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

2.3 Gross Domestic Product (GDP) growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

2.4 The Bank of England maintained Bank Base Rate at 0.75% in November following a 7-2 vote by the Monetary Policy Committee (MPC). Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

2.5 Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

2.6 In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

2.7 **Credit outlook:** Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile the post financial crisis banking reform is now largely complete, with the new ringfenced banks embedded in the market.

2.8 Looking forward, the potential for a "no-deal" Brexit and/or global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

2.9 **Interest rate forecast:** The Authority's treasury management adviser, Arlingclose, is forecasting that Bank Base Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

2.10 Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

2.11 The cost of Local Authority (LA) borrowing from the Public Works Loans Board (PWLB) is linked to gilts which dragged these rates to historic lows. The Government has become increasingly worried about some Local Authorities borrowing large amounts cheaply from PWLB whilst investing heavily in assets and projects outside of their geographical areas. This led to the sudden decision on 9th October to increase the margin on all PWLB lending rates by 1%. This now means PWLB rates are starting to look expensive when compared to other forms of borrowing, particularly the LA to LA market.

2.12 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

2.13 For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 2.8%, which takes into account strategic fund investments, and that new borrowing in the form of short term loans will be borrowed at an average of 0.90%.

3. Local Context

3.1 As at 31st October 2019 the Authority currently has borrowings of £156m and treasury investments of £32m. 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

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Estimate £m	31.3.22 Estimate £m	31.3.23 Estimate £m
General Fund CFR	XXX	XXX	XXX	XXX	XXX
Less: Other long-term liabilities *	(24)	(23)	(21)	(21)	(20)
Loans CFR	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
Less: External borrowing **	(158)	(109)	(80)	(78)	(77)
Internal (over) borrowing	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**
Less: Usable reserves	(112)	(XX)	(XX)	(XX)	(XX)
Less: Working capital	(87)	(XX)	(XX)	(XX)	(XX)
Treasury Investments (or New borrowing)	**XX**	**(XX)**	**(XXX)**	**(XXX)**	**(XXX)**

* leases and PFI liabilities that form part of the Authority's debt
** shows only loans to which the Authority is committed and excludes optional refinancing

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 The Authority has an increasing CFR due to the capital programme and will therefore be required to borrow up to £XXXm over the forecast period.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2020/21.

3.5 **Liability Benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £20m (increased from £10m in 2019/20) at each year-end to maintain a core strategic investment.

Table 2: Liability Benchmark

	31.3.19 Actual £m	31.3.20 Estimate £m	31.3.21 Estimate £m	31.3.22 Estimate £m	31.3.23 Estimate £m
Loans CFR	XXX	XXX	XXX	XXX	XXX
Less: Usable reserves	(112)	(XX)	(XX)	(XX)	(XX)
Less: Working capital	(87)	(XX)	(XX)	(XX)	(XX)
Plus: Minimum investments	10	20	20	20	20
Liability Benchmark	**XXX**	**XXX**	**XXX**	**XXX**	**XXX**

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

Chart 1: Liability Benchmark Chart

TO FOLLOW

4. Borrowing Strategy

4.1 The Authority currently holds loans of £156m, a slight decrease of £2m since 31st March 2019 but this will increase to a higher level, currently forecast as £177m at 31st March 2020. PWLB debt has been reducing by £6m per year whilst cash flow shortfalls caused by internal borrowing and prepayment of the pension fund deficit is being funded through cheaper short term borrowing. The Authority may also borrow additional sums to pre-fund future years' requirements providing this does not exceed the authorised limit for borrowing.

4.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

4.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to use both internal resources and to borrow short-term loans instead.

4.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Our treasury advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5 Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.6 In addition, the Authority may borrow further short-term loans to cover unexpected or planned temporary cash flow shortages.

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

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

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

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

4.9 The Authority has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive options. The Authority will now look to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA code.

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 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 LOBO's have options during 2020/21, and although the Authority understands that the lender is unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

4.12 **Short-term and variable rate loans:** These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

4.13 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or reduction in risk.

5. Treasury Investment Strategy

5.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £10m and £59m. Levels of around £36m are expected to be maintained in the forthcoming year.

5.2 The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

5.3 If the UK enters into a recession in 2020/21, 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 maintain its diversification into higher yielding asset classes during 2020/21 and increasing this if prudent to do so. The Authority is in the process of increasing investments in higher yielding asset classes from £10m to £20m with the remaining surplus cash invested for liquidity purposes in short-term unsecured bank deposits, money market funds and with other Local Authorities.

5.5 Under the new IFRS9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.6 The Authority may invest its surplus funds with any of the counterparties in table 3 below, subject to the cash limits (per counterparty) and time limits shown.

Table 3: Approved Investment Counterparties and Limits

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

*Banks includes Building Societies

5.7 **Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

5.8 **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

5.9 **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.10 **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.11 **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £100,000 per company as part of a diversified pool in order to spread the risk widely. It is unlikely that loans will be made to companies as part of standard treasury management operations. These are more likely to be considered under the Council's separate Investment Strategy.

5.12 **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing and, as providers of public services, they retain the likelihood of receiving government support if needed.

5.13 **Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.14 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.15 **Real estate investment trusts (REITs):** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

5.16 **Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower that BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept to the lowest practical levels per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

5.17 **Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.18 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.19 **Other Information on the Security of Investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.20 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.21 **Investment Limits**: The Authority's revenue reserves available to cover investment losses are forecast to be £90m on 31st March 2020. In order that no more than 7% of available reserves will be put at risk in the case of a single default, the maximum that will be lent unsecured to any one organisation (other than the UK Government) will be £6m. Secured investments will have a higher limit of £12m per organisation. A group of banks under the same ownership will be treated as a single organisation for limit purposes. The limits on fund managers, investments in brokers' nominee accounts and Real Estate Investment Trusts (REIT's) are higher as the investment is diversified over a greater range of counterparties within those funds. These funds are generally held to generate higher on-going returns but with a long term view on the value of the fund which may fluctuate significantly; e.g. REIT's underlying value will reflect the property market movements in whichever sector or geographic region in which that REIT operates. For foreign countries and other sectors with a total limit, the individual organisation limits still apply. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

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

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

6. Treasury Management Indicators

6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£545,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates. The Council is expected to remain a net borrower in 2020/21 so a fall in rates would lead to savings rather than incurring additional cost.

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

Refinancing rate risk indicator	Upper	Lower
Under 12 months	70%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	35%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	100%	0%
20 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper limit for loans maturing in under 12 months is relatively high and has been increased to 70% from 50% as there is no shortage of liquidity in the market and short term funding is currently considerably cheaper than alternatives. This will enable the Council to finance temporary cashflow shortfalls at year end more economically. This will be kept under review as it does increase the risk of higher financing costs in the future.

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

Price Risk Indicator	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£25m	£15m	£10m

6.5 The Authority has not adopted the voluntary disclosures on security of investments or liquidity.

6.6 Security of investments can be measured by the credit rating assigned to the counterparty but for many of our investments (principally other Local Authorities and strategic high yielding funds) there is no assigned credit rating. Also the credit rating assigned to Money Market Funds is typically AAA but the underlying investments are considerably lower. Any measure adopted would therefore add little value.

6.7 Liquidity is a self imposed measure generally on the minimum value of funds which the Council must keep as being immediately available in order to meet unexpected payments. Alternatively a measure linked to borrowing may be considered. In practice the Councils cash varies throughout the year meaning that at certain times the focus of liquidity is on investments and at other times on borrowing. Setting a minimum amount to hold for liquidity purposes may mean that the Council has to borrow unnecessarily to cover short periods. For example if a liquidity limit of £10m is set and cash is predicted to fall to say £4m for a few days we would have to borrow the additional £6m usually at a slightly higher cost than we receive for investment due to commissions payable. In the unlikely event that an unexpected payment would result in a need to borrow then availability of funds from inter LA markets is high and borrowing would be limited to need. Cash flow forecasting is carried out daily thereby allowing any borrowing to be planned and limited to need.

7. Other Items

7.1 The CIPFA code requires the Authority to include the following in its treasury management strategy.

7.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

7.3 The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7.5 In line with the CIPFA code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.6 **Markets In Financial Instruments Directive:** The Authority has opted up to professional client status with its providers of financial services including advisers, banks, brokers and fund managers, allowing it to access a greater range of services without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, this seems to be the most appropriate status.

8. Financial Implications

8.1 Anticipated investment income in 2020/21 is £1 million, based on an average investment portfolio of £36 million at an interest rate of 2.80%. The budget for debt interest paid in 2020/21 is £4.6 million, based on an average debt portfolio of £154 million at an average interest rate of 3.00%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Annex A – Arlingclose Economic & Interest Rate Forecast

Underlying assumptions:

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.

- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.

- Brexit has been delayed until 31st January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitionary period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.

- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.

- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- Although we have maintained our Bank Base Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy. Arlingclose judges that the risks are weighted on the downside.

- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy. We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.21**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
3-month money market rate														
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	**0.25**
Arlingclose Central Case	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	**0.75**	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	**-0.73**
1yr money market rate														
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	0.85
Downside risk	-0.30	-0.50	-0.55	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	-0.65	**-0.60**
5yr gilt yield														
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45	**0.37**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	0.57
Downside risk	-0.35	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	**-0.56**
10yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.00**	**1.00**	0.88
Downside risk	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.45**
20yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**
50yr gilt yield														
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45	**0.37**
Arlingclose Central Case	**1.20**	**1.20**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.30**	**1.35**	**1.35**	**1.35**	**1.40**	**1.40**	1.30
Downside risk	-0.40	-0.40	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.45	-0.50	-0.50	**-0.45**

Annex B

Existing Investment & Debt Portfolio Position

	31/10/19 Actual Portfolio £m	31/10/19 Average Rate %
External Borrowing:		
PWLB - Fixed Rate	68	4.26%
Local Authorities	45	0.93%
LOBO Loans	17	4.63%
Other	2	-
Total External Borrowing	**132**	**3.11%**
Other Long Term Liabilities:		
PFI	22	-
Finance Leases	2	-
Total Gross External Debt	**156**	-
Investments:		
Managed in-house		
Short-term investments:		
Instant Access	13	0.70%
Notice Accounts	8	0.90%
Managed externally		
Multi Asset Fund	3	5.92%
Property Funds	8	4.64%
Total Investments	**32**	**2.22%**
Net Debt	**124**	-

Annex C – MRP Statement 2020/21

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

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

- For capital expenditure incurred before 1st April 2008 and for supported capital expenditure incurred on or after that date, MRP will be charged at 2% annuity rate over a 50 year period.

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

  (Option 3 in England and Wales)

- For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

- Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

Cheshire East Council

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 5 December 2019

Report Title: Member Code of Conduct: Standards Report

Senior Officer: Jan Bakewell – Director of Governance & Compliance

1. Report Summary

1.1. The purpose of the report is to advise the Committee of the number and status of Member Code of Conduct complaints received in relation to Cheshire East Councillors and our Town and Parish Councillors.

2. Recommendation

2.1. That the report be noted.

3. Reasons for Recommendation

3.1. The Audit and Governance Committee is responsible for promoting high standards of ethical behaviour by developing, maintaining and monitoring the Member Code of Conduct.

4. Other Options Considered

4.1. Not applicable.

5. Background

5.1. This report provides details of complaints received in the period 1 April 2019 to 30 September 2019 (the "current reporting period").

5.2. During the current reporting period, there have been 12 complaints received. 5 in respect of Cheshire East Councillors and 7 in respect of a Town or Parish Councillor. 1 complaint in respect of a Town and Parish Councillor was rejected at preliminary assessment stage. 6 complaints in respect of a Town and Parish Councillor were taken to the independent assessment meeting. 3 complaints lodged against

Cheshire East Councillors were taken to the independent assessment meeting. The sole remaining 2 ongoing complaints, both against Cheshire East Councillors, have only just commenced the determination process.

5.3. The complaints in the current reporting period are broken down as follows:

Part A: General Obligations		No. received	
Paragraph		Borough	Town Parish
1	Selflessness	1	4
2	Integrity	3	3
3	Objectivity	4	0
4	Accountability	1	0
5	Openness, sub paragraph (a) transparency	2	0
	Openness, sub paragraph (b) disclosure	0	0
6	Honesty, sub paragraph (a) declaring interests	2	0
	Honesty, sub paragraph (b) use of resources	0	0
7	Respect for others, sub paragraph (a) courtesy	0	5
	Respect for others, sub paragraph (b) equality	0	1
	Respect for others, sub paragraph (c) impartiality	0	2
	Respect for others, sub paragraph (d) bullying	1	5
8	Leadership	4	3
9	Gifts and hospitality	0	0
10	Information	2	2
Part B: registering and declaring pecuniary and non pecuniary interests			
	Failure to register or declare an interest	2	0

[Note: the numbers may not tally with the total number of complaints received as a Complainant may identify more than one breach of the code in a single complaint.]

5.4. Members will of course be aware that since 1 January 2018 a new complaints process has been in effect, whereby the Monitoring Officer can reject complaints if they do not meet a Preliminary Assessment Criteria, which is designed to identify and dispose of complaints that have no prospect of being upheld.

5.5. This additional stage in the process was approved by Full Council as part of the Constitution Review and has proven to be extremely effective in ensuring that the resource available is focused on complaints which disclose short-comings in conduct which should quite properly be considered under the formal process.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. The Localism Act 2011 requires the Council to have a Code of Conduct which sets out the standards expected of Members whenever they act in their official capacity. The Code must also have a place in a suitable procedure at a local level to investigate and determine allegations against elected Members and co-opted Members.

6.1.2. The Council is also responsible for having arrangements in place to investigate and determine allegations against Town and Parish Councillors.

6.2. **Finance Implications**

6.2.1. There is a cost to the authority when a complaint is referred for external investigation. In the current reporting period, no complaints have been referred for external investigation.

6.2.2. There are no adjustments required to the Medium Term Financial Strategy as a result of this report.

6.3. **Equality Implications**

6.3.1. There are no direct equality implications.

6.4. **Human Resources Implications**

6.4.1. There are no direct Human Resource implications.

6.5. **Risk Management Implications**

6.5.1. If the Council fails to adopt and maintain a Code of Conduct and process for the investigation of complaints which is fit for purpose, robust and transparent then there are risks to the Council's reputation and also to the integrity of its corporate governance and decision-making processes.

6.6. **Rural Communities Implications**

6.6.1. There are no direct implications for rural communities.

6.7. **Implications for Children & Young People/Cared for Children**

6.7.1. There are no direct implications for children, young people or cared for children.

6.8. **Public Health Implications**

6.8.1. There are no direct implications for public health.

6.9. **Climate Change Implications**

6.9.1. There are no direct implications for climate change.

7 Ward Members Affected

6.10. Implications are borough wide.

8 Access to Information

6.11. There are no background documents to this report.

9 Contact Information

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

Name: Jan Bakewell

Job Title: Director of Governance & Compliance

Email: Jan.Bakewell@cheshireeast.gov.uk

Cheshire East Council

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Maladministration Decision Notices from Local Government and Social Care Ombudsman – July – August 2019

Senior Officer: Jan Bakewell – Director of Governance and Compliance

1. Report Summary

1.1. This report provides an update on the Decision Notices issued by the Local Government and Social Care Ombudsman (referred to as "the Ombudsman" throughout this report) when his investigations have found maladministration causing injustice to complainants. This report details the decisions made between 1st July 2019 and 31st August 2019. There was 1 decision in which the Ombudsman found that there was maladministration causing injustice; the relevant department has taken the recommended actions and learned lessons from the investigation outcome. It is not possible to report on any Decision Notices issued from September 2019 onwards, as the Ombudsman imposes a three month reporting embargo. Any decisions received after 31st August 2019 will be reported at a subsequent Audit & Governance meeting.

2. Recommendation

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

3. Reasons for Recommendation

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

4. Other Options Considered

4.1. This is not applicable.

5. Background

5.1. The Local Government Act 1974 established the Local Government and Social Care Ombudsman. It empowers the Ombudsman to investigate complaints against councils and adult social care providers and to provide advice and guidance on good administrative practice. Once a complainant has exhausted the Council's Complaints procedure, their next recourse, should they remain dissatisfied with the Council's response, is to contact the Ombudsman.

5.2. The Ombudsman will assess the merits of each case escalated to them and seek clarification from the Council as necessary before making the decision to investigate a complaint. Once the Ombudsman decides to investigate, they will try to ascertain if maladministration has occurred and whether or not there has been any resulting injustice to the complainant as a result of the maladministration.

5.3. In instances where maladministration and injustice is found, the Ombudsman will make non-legally binding recommendations which they consider to be appropriate and reasonable. Although not legally binding, refusal to accept the Ombudsman's recommendation(s) will trigger a Public Report.

5.4. A Public Report is a detailed account of the complaint, outlining the failures by the Council in this particular investigation; this can have a significant damaging effect on the Council's reputation.

5.5. During the period between 1st July 2019 and 31st August 2019 the Council received 1 Decision Notice in which the Ombudsman has concluded that there has been maladministration causing injustice. The details can be found in Appendix 1.

5.6. Adult Social Care Complaint – The complaint was as result of the way in which the Council assessed the needs of the complainants' adult son since 2016 and the level of financial support granted. The complainants specifically raised concerns that they were told that information relating to the assessment had been lost, that there were unnecessary delays in making the direct payments and latterly disagreed with the way in which the post-16 transport policy was applied.

5.6.1. The Ombudsman noted that the Council had continued to support the complainants' son under his existing support plan while attempting to develop a plan more suitable to his current needs and that significant efforts had been made since the start of 2018 to move the matter forwards. Furthermore some of the delays in agreeing the outcome of the assessment and financial support awarded were not solely due to fault by the Council.

However, the Ombudsman concluded that the Council was at fault as a result of officers suggesting that personal information had been lost; although it was later confirmed that the information had not been lost, as well as concluding that the Council could have done more to mitigate the delay in making the direct payments.

5.6.2. The required actions set by the Ombudsman have since been completed. The department have addressed the issues and findings of the Ombudsman with the individual workers via their supervision and by providing further training relating to GDPR and Liquid Logic which will help to ensure that records are correctly updated and filed. Also measures such as reviewing and amending the processes between business support and operational staff within the department have been made, circulated to staff and reinforced at team meetings in order to mitigate the chances of these issues reoccurring. Furthermore, Practice Managers have been reminded to monitor timeliness of assessments and support plans which will also help to address the shortcomings identified by the Ombudsman.

6. Implications of the Recommendations

6.1. Legal Implications

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

6.2. Financial Implications

6.2.1. If fault causing injustice is found, the Council can be asked to pay compensation to a complainant, the level of which is determined on a case by case basis. The cost of such compensation is paid for by the service at fault. In this particular case, the Council was required to make a compensation payment of £300.

6.3. Policy Implications

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

6.4. Equality Implications

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

6.5. Human Resources Implications

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

6.6. **Risk Management Implications**

6.6.1. There are no risk management implications.

6.7. **Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People/Cared for Children**

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

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.11. There are no direct implications to climate change.

7. Ward Members Affected

7.1. There are no direct implications for Ward Members.

8. Access to Information

8.1. Please see Appendix 1.

9. Contact Information

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

Name: Juan Turner

Job Title: Compliance and Customer Relations Officer

Email: juan.turner@cheshireeast.gov.uk

Appendix 1 - Ombudsman Decisions where Maladministration with Injustice has Taken Place

July - August 2019

Service	Summary and Ombudsman's Final Decision	Agreed Action	Link to LGSCO Report	Action Taken	Measures Implemented	Lessons Learnt
Adult Social Care	Mr and Mrs X complain about the way the Council has assessed the needs of their adult son Mr A, who is disabled, about the level of Direct Payments, the delay in paying Mrs X's carer's Direct Payments, and the way in which the Council has considered the payment of transport expenses for Mr A. They also complain they were told his personal information had been lost. The Ombudsman's conclusion was that there were delays in reviewing Mr A's needs and resolving concerns about transport expenses but they have not been wholly due to the Council. The Council was wrong to tell Mr and Mrs X	Within one month of the final decision the Council will make a payment of £150 to Mr and Mrs X to recognise the distress and anxiety caused by the suggestion that Mr A's personal information had been lost. Within one month of the final decision the Council will make an additional payment of £150 to Mrs X which recognises the delay in making available the carer's Direct Payments to her and the lost opportunities which resulted.	https://www.lgo.org.uk/decisions/adult-care-services/assessment-and-care-plan/16-005-802	The department has issued an apology letter for the failings identified by the Ombudsman.. The payments have also been processed.	Reviewed and amended the processes between business support and operational staff in the department. Circulated changes to procedure to staff. Reminder sent to Practice Managers of the importance of monitoring timeliness of assessments and support plans.	The need to ensure that records are correctly catalogued and filed. The need for better communication between business support and operational staff.

	the previous assessment papers had been lost as that caused considerable anxiety. There was also a delay in making Direct Payments to Mrs X in her role as carer.					

 Agenda Item 11

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Inspection by the Investigatory Powers Commissioners' Office (IPCO)

Senior Officer: Jan Bakewell – Director of Governance and Compliance

1. Report Summary

The Council was recently subject to a remote desktop inspection by the Investigatory Powers Commissioners' Office (“ IPCO”) regarding its use of powers under RIPA (Regulation of Investigatory Powers Act). This report provides a summary of the findings and recommendations from the inspection, together with an action plan to put the recommendations into effect. The Council is required to provide a response to the IPCO in relation to the inspection report within three months of the report being issued (by 15th January 2020).

2. Decision Requested

2.1 That the Committee notes:

i. the Investigatory Powers Commissioner’s Office inspection report in relation to the Council’s use of directed surveillance and covert human intelligence sources; and

ii. the action plan to address the recommendations arising from the inspection.

3. Background

3.1 The IPCO provides independent oversight and authorisation of the use of investigatory powers by intelligence agencies, police forces and other public authorities. Its purpose is to oversee how these powers are used, taking account of the public interest and ensuring that investigations are conducted in accordance with the law. In 2017, the IPCO took over the roles of the Intelligence Service Commissioner, the Interception of Communications

Commissioner and the Office of Surveillance Commissioners. The new remote inspection is intended to be a lighter touch approach, given the low volume of RIPA authorisations approved by most Councils, since the changes in the legislation in 2012. The Council is now only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder subject to the 'serious offence' test. The volume has also reduced since the Department for Work and Pensions took over responsibility for the identification of Benefit fraud.

3.2 The Council occasionally needs to use directed surveillance and obtain communications data in order to carry out its enforcement functions effectively, e.g. planning enforcement, licensing enforcement, trading standards, environmental health and community enforcement. RIPA provides a regulatory framework to enable public authorities to obtain information through the use of certain covert investigatory techniques. It is imperative that, when investigating alleged wrongdoing, certain conditions are met in each case in order that successful prosecutions can be made. In particular, it is essential that covert surveillance is only used when it is necessary and proportionate to do so. Therefore, this must be properly authorised and recorded, the tests of necessity and proportionality must be satisfied and the potential for collateral intrusion must be considered and minimised.

3.3 With the increase in the use of social media, the Council has introduced an Online Investigations Policy. Online research and investigation has become a useful tool for officers and investigators to prevent, detect and investigate suspected criminal activity, harm to residents and businesses and to carry out internal investigations (non-criminal).

3.4 Access to communications data is now obtained under the Investigatory Powers Act 2016. The Council is required to nominate a Single Point of Contact (SPOC), to ensure that data is obtained lawfully and to facilitate access to the data with the communication service providers. The Council uses NAFN (National Anti Fraud Network) to perform this role. Accordingly, any inspection of the Council's use of the powers to access communications data is carried out via NAFN rather than directly with the Council.

3.5 The Council's Authorising Officers/Designated Persons under RIPA include all Chief Officers listed in the Constitution, namely:

Chief Executive

Executive Director – Place

Executive Director – People

Executive Director – Corporate Services

Section 151 Officer

Once authorised, all applications need the approval of a Justice of the Peace/Magistrate, as required by the Protection of Freedoms Act 2012. The Act also restricts the use of RIPA authorised surveillance to the investigation of offences which attract a custodial sentence of six months or more. The Director of Governance and Compliance Services is the Council's Senior Responsible Officer ("SRO") for the purposes of RIPA in accordance with the Home Office Codes of Practice. She has responsibility for the integrity of the process to ensure that the Council complies with the legislation and Codes of Practice. The Council's Senior Compliance and Customer Relations Officer is the RIPA Co-Ordinator with day to day responsibility for advice and guidance to departments on the process.

Since joining the Council in September 2019 and receipt of the recent inspection report, the SRO is undertaking a review of the Council's systems and processes to ensure the Council has a robust RIPA structure and procedures in place, along with oversight of the quality of applications, authorisations and records maintained.

3.6 Use of a Covert Human Intelligence Source (CHIS)

Covert human intelligence sources may only be authorised if there are certain additional arrangements in place, including an employee of the Council being responsible for the source's security and welfare and a Senior Officer with general oversight of the use made of the source. Use of a CHIS must be authorised by the Chief Executive before it is approved by a Justice of the Peace/Magistrate.

3.7 Applications authorised

The table below shows the number of applications authorised during the past three years:

	Directed surveillance	Communications Data	CHIS
2018/19	1	1	0
2017/18	1	0	0
2016/17	6	0	0

3.8 Inspection Findings and Recommendations

Appendix 1 is the letter from IPCO dated 15 October 2019 setting out the findings and the recommendations from the inspection.

Appendix 2 is the action plan setting out the actions already taken or being put in place to address the recommendations. The inspection report has been shared with the authorising officers and relevant officers in Regulatory Services who make the most use of RIPA powers. Learning points identified by the inspection will be addressed via the action plan.

4. Recommendations

That the Committee notes the findings and recommendations arising from the inspection and the actions taken or planned to address these.

5. Implications of the Recommendations

5.1 Legal Implications

The Council's use of its RIPA powers in respect of covert surveillance is subject to annual reporting and triennial inspection by IPCO to ensure the lawful use of powers.

5.2 Finance Implications

The content of this report will have no impact on the Council's Medium Term Financial Strategy.

5.3 Equality Implications

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

5.4 Human Resources Implications

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

5.5 Rural Communities Implications

There are no direct implications for rural communities.

5.6 Implications for Children and Young People/Cared for Children

There are no direct implications for children, young people or cared for children.

5.6 Public Health Implications

There are no direct implications for Public Health

5.7 Climate Change Implications

There are no direct implications to climate change.

6.0 **Ward Members Affected**

There are no direct implications for Ward Members.

7.0 Access to Information

7.1 Please see Appendices 1 & 2

8.0 Contact Information

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

Helen Sweeney

Senior Compliance and Customer Relations Officer

Helen.sweeney@cheshireeast.gov.uk

Appendix 1 – Letter to the Council's Acting Chief Executive from IPCO dated 15 October 2019.

Appendix 2 – Action Plan to address recommendations.

This page is intentionally left blank

IPCO
Investigatory Powers Commissioner's Office

PO Box 29105, London
SW1V 1ZU

Ms. Kath O'Dwyer
Acting Chief Executive
Cheshire East Council
Town Hall
Market Place
Macclesfield
Cheshire
SK10 1EA
Kath.O'Dwyer@Cheshireeast.gov.uk

15th October 2019

Inspection of Cheshire East Council

Dear Chief Executive,

Your authority was recently subject to inspection by one of my Inspectors, Mr. Graham McCrory MBE, as to the use of covert powers under the Regulation of Investigatory Powers Act 2000 (RIPA). I am grateful to you for facilitating this through your Senior Compliance and Customer Relations Officer, Ms. Helen Sweeney, who spoke with my Inspector on several occasions and provided him with all the relevant material and documentation, throughout the process.

I note that there has been some limited use of the available covert powers since the last inspection, with the forming of several directed surveillance authorisations, which my Inspector has viewed. I further note that no CHIS has been authorised.

One recommendation, made during the previous inspection of your Council, has been addressed. The recommendation relating to the use of the internet as an investigative tool, has led to the forming of a policy document to assist your Council employees understand better this developing area. It is encouraging to note that your authority has developed and latterly updated a specific policy regarding the use of the internet. The revised Code of Practice for Covert Surveillance and Property Interference 2018, paragraphs 3.10 to 3.17, contains some useful advice and examples of online covert activity which may be helpful to your staff and could be included within the current Council policy document.

My Inspector informs me that your Council has gone through significant personnel change since the last inspection. This has included significant change in senior leadership roles. The recent appointment of several new officers will, I hope, stabilise the management structures within the Council and assist further with the provision of robust but supportive oversight regarding matters affecting RIPA.

I note that RIPA refresher training has been undertaken in 2018 and 2019 through the use of both internal and external providers and following various processes. That said, it is a useful exercise to consider 'real life' RIPA scenarios, possibly by way of a 'table top' exercise, in order to assess not only the knowledge of your staff but also their operational suitability and capability to manage and deal with matters should the Act be engaged with. It is vitally important that those officers in senior roles develop their skills also and not only take part in training, but develop and drive high standards of compliance across your Council. I hope this is something you are willing to take forward.

The covert activity undertaken by your Council has been reviewed by my Inspector, as well as the recently updated Council policy for RIPA. There are some, significant, observations made by my Inspector, which are detailed below.

Whilst there is no need for a physical inspection at this stage, it is the recommendation of my Inspector, and with which I concur, that once your senior management team is fully established, further training is undertaken and the observations of my Inspector, as outlined below, are adhered to. He should then be updated and at that time will consider whether he feels that a further review of your Councils' compliance with the Act should be undertaken.

The observations of Mr McCrory are as follows:

1. In all of the Directed Surveillance Authorisations (DSAs) inspected, the quality of the applications was found to be of an extremely good quality and well formed. Every application was formed by a single staff member, who should be commended for the effort which has gone into each application.

2. Unfortunately, the same cannot be said for the quality of the authorisations formed and inspected. Overall, the considerations of each Authorising Officer (AO) was limited and consisted of a regurgitation of the proposed operational plan rather than an in-depth detailing of the statutory considerations required. In all authorisations viewed there was little or no consideration of the potential for collateral intrusion to occur. The form utilised for each authorisation considered the potential to gather confidential material rather than address the issues of collateral intrusion. This should be corrected, forthwith. In addition, the following matters specific to each authorisation were noted:

   - DSA 66 – The consideration of necessity and proportionality was satisfactory but would have benefited from a more detailed consideration by the AO. The authorisation dates were incorrect. An authorisation for directed surveillance is for three months only before a renewal is required to be considered, unless the authorisation is cancelled beforehand. In this case the authorisation period was noted as being from the 16th December 2016 to the 18th March 2017.
   - DSA 67- The consideration of necessity and proportionality was slightly better formed than had been viewed in other examples, but that said the AO had stated that due to no surveillance equipment being used in the 'test purchase' operation, the surveillance was therefore proportionate. Whilst is was understood what was meant by the AO, the proportionality of any surveillance is not based <u>solely</u> on the fact that no surveillance equipment is to be used.
   - DSA 68 – As with other authorisations, no collateral intrusion consideration was made by the AO. Whilst this was considered by the applicant, it is for the AO to consider and document with the authorisation which is required to be a 'stand-alone' document.
   - DSA 69- The comments made by the AO were as follows, "*I believe there is sufficient evidence to warrant the use of surveillance and this is proportionate given the potential risk to the public. I authorise this operation to take place*." Proportionality considerations are based on more than potential risks to the public. There are four elements of proportionality that should be considered and as outlined within the relevant Code of Practice (paragraph 4.7). These should be the considerations made by the AO. Additionally, the authorisation is not for the operation to take place

but for specific surveillance tactics to be undertaken. Tactics, such as foot, mobile or use of the internet, are required to be identified by the AO in order that the person(s) developing the surveillance are aware of what exactly has been authorised and therefore can then comply with *R v Sutherland* conditions.

- DSA 70 – Similar comments to those made by the AO in DSA 69 were made in this authorisation. In addition, it was noted that, yet again, the authorisation dates were incorrect. In this case authorisation was given on the 8th July 2019 but only until 2031hrs on the 12th of July 2019. The proposed activity was due to terminate at 2030hrs on this date. Not only did the AO incorrectly identify the authorisation dates, but by having an authorisation drawn so tightly, the potential for unauthorised activity to take place was increased.

3. Although the RIPA policy has recently been updated, the policy would benefit from the addition of the guidance offered within the CHIS Code of Practice 2018, paragraphs 2.18 to 2.26. These paragraphs outline how to manage information from public volunteers and when an AO should consider an authorisation. This is an area which is likely to affect the Council and is vital reading for Council employees who are in regular contact with members of the public. In addition, the RIPA policy, referring to the authorisation period for juvenile CHIS, states that this is for one month. This has been changed through 2018 legislation to a period of four months.

4. It is noted that the Council policy identifies the role of the AO, paragraph 5.6 and the details required to be considered by the AO and contained within their authorisation, at paragraph 6.6. It is regretful to identify that, even with these details contained within the revised policy and as updated in 2019, these matters are not being adhered to fully by the AOs presently undertaking this role on behalf of the Council.

5. Specimen directed surveillance authorisations, used by your Council, were reviewed by my Inspector and found to contain a section for use when utilising the urgency provisions. This section of the form should be removed, to avoid any confusion, as the use of the urgency provisions is no longer applicable to your Council following The Protection of Freedoms Act 2012.

I take this opportunity to thank you for the reply to my Inspector's initial request. It is obvious that significant investment is required to update the knowledge of existing officers within your Council involved in the consideration and authorisation of RIPA applications, as well as those newly appointed officers. This should be implemented as swiftly as possible.

I further remind you of the importance of regular, ongoing internal oversight of the actual or potential use of these powers, which should be managed by your Senior Responsible Officer. The role of the SRO should be an intrusive one. It is clear that the SRO has not identified and addressed the issues outlined by my Inspector. Whilst I am somewhat sympathetic to the issues faced by the Council, given the large turnover of senior officers within the Council recently and the added upheaval, this should be of concern to you.

I hope that you find the inspection report to be helpful and constructive. Generally, I am concerned at the reduction in the use of investigatory powers across England, Scotland, Wales and Northern Ireland and there may be greater scope for considering the use of authorised investigative activity. It goes without saying that these are operational decisions that are entirely for your Council, but IPCO is a resource to assist in the lawful use of these powers.

My Office is available to you should you have any queries following the inspection, or at any point in the future. Contact details are provided at the foot of this letter.

I should be grateful for an update to this Office, copied to Mr McCrory, within three months of the date of this letter.

Yours sincerely,

Adrian Fulford

The Rt. Hon. Lord Justice Fulford
The Investigatory Powers Commissioner

IPCO INSPECTION OCTOBER 2019

RECOMMENDATIONS AND ACTION PLAN

FINDING/RECOMMENDATION	ACTION	ACTION OWNER	DUE DATE
The revised Code of Practice for Covert Surveillance and Property Interference 2018, paragraphs 3.10 to 3.17 contains useful advice and examples of online covert activity which may be helpful to staff and could be included within the current Council policy document.	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf This information will be incorporated into the Council's RIPA Policy and the Online Investigations Policy. This will also be covered in the forthcoming training.	Amendment to RIPA Policy – Compliance and Customer Relations Manager Amendment to Online Investigations Policy – Principal Auditor Training – Trading Standards and Community Protection Manager	End February 2020 End February 2020. End March 2020
The Inspector has acknowledged the RIPA refresher training delivered in 2018 and 2019 through the use of both internal and external providers and following various processes. He has suggested, in addition, that it would be useful to consider 'real life' RIPA scenarios, possibly by way of a 'table top' exercise, in order to assess not only staff knowledge, but also operational suitability and capability to manage and deal with matters should the Act be engaged with.	'Real life' RIPA scenarios are already included in training. The Council's Authorising Officers are currently chief officers as listed in the Constitution. It is proposed to review whether Authorising Officers should sit at Director and Head of Service level, which is more appropriate, and common practice in other authorities, given the low volume of applications.. Training would be provided to any new Authorising Officers ,who should	Trading Standards and Community Protection Manager Director of Governance and Compliance Services	End March 2020 End March 2020

Officers in senior roles should further develop their skills also and not only take part in training, but develop and drive high standards of compliance across the Council. Once the senior management team is fully established, further training should be undertaken and the Inspector updated once this has taken place	continue to be independent of the service for which the activity is being authorised .		
In all of the Directed Surveillance Authorisations (DSAs) inspected, the quality of the applications was found to be of an extremely good quality and well formed. Every application was formed by a single staff member, who should be commended for the effort which has gone into each application.	Trading Standards Investigations Enforcement Officer made all the applications inspected. Therefore they should be commended by the Council's Corporate Leadership Team for their work on these cases.	Executive Director of Corporate Services	End November 2019
The quality of the authorisations needs to be improved. Overall, the considerations of each Authorising Officer (AO) was limited and consisted of a repeat of the proposed operational plan rather than an in-depth detailing of the statutory considerations required. Each authorisation considered the potential to gather confidential material rather than address the issues of collateral intrusion. The Council policy identifies the role of the AO, paragraph 5.6 and the details required	This will be covered in the forthcoming training.	Trading Standards and Community Protection Manager Authorising Officers Senior Responsible Officer & Deputy Monitoring Officer	End March 2020

to be considered by the AO and contained within their authorisation, at paragraph 6.6. Even with these details contained within the revised policy and as updated in 2019, these matters are not being adhered to fully by the AOs presently undertaking this role on behalf of the Council.			
The RIPA policy would benefit from the addition of the guidance offered within the CHIS Code of Practice 2018, paragraphs 2.18 to 2.26. These paragraphs outline how to manage information from public volunteers and when an AO should consider an authorisation. In addition, the RIPA policy, referring to the authorisation period for juvenile CHIS, states that this is for one month. This has been changed through 2018 legislation to a period of four months.	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/742041/201800802_CSPI_code.pdf This information will be incorporated into a revised CEC RIPA Policy. This will also be covered in the forthcoming training. The juvenile CHIS information will be amended to take into account the amendment to the legislation. i.e. one month to four months.	Trading Standards and Community Protection Manager Compliance and Customer Relations Manager	End February 2020 Implemented with immediate effect
Specimen directed surveillance authorisations were found to contain a section for use when utilising the urgency provisions. This section of the form should be removed, to avoid any confusion, as the use of the urgency provisions is no longer applicable to the Council following The Protection of Freedoms Act 2012.	https://www.gov.uk/government/publications/application-for-use-of-directed-surveillance The authority uses the recommended form as downloaded from the above gov.uk website. The Urgency Provisions Section is on the seventh and final page of the form. In future, this final page will not be printed, in order to avoid confusion.	Senior Compliance and Customer Relations Officer Trading Standards and Community Protection Manager	Implemented with immediate effect.

There should be regular, ongoing internal oversight of the actual or potential use of these powers conducted by the Senior Responsible Officer. The role of the SRO should be an intrusive one. It is clear that the SRO has not identified and addressed the issues outlined in the inspection.	The Senior Responsible Officer (the Monitoring Officer) signs the Central Record of Authorisations every quarter and inspects the individual authorisations. There is a requirement for increased diligence by the SRO. .	Senior Responsible Officer	Implemented with immediate effect.

Agenda Item 12

Working for a brighter future together

Key Decision N

Audit and Governance Committee

Date of Meeting: 05 December 2019

Report Title: Risk Management Update

Senior Officer: Jan Bakewell, Director of Governance and Compliance Services

1. Report Summary

1.1. This report provides the Audit and Governance Committee with assurance on our Corporate Risk Management arrangements and updates on activity in the year to date. It also provides an overview on the Council's risk management arrangements to the end of quarter two 2019/20. This supports the Committee in their role in monitoring the development and operation of Risk Management in the Council.

1.2. The Council's risk management framework seeks to provide a structured, consistent and continuous process for identifying, assessing, and responding to threats and opportunities that affect the achievement of the Council's corporate objectives.

2. Recommendations

2.1. To note the update report on risk management provided for information and assurance.

3. Reasons for Recommendations

3.1. Risk management is central to facilitating good governance and the achievement of corporate objectives. As a publically accountable body, the Council must demonstrate effective identification and management of the risks that threaten the achievement of its corporate objectives, the effectiveness of its operations, and reliable financial reporting.

3.2. The Audit and Governance Committee has responsibility for monitoring the effective development and operation of risk management in the Council.

4. Other Options Considered

4.1. Not applicable.

5. Background

Corporate Risk Register Review

5.1. Corporate risks were reviewed in May, July and September by the Corporate Leadership Team. All risks on the Corporate Risk Register, attached at Appendix A have now been reviewed, and updated in terms of scoring and description as required. Where necessary, corporate risks have been reassigned in recognition of recent appointments to the Council's senior management structure now being in post.

5.2. Details of the changes to the Corporate Risk Register are outlined in the table below.

Table 1: Risks removed from the Corporate Risk Register

Ref & Type	Risk	Rating & Direction	Comments
CR11 Threat	**Local changes in NHS arrangements**	**9** ⇆	Risk being managed at a Directorate level and is covered under other Corporate Risks.

5.3 The Corporate Leadership Team (CLT), supported by the Head of Audit and Risk and the Risk and Business Continuity Manager is undertaking a thorough review of the Corporate Risk Register to provide assurance that it is recognising the risks at the strategic level and the actions the Council is taking to treat risks.

Other developments

5.4 Operational risks are managed and monitored via risk registers within Team Plans and Directorates. Monthly highlight reports, identifying key risks and risk management actions have been prepared for programmes and projects and monitored via programme and project board meetings. Individual risk assessment sections have been included on business cases and included in decision-making reports to Committees, Cabinet and Council.

5.5 Improvements in the identification and articulation of risks have been made during the development of service plans. The risks identified here provide a golden thread up to corporate risks which will strengthen the effectiveness of risk management in the authority. These will be supported by a full risk register, including details of scoring and risk treatments.

5.6 Heads of Service have been asked to provide their risk registers, a large majority of which already exist. Completion is being monitored to ensure that every service has a risk register or is contributing to a department risk register. This will assist in providing assurance and visibility across the authority. Heads of Service have been offered support to improve risk registers in year and in readiness for the development of service plans in 2020/21.

5.7 The Council is reviewing its risk maturity rating to ensure a consistent methodology across directorates and by cultural change to inbed risk management. The Council's risk maturity level was last assessed in 2018 and was rated as approaching level three, Risk Defined with a target of level four Risks Managed out of an optimum score of five, Risk Enabled. A further assessment of our risk maturity is scheduled in quarter 4, so that the full impact of changes to policy and procedure can be recognised.

5.8 A training programme for Risk Management was provided to Heads of Service and began in November to provide refresher training specific to Cheshire East's Risk Management Framework. Training for Audit and Governance Committee members will be included in the Committee's training programme.

5.9 In practical terms, risk management is currently documented across individual risk registers and supporting documentation which is held across a variety of network locations and SharePoint sites. Whilst this ensures that information is available locally, central visibility and consideration of thematic/categories of risks is more challenging with this approach.

5.10 Risk management software options are being explored with a view to procuring and implementing the software before the end of 2019/20.

5.11 Responsibility for risk management is now managed by the Executive Director of Corporate Services, Director of Governance and Compliance, Head of Audit and Risk and the Business Manager for Corporate Services (Business Continuity and Risk) following recent appointments during Summer 2019.

5.12 The Chief Executive and CLT remain responsible for promoting and supporting compliance with the Corporate Risk Management Policy and for managing the corporate risk register. In recognition of this role, CLT has introduced a quarterly risk management review, where risk registers are considered alongside other performance scorecard information.

5.13 Individual managers remain responsible for the identification and management of risks within their service areas, projects, partnership activities and crosscutting service activities.

5.14 Heads of Service and other staff involved in the development of Business Continuity plans have received training both in the new Business Continuity system and in the subject matter itself. This element of the training is now complete and Services are inputting their Business Continuity plans into the system. The next stage of the project is for Directors and Executive Directors to receive training as approvers which requires their service business continuity plans to be on Clearview during December.

5.15 The next phase of business continuity work is underway with a group of staff across the organisation to develop a Corporate Cheshire East Business Continuity Plan. The purpose of this plan will be to identify measures that would be taken in the event of a major cross service business interruption e.g. loss of a corporate building or loss of information technology services. A Senior Crisis Management Team will be established to determine priorities should the authority be unable to deliver all of its critical functions at once. The Emergency Planning Team are also exploring use of Clearview for communication messaging.

5.16 Clearview is scheduled to be implemented in full by January 2020. A critical part of the implementation will be to utilise the tool in scenario testing. Results of scenario testing will be used to inform further development of business continuity plans and the Clearview toolkit.

6 Implications of the Recommendations

6.1 Legal Implications

6.1.1 Risk management can relate to legal aspects of the council's business, however, the content of this report does not have any specific legal implications. Legal risks to the organisation are incorporated in the Service plans risk registers. 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.

6.2 Finance Implications

6.2.1 The introduction of a risk management system will be a cost to the Council, which will initially be met from the EU Brexit funding allocation. However, ongoing annual support and maintenance costs of, will e met from the Audit and Risk management budget. Costs relating to implementing risk treatment plans are considered on a case by case basis and either met from existing departmental budgets or addressed through the business planning process.

6.2.2 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 Policy Implications

6.3.1 Risk management is integral to the overall management of the authority and, therefore, considerations regarding key policy implications and their effective implementation are considered within departmental risk registers and as part of the Risk Management Framework.

6.4 Equality Implications

6.4.1 Whilst there are no direct equality implications arising from this report, risks which have equality and diversity implications and these are recognised in our risk registers as required.

6.5 Human Resources Implications

6.5.1 Human resource implications in relation to this report include:-

- the need for training on risk management and business continuity to improve skills and knowledge for staff to fulfil their responsibilities

- the need for managers to lead through a combination of positive attitude and behaviours towards risk management and business continuity.

6.5.2 It is recognised that a corporate risk around employee engagement and retention is included on the corporate risk register, as is a risk around capacity and demand.

6.6 **Risk Management Implications**

6.6.1 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.

6.7 **Rural Communities Implications**

6.7.1 There are no direct implications for rural communities.

6.8 **Implications for Children & Young People/Cared for Children**

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

6.9 **Public Health Implications**

6.9.1 There are no direct implications for public health.

6.10 **Climate Change Implications**

6.10.1 There are no direct implications for Climate Change.

7 **Contact Information**

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

Name: Sophie Thorley

Job Title: Corporate Services Business Manager

Email: sophie.thorley@cheshireeast.gov.uk

Appendix 1 Corporate Risk Register

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score L x I	Commentary
CR1 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 increased demand for adults and children's social care services, (threat) resulting in the capacity of the Council's systems relevant to these areas are unable to continue to respond/ absorb the pressures presented, (impact) resulting in a possible lack of staff working in social care/ increased market failure pertaining to a range of service providers, unmet need, potential safeguarding issues, and difficulty in achieving the Council's desired outcomes - that people live well and for longer, and have the life skills and education they need to	Likelihood of this risk occurring has been scored as 'likely' as it is known that both adult demand, and children's demand is significantly increasing alongside overall population growth, and longer life expectancy for both adults and children with more complex presenting needs. Links to CR2 - if demand shifts to the Council as a result of National Health Service (NHS) and Health and Care Partnership Plan risks and also CR3 in relation to financial resilience as demand continues to increase. This may also have an increased impact on CR4 - contract management - given varied demand continues to increase linked to the quality of the market, number of providers, national policy expectations etc. October 2019: Likelihood of this risk occurring has been scored as 'likely' as it is known that both adult demand, and children's demand is increasing	Acting Executive Director of People	Portfolio Holder, Adult Social Care and Health. Portfolio Holder, Children and Families. Portfolio Holder, Corporate Services and Public Health	3	4	12	No change ⇆

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score Lx I	Commentary
	thrive.	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. The net score remains at 12 high risk.						
CR2 Threat	**NHS Funding Pressure** (Cause) there is a circa £50 million pressure for the NHS across Cheshire East. Risk that due to the increasing financial deficit this may cause a pressure in Cheshire East Council shared service delivery and NHS service delivery. (threat) If there was a shifting of 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	There are significant financial issues to be addressed and if this results in a shift in costs and demand to the Council this will further exacerbate CR 1 and 3 – Increased Demand for People Services and also Financial Resilience. October 2019: Work across a number of work-streams at Health and Care Partnership (Cheshire and Merseyside) and Cheshire East level are progressing. To date these have not made any significant impact on the deficit faced within the health commissioning and provider organisations. The net risk score	Acting Executive Director of People	Portfolio Holder, Adult Social Care and Health. Portfolio Holder, Children and Families. Portfolio Holder, Corporate Services and Public Health	4	4	16	No change

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score Lx I	Commentary
	people live well and for longer and local communities being strong and supportive.	remains at 16 because there has not yet been a reduction in the anticipated deficit position.						
CR3 Threat	**Financial Resilience - lack of certainty about future funding make it difficult to set a robust MTFS** (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 in a sustainable way. (Impact) This may result in difficulties in closing and managing the funding	This risk will be further exacerbated if there are cost implications based on the realisation of CR1 (Increased Demand for People Services) and/or CR2 (NHS Funding and Health and Care Partnership Plan).	Executive Director of Corporate Services	Portfolio Holder, Finance, IT and Communications	4	3	12	No change

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score L x I	Commentary
	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.							
CR4 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	This risk could be further impacted by CR7 (EU Exit, Single Market and Local Growth) as this has an impact on local growth or economic wellbeing which undermines assumptions in the local tax bases.	Executive Director of Corporate Services	Portfolio Holder Finance, IT and Communications	4	3	12	No change ⇆

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score Lx I	Commentary
	Outcomes.							
CR5 Threat	**Business Continuity** 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 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.	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 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. This risk has interdependencies with CR4, Information Security and Cyber Threat. September 2019: The net risk rating is 12 high. 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. E.g. flooding The implementation of the Business Continuity Action plan is ongoing.	Executive Director of Corporate Services	Portfolio Holder, Public Health and Corporate	2	3	6	No change

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score Lx I	Commentary
CR6 Threat	**Capacity and Demand Risk**	September 2019: The Council has financial plans in place to manage funding shortfalls which will be reviewed regularly. The Mid Year Review identified a potential overspend of £7.5m in 2019/20, in part related to issues within CR1. The impact of this financial risk is mitigated through regular review and considering year end positions within the parameters of the Reserves Strategy. The overall net risk rating is 12, High.	Executive Director of Corporate Service	Portfolio Holder, Public Health and Corporate	3	4	12	No change ⇆
CR7 Threat	**EU Exit, Single Market and Local Growth** Failure to be adequately prepared for the Exit from the EU	The UK Government have confirmed that negotiations on the UK's exit from the EU will commence by the end of March 2017. As of January 2017 it is	Executive Director of Place	Portfolio Holder, Environment and Regeneration	2	3	6	No change ⇆

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score Lx I	Commentary
	particularly in relation to the potential impacts on Consumer Protection, Food Safety, Waste Operations Highways, Traffic Management and the business community.	clear that it is the UK Government's intention to leave the EU Single Market as a result of Brexit. The UK Government have confirmed that EU structural funds (the ESIF programme) will be maintained until the end of the current parliament (2020) (check could be whole life of programme now 2023) May 2019: CEMART has been stood down in line with the national battle rhythm following the extension to 31 October agreed by the EU. It will be stood up again if / when national preparations re-start. Sept 19 :The group is meeting weekly but the deadline has now been moved to between Oct and Jan 20.						
CR8 Threat	**Decision Making**	Sound governance processes including oversight by officers and members will mitigate the risk. The historical issues are still being addressed which would indicate that this remains high risk - 12	Executive Director of Corporate Services	Portfolio Holder, Public Health and Corporate	4	3	12	No change

Risk Ref	Risk Description	Risk Comments	Agreed Risk Owner	Cabinet Member Strategic Lead*	Net Score (as it is now) Likelihood L	Impact I	Total Score Lx I	Commentary
CR9 Threat	**Capital Projects** Risk that the Council's major capital projects are insufficiently managed to ensure that they are delivered on time, on budget and at the required quality level		Executive Director of Place	Portfolio Holder, Finance IT and Communications	2	4	8	No change
CR10 Opp	**Infrastructure Investment** Securing the required investment to support our major infrastructure and development priorities particularly in relation to HS2 and delivery of the Crewe Hub	The council has strengthened its working arrangements with local public sector partners, government departments and commercial investors. The council has secured significant capital allocations to support major regeneration and development project to support key development projects in Crewe and Macclesfield. This risk requires ongoing work and monitoring to ensure that the opportunities come to fruition.	Executive Director of Place	Portfolio Holder, Environment and Regeneration	2	4	8	No change

Appendix 2 Scoring Matrix

	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
Threats	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.	Threats	Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)
Threats	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.	Threats	Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
Threats	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.	Threats	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.
Opportunities	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives	Opportunities	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.
				Opportunities	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.

This page is intentionally left blank

Cheshire East Council

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Internal Audit Interim Update Report (April – September 2019)

Senior Officer: Jan Bakewell, Director of Governance and Compliance Services

1. Report Summary

1.1. The purpose of this report is to update the Audit and Governance Committee on progress against the Internal Audit Plan 2019/20, revisions to the plan, to summarise work undertaken to the end of September 2019 (see Appendix A).

2. Recommendations

2.1. That the Committee:

2.1.1. Notes and considers the contents of the Internal Audit Interim Update Report.

3. Reasons for Recommendations

3.1. The Public Sector Internal Audit Standards (PSIAS) require the Council's Chief Audit Executive (Head of Audit and Risk Management) to regularly report on emerging issues in respect of the whole range of areas to be covered in the annual report.

3.2. In order to meet this requirement the Committee receives regular reports on Internal Audit's performance to support the effectiveness of the internal audit process.

4. Other Options Considered

4.1. Not applicable.

5. Background

5.1. 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".

5.2. The interim report contains the following:

- a summary of the audit work carried out in 2019/20 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 (Table 2, Table 4 and Section 4)
- comments on compliance with these standards and communication of the results of the internal audit quality assurance programme (Section 4 and Section 5)
- other developments, including the Internal Audit Charter (Section 6)

5.3. 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.

5.4. 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.

5.5. A report summarising the work undertaken, the issues identified and the actions required is produced for each review undertaken. The process of reviewing the report from draft to final ensures that the findings are confirmed to be factually accurate, and that the management actions will result in improvements to the control environment. Draft reports are agreed with the appropriate managers, and the Final reports are shared with the relevant Executive Director. The implementation of agreed actions is monitored through the follow up process, and performance in this area is reported regularly to the Corporate Leadership Team and the Committee.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. Section 151 of the Local Government Act 1972 requires Councils to make arrangements for the proper administration of their financial affairs and the Accounts and Audit Regulations 2015 establishes a specific responsibility for the Council to conduct a review at least once a year of the effectiveness of its system of internal control

6.2. Finance Implications

6.2.1. The Internal Audit team must be appropriately resourced to comply with statutory and best practice requirements. Resourcing of the Internal Audit team is regularly monitored and reported upon to the CLT and the Audit and Governance Committee.

6.2.2. There are no adjustments required to the Medium Term Financial Strategy as a result of this report.

6.3. Policy Implications

6.3.1. There are no policy implications identified.

6.4. Equality Implications

6.4.1. There are no equality implications identified.

6.5. Human Resources Implications

6.5.1. There are no human resources implications identified.

6.6. Risk Management Implications

6.6.1. 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

6.7. Rural Communities Implications

6.7.1. There are no direct implications for rural communities.

6.8. Implications for Children & Young People/Cared for Children

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

6.9. Public Health Implications

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.1. All Ward Members as the report provides an update on progress against the Audit Plan and is used to inform the Annual Audit Opinion on the Council's control environment.

8. Access to Information

8.1. The Internal Audit Interim Update Report (April – September 2019) is attached as Appendix A to this report.

9. Contact Information

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

Name: Josie Griffiths/Michael Todd

Job Title: Head of Audit and Risk Management/Acting Internal Audit Manager

Email: Josie.griffiths@cheshireeast.gov.uk

michael.todd@cheshireeast.gov.uk

Internal Audit Interim Update Report April – September 2019

Working for a brighter future together

Cheshire East Council

1. Introduction

1.1. In accordance with the Public Sector Internal Audit Standards, the Internal Audit Interim Update Report April - September 2019 contains "emerging issues in respect of the whole range of areas to be covered in the annual report."

1.2. Internal Audit is required to form an annual 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 which have been identified.

2. Summary of Audit Work 2019/20 to date

2.1. This is the first 2019/20 interim report on progress against the Internal Audit Plan.

2.2. During this period, 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. Annex 1 explains the variety of audit work undertaken to support the annual audit opinion.

Assurance Work

2.3. A summary of the final reports issued to the end of September 2019, by the audit assurance opinion given is included in **Table 1**. Reports issued to this point are similar to this point in the previous year; it is usual for the majority of the audit plan reports to be issued in the last half of the year.

2.4. Details of work in progress, covering draft reports issued for agreement with managers, fieldwork in progress and terms of reference stages, is covered in Table 5. It is anticipated that sufficient work in terms of quantity and coverage will be undertaken to deliver the annual opinion for 2019/20, with the number of final reports issued expected to be consistent with the previous year.

Table 1: Reports to date by assurance level

Assurance Level	2019/20 (to 30/09/2019)	2018/19 (to 30/09/2018)	2018/19 Full Year
Good	0	0	6
Satisfactory	2	2	4
Limited	3	4	11
No Assurance	0	1	2
Total	**5**	**7**	**23**

2.5. A summary comparison of coverage of the 2019/20 Audit Plan with actuals for the year to 30 September 2019 is shown in **Table 2**, with comments on variances.

Table 2: Summary Comparison of Audit Plan 2019/20 and Actuals

Area of Plan		**Original Plan**		**Revised Plan**		**Actuals (to 30/09/2019)**		**Comments on coverage**
		Days	**%**	**Days**	**%**	**Days**	**%**	
Chargeable Days		**1317**		**1237**		**575**		Adjusted to reflect changes in staffing resource
Less: Corporate Work		160		125		63		
Available Audit Days:		**1157**	**100%**	**1112**	**100%**	**512**	**100%**	
Corporate Governance and Risk		136	12%	130	12%	36	7%	
Anti-Fraud and Corruption	Proactive Work	45	4%	43	4%	31	6%	In line with the Plan
	Reactive Investigations	60	5%	58	5%	52	10%	Includes support to ongoing police investigations. Q3/4 coverage is anticipated to be less therefore bringing % in line with plan.
Corporate Services		443	38%	425	38%	175	34%	In line with the Plan
People		175	15%	168	15%	64	13%	In line with the Plan
Place		98	8%	95	8%	68	13%	Work weighted towards Q1/Q2
Providing Assurance to External Organisations		25	2%	24	2%	33	6%	Does not contribute to the Annual Opinion
Advice & Guidance		30	3%	29	3%	15	3%	In line with the Plan
Other Chargeable Work		145	13%	140	13%	38	8%	
	Total Audit Days	**1157**	**100%**	**1112**	**100%**	**512**	**100%**	

2.6. Details of the reports produced to the end of September 2019 are included in **Table 3**, which includes details of the audit assurance opinion given in each report. Where the opinion given was Limited or No Assurance, a summary of key findings and actions has been provided.

2.7. The assurance levels reported 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).

2.8. Where control weaknesses are identified, recommended actions are agreed with management to ensure that the control environment is improved to an acceptable level. Through the follow up process, Internal Audit continues to obtain assurance that actions have been implemented, especially those deemed high priority.

2.9. 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.

2.10. Where a final report is issued with a "Limited" or "No Assurance" opinion, improvement recommendations will be made. When implemented these will address the identified weaknesses and improve the control environment.

2.11. All actions from these audits have been agreed with management and progress on implementation will be monitored through the follow up process. Draft reports are agreed with the appropriate managers, and Final reports are shared with the relevant Executive Director.

2.12. The issues arising from the reports and the implementation of associated recommendations will be considered as part of the Annual Governance Statement process.

2.13. The Audit Plan has been subject to review following the appointment of the Head of Audit and Risk to reflect the current resources available to the team and includes the continued increase in working hours of several part time officers.

Table 3: Summary of Final Assurance Reports 2019/20 to 30 September 2019

Audit Report	Reason for Review	Audit Assurance Opinion	Management Response	Summary of Findings – (Limited /No Assurance Reports Only)
Homelessness Duty - Governance	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Gateway Review C&WLEP Growth Hub Project	Identified via Planning Process	Satisfactory	All actions agreed	N/A
Regular Car User Allowance	Identified via Planning Process	Limited	All actions agreed	The review identified inconsistencies in the application of the Regular Car User Policy including: • Initial assessment of eligibility not completed in all cases • Some officers have been awarded the allowance despite not meeting the required criteria with no evidence to support the decision • Annual reviews of eligibility not completed in all cases
ASDV Review – Statutory Responsibilities	Identified via Planning Process	Limited	All actions agreed	Whilst the review identified no evidence that statutory responsibilities were not being fulfilled, opportunities were identified to improve the arrangements for evidencing that this was the case.
Parking Services – Consolidated Parking Order	Undertaken at the request of Management	Limited	All actions agreed	The review was requested following a question at Council in December 2018 in relation to the issue of Parking Charge Notices on free car parks within the Borough. It identified that the content of the Consolidated Parking Order in place at the time had not been adequately communicated to all staff within the service. The review also identified opportunities to improve the decision making process around Traffic Penalty Tribunal cases.

Schools

2.14. 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.

2.15. Following completion of the 2018/19 School's Audit Programme, all maintained schools have now been visited at least once by Internal Audit, since the responsibility for undertaking SFVS assurance work returned to the team in 2012/13.

2.16. The School's Audit Programme for 2019/20 has been agreed by both the Director of Finance and Customer Services and the Director of Education & 14-19 Skills.

2.17. Twenty four schools have been selected for audit this year to undertake a review of their completed 2018/19 SFVS returns. Since selecting the schools, two have subsequently converted to an academy and therefore, will not be audited.

2.18. Internal Audit has also committed to ensuring all maintained schools will be audited at least once during the next three years (2019/20 to 2021/22).

2.19. With regards to the current programme of work, 1 audit visit was carried out before the summer holiday, and the rest will be completed before the end of March 2020.

2.20. Individual reports are produced and issued to schools detailing any areas of weakness identified and any actions required to address these weaknesses and improve the control environment. Since 2017/18 we have included an assurance opinion on the arrangements, in line with other audit reports issued.

2.21. Consolidated findings and recommended actions and improvements are shared with all maintained schools through the "Schools Bulletin" and the "Director's Report".

2.22. Findings from all areas will inform a consolidated schools report which provides assurance to the Director of Finance and the Director of Education & 14-19 Skills.

Supporting Corporate Governance

2.23. 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).

2.24. During the first half of this financial year, and as previously reported in the 2018/19 Internal Audit Annual Report, Internal Audit has coordinated, on behalf of Management, the production of the Council's AGS for 2018/19.

2.25. Audit and Governance Committee approved the Final Annual Governance Statement 2018/19 at their July meeting, in line with statutory deadlines.

2.26. A progress update on issues recognised in the AGS 2018/19 is scheduled for the Committee's December meeting. This paper will outline the proposed production process for the 2019/20 AGS.

Counter Fraud and Investigations

2.27. A detailed update on Counter Fraud activity both locally and nationally was provided to the September 2019 meeting of the Committee.

2.28. Options for the development of a dedicated Counter Fraud resource are being explored following the appointment of the Head of Audit and Risk, Director of Governance and Compliance and the Executive Director Corporate Services. Further updates will be provided to future meetings of Audit and Governance Committee.

2.29. Establishment of a counter fraud function will enable the Council to attain full compliance with the Code of Practice on Managing the Risk of Fraud and Corruption by further developing the counter fraud culture.

2.30. This will provide the opportunity to undertake a risk based programme of proactive work to identify and pursue fraud committed against the Council and ensure that subsequent investigations do not impact on the delivery of Internal Audit's core assurance work.

Consultancy and Advice

2.31. Internal Audit is regularly asked to advise management. The nature and scope of these engagements is generally aimed at improving governance, risk management arrangements and the control environment, contributing to the overall opinion as well as building good relationships across the organisation.

2.32. In the year so far, advice and guidance has been provided on:

- Suspected scams and attempted frauds.
- Design and application of controls in new/proposed systems.
- Interpretation of Finance and Contract Procedure Rules.

Grant certifications

2.33. 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.

2.34. In 2019/20 to date, this has included work on the following grants, which were successfully signed off and submitted to the appropriate funding body:

Grant Certified	Funding Body	£
Family Focus (year to date)	MHCLG	272,800
Crewe Green Roundabout	MHCLG	2,767,000
Sydney Road Bridge	MHCLG	2,168,000
Crewe High Speed Heart Ready 2018/19 - (audit is undertaken in our capacity as Accountable body)	MHCLG	806,633
CWLEP Growth Hub Grant	BEIS	287,000
Skills & Growth - ADAPT	BEIS	55,742
Bus Service Operators Grant	DfT	347,865
Highways - Crewe NW & Macclesfield	DfT	1,969,548
Highways - Additional Capital	DfT	4,636,704
Total		**13,311,292**

2.35. It should be noted that the level of work required to complete the sign off of grants is not always proportionate to the value of the grant.

Work for Other Bodies

2.36. Internal Audit carried out the following work for an external body.

2.37. 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.

2.38. 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.

2.39. The Annual Internal Audit Report was presented to the Joint Committee in July 2019.

Implementation of Audit Recommendations

2.40. Internal Audit continually carries 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.

- 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; recommendations are monitored in line with our follow up process.

2.41. Audits with 'limited' or 'no' assurance are subject to more detailed review. In addition, key systems (e.g. Payroll, Accounts Payable) are audited on a regular, cyclical basis with recommendations followed up as part of the work.

2.42. The Committee have previously been advised of the work undertaken by Internal Audit, supported by senior management to raise the profile of audit recommendations. This has included the agreement of "SMART" recommendations and the inclusion of performance measures in the Corporate Scorecard.

2.43. The implementation of agreed recommendations for reports issued in 2018/19 and the current year to date is detailed in the table below.

Table 4: Implementation of agreed recommendations as at 30 September 2019

On time	After the agreed date	Total implemented	In progress, part implemented or overdue	Superseded or no longer valid
2018/19				
78%	18%	96%	0%	4%
2019/20				
69%	23%	92%	8%	0%

2.44. As per the internal audit plan, Internal Audit has been working to a target of 90% of agreed audit actions implemented, and 75% implemented within agreed timescale.

2.45. Although the current year figures exceed target for 'total actions implemented', both this figure and the 'actions implemented on time' percentage are expected to improve further as more actions become due for implementation.

2.46. Figures for 2018/19 have been updated from those reported in the Annual Audit Report to reflect actions that have become due for implementation in 2019/20.

2.47. These updated figures show that the 2018/19 actions implemented within timescales has improved from 65% to 78% which is a positive development and exceeds the target.

2.48. 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.

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

Ongoing Work

2.50. The following audits commenced during the period, with work ongoing at the time of reporting:

Table 5: Ongoing Internal Audit Assignments as at 30 September 2019

Audit	Status
Implementation of the Constitution Review	Draft Report issued
Information Governance – Public Health	Draft Report issued
Land Transactions Consolidated Findings - Follow Up	Fieldwork complete Draft Report being prepared
Information Governance – Planning	Fieldwork Underway
Roles and Responsibilities of Statutory Officers	Fieldwork Underway
KFS Control Environment Review 2019-20	Fieldwork Underway
Supply Chain Management	Fieldwork Underway
New Homes Bonus – Community Fund	Fieldwork Underway
Events Management	Fieldwork Underway
School Governance Team	Terms of Reference
Income Management and Recovery	Terms of Reference

Reliance placed on the work of other assurance bodies

2.51. Internal Audit place assurance on the work of the Council's external auditors, OFSTED, and other external inspectorates 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 2019/20 Internal Audit work will be considered in preparing the 2019/20 AGS. The contents of this interim report will form part of that process. There have been no items identified from the 2019/20 work plan to date for inclusion in the Annual Governance Statement.

4. Internal Audit Performance

4.1. Internal Audit's performance is measured against a number of performance indicators which are detailed in Table 6.

4.2. The performance relating to the implementation of recommendations is detailed earlier in this report.

Table 6: Performance Indicators to date

Performance Indicator	2019/20 Actual	2019/20 Target	2018/19 Actual	Comments on 2019/20 Actuals
% of Audits completed to user's satisfaction	98%	95%	97%	Above target
% of significant recommendations agreed	97%	95%	98%	Above target
Chargeable Time (Assurance Work)	81%	85%	82%	In line with previous year
Draft report produced promptly (per Client Satisfaction Form)	93%	95%	96%	Reduced management resource impacts on review process

5. Compliance with the Public Sector Internal Audit Standards

5.1. Regulation 6 of the Accounts and Audit Regulations 2015 requires relevant bodies to conduct an annual review of the effectiveness of its internal audit and for a committee of the body to consider the findings.

5.2. This review is carried out by self-assessing compliance with the Public Sector Internal Audit Standards (PSIAS) which were updated with effect from 1 April 2017. The PSIAS require Internal Audit to have in place a quality assurance and improvement programme which must include both internal and external assessments.

5.3. As previously reported to the Committee, the external assessment of the Internal Audit function against the Public Sector Internal Audit Standards concluded partial compliance with the Standards.

5.4. A detailed Action Plan was agreed with the assessors as part of the review and work has continued to implement the recommended actions.

5.5. All actions resulting from the external assessment have either been implemented, or are now being progressed following the appointment of the Head of Audit and Risk.

6. Other Developments

6.1. The Head of Audit and Risk was appointed on 1 July 2019 and has responsibility for Internal Audit, Counter Fraud, Risk Management, Business Continuity and Health & Safety.

6.2. Arrangements to ensure the independence and objectivity of the Head of Audit and Risk as the Chief Audit Executive where they have operational responsibilities are set out in the Internal Audit Charter, which was last approved by the Committee in March 2019.

6.3. The appointment to the Head of Audit and Risk addresses the long term absence of a 'Chief Audit Executive' and ends the joint acting up arrangements undertaken by the Principal Auditors to cover the duties of this post and the vacant Internal Audit Manager post. However, the Principal Auditor (Counter Fraud) is acting up into the role of Internal Audit Manager until the wider restructure of the service is complete.

Annex 1

Summary of Audit Work which supports the Annual Audit 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)

This page is intentionally left blank

Cheshire East Council

Working for a brighter future together

Key Decision - No

Audit and Governance Committee

Date of Meeting: 5th December 2019

Report Title: Annual Governance Statement 2018/19 – Progress Update

Senior Officer: Jan Bakewell, Director of Governance and Compliance Services

1. 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 identified in the 2018/19 Statement in order to improve governance arrangements and to respond to emerging issues.

1.2. The report also informs the Committee of the proposed production process for the 2019/20 Annual Governance Statement.

2. Recommendations

2.1. That the Committee

2.1.1. Note and endorse the updates provided on the issues reported in the 2018/19 AGS, including the recommendations to the Committee on whether items remain in the Statement.

2.1.2. Consider and endorse the process for the production of the 2019/20 AGS.

3. Reasons for Recommendations

3.1. Under the Accounts and Audit Regulations 2015, local authorities are required to prepare an Annual Governance Statement and to report publicly on the effectiveness of governance and control. The Audit and Governance Committee is responsible for reviewing and then approving the AGS prior to being signed by the Leader of the Council and the Chief Executive.

3.2. The process of preparing the governance statement should in itself add value to the effectiveness of the Council's corporate governance and internal control framework. Good governance enables the Council to better meet the challenges of pursuing its vision, delivering ambitious objectives against a background of continued financial pressures, by underpinning that vision with mechanisms for control and management of risk.

3.3. In accordance with best practice the Audit and Governance Committee should undertake a number of activities to discharge its responsibilities in relation to the AGS including:

3.3.1. ensuring that the AGS is underpinned by a framework of assurance

3.3.2. monitoring the implementation of action plans or recommendations to improve governance arrangements

3.3.3. receiving reports and assurances over changes to the governance framework and control environment as they are established

4. Options Considered

4.1. Not applicable.

5. Background

Progress against items reported in the AGS

5.1. The 2018/19 AGS approved by the Audit and Governance Committee in July 2019 included updated details of previously reported governance issues, as well as a number of significant governance issues recognised for 2018/149 and relevant proposed actions for implementation.

5.2. A detailed update on progress since July in implementing the actions proposed is included at Appendix A for consideration by Members.

5.3. Each update has been provided by the relevant responsible officer. In providing the updates, they have considered the assurance provided in the update in order to determine whether the required action has been completed appropriately, whether the issues are being sufficiently and effectively managed and whether there are further issues or concerns arising.

5.4. These recommendations, with endorsement from Corporate Leadership Team, are summarised in Table 1, with a recommendation to the Committee on which items should be considered as completed or managed, and can be monitored via local monitoring arrangements and which require further monitoring via the Annual Governance Statement.

5.5. Where items are removed from the Annual Governance Statement and progress updates reported to the Audit and Governance Committee, they will still continue to be monitored through normal management processes, and in some cases via reports to other Committees. These items can and will be re-escalated if necessary through the ongoing AGS production and monitoring cycle.

Table 1: Summary of recommendations

AGS Item	Responsibility	Recommendation to the Committee
Business Continuity Planning	Head of Audit and Risk	To note progress, but for the item to remain on the AGS progress update.
Council Funding	Director of Finance and Customer Services	To note progress, but for the item to remain on the AGS progress update.
Health and Social Care Integration	Acting Executive Director of People	To note progress, but for the item to remain on the AGS progress update.
Consolidated Findings report by Internal Audit re Asset Transactions	Internal Audit reporting to the Acting Chief Executive	As there has been significant progress in this area, it is recommended that this item is removed from the Annual Governance System. Future monitoring of compliance in this area will be undertaken by the Executive Director of Place and reported to Corporate Leadership Team. Follow up on actions identified within the Internal Audit report will be undertaken in line with Internal Audit's follow up policy and reported as part of the regular updates to Audit and Governance Committee.
Holiday Pay	Head of HR	It is now recommended this item is removed from the AGS due

AGS Item	Responsibility	Recommendation to the Committee
		to significant progress being made and that plans are in place with regular reports to CLT. The risk register will be updated and included in service plan to reflect this current position.
Proposed change to the Committee system of Governance	Acting Chief Executive	To note progress, but for the item to remain on the AGS progress update.
Replacement of the Council's Core Financial Systems	Executive Director of Place and Acting Deputy Chief Executive.	To note progress, but for the item to remain on the AGS progress update.

Preparation of the 2019/20 Annual Governance Statement

5.6. The Council is required to undertake regular, at least annual, reviews of the effectiveness of its governance framework to provide assurance that governance arrangements are adequate and operating effectively in practice, or, that where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future.

5.7. The findings of this review should be considered at a meeting of the Authority or by a delegated Committee. The AGS should be approved at a meeting of the Authority or delegated Committee and then published.

5.8. The Audit and Governance Committee has, through its terms of reference, been delegated specific governance responsibilities. These include considering the findings from reviewing the effectiveness of the Council's governance arrangements and approving the AGS.

5.9. It is considered good practice to agree the process for preparing the AGS, including the framework of assurance that underpins it, with Members in advance.

5.10. The 2019/20 AGS will be prepared in line with the requirements of the CIPFA/SOLACE guidance; the *Delivering Good Governance in Local Government* framework and against the Council's Code of Corporate Governance.

5.11. The review of the effectiveness of the Council's governance framework for 2018/19 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:

5.11.1. Senior management assigned with the ownership of risks and delivery of services through the risk management process;

5.11.2. The Section 151 Officer and the Monitoring Officer in meeting statutory responsibilities;

5.11.3. Internal Audit through the annual and interim reports;

5.11.4. External Audit through its reports to those charged with governance;

5.11.5. Outcomes from other review agencies and inspectorates;

5.11.6. Service managers who independently sign off on the adequacy of controls within their service areas via disclosure statements;

5.11.7. Other internal assurance providers (ICT Security etc.) via completion of questionnaires;

5.11.8. Designated officers who complete AGS self-assessment questionnaires; in this way compliance with the Council's Code of Corporate Governance will be evidenced.

5.12. The drafting of the AGS will be considered by the Corporate Leadership Team on an ongoing basis with the draft beng informed by the following activities;

5.12.1. review and update of the Code of Corporate Governance and governance framework as necessary

5.12.2. identifying the systems, processes and documentation that provide evidence of compliance:

5.12.3. content and format of Management Disclosure Statements, self-assessments and questionnaires

5.12.4. identifying the individuals responsible for monitoring, reviewing and providing assurance on the systems, processes and documentation identified

5.12.5. considering 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

5.12.6. identifying issues that have not been addressed in the Council and consider how they should be addressed, including items reported in previous Annual Governance Statements

5.12.7. identifying the individuals who would be responsible for undertaking the actions that are required.

5.12.8. producing the draft AGS and co-ordinate its approval including review by the Corporate Leadership Team, signing by the Leader and Chief Executive and consideration by the Audit and Governance Committee in May 2020, for approval in July 2020 alongside the Statement of Accounts.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. The Council must adopt a Code of Corporate Governance which has been produced to the standards prescribed in the best practice guidance in order to prepare the Annual Governance Statement (AGS).

The best practice guidance is recognised as the CIPFA Framework Delivering Good Governance in Local Government (2016).

6.1.2. The Council's Code of Corporate Governance was first approved by the Governance and Constitution Committee in November 2009 and has been reviewed and updated to reflect best practice and organisational changes over time. The Council's Codes have been consistent with the principles of the various CIPFA/SOLACE Frameworks. Cabinet approved a revised Code of Corporate Governance in January 2017, which was in line with the revised guidance set out by CIPFA issued in 2016; *Delivering Good Governance in Local Government.*

6.1.3. The AGS is used by the Council to report publically on the extent to which the Council has complied with its adopted Code, which is a requirement of the Accounts and Audit Regulations 2015. The process outlined is designed to meet this obligation

6.2. **Finance Implications**

6.2.1. 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.

6.2.2. The production of the AGS is designed to align with the production of the Council's Financial Statements. For 2019/20, this requires a draft Statement to be published by May 31st and a final approved Statement by July 31st, published alongside the audited accounts.

6.2.3. There are no adjustments required to the Medium Term Financial Strategy as a result of this report.

6.3. **Policy Implications**

6.3.1. There are no specific policy implications.

6.4. **Equality Implications**

6.4.1. There are no specific equality implications.

6.5. **Human Resources Implications**

6.5.1. There are no specific human resources implications.

6.6. **Risk Management Implications**

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

6.7. **Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People/Cared for Children**

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

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.10.1. There are no climate change implications.

7. Ward Members Affected

7.1. Not applicable

8. Access to Information

8.1. Cheshire East Council Annual Governance Statement 2018/19

9. Contact Information

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

Name: Josie Griffiths

Job Title: Head of Audit and Risk

Email: josie.griffiths@cheshireeast.gov.uk

Annual Governance Statement 2018/19
Progress Update December 2019

Appendix A

Working for a brighter future together

Cheshire East Council

Progress against issues recognised in the Annual Governance Statement 2018/19

Business Continuity Planning	
Description of Issue	Current and tested business continuity plans are not consistently in place across all service areas.
Responsibility	Head of Audit and Risk
Action proposed at the time of inclusion in the AGS	Develop Business Continuity Planning to ensure service delivery in the event of business disruption
Progress Update for AGS 2018/19	During 2018/19 work continued across the organisation to develop high level business impact assessments to clarify the scope of the business continuity programme. Business Continuity and ICT Disaster recovery plans were tested following a network incident in January 2019. A "lessons learned" review identified a number of opportunities to improve the Council's resilience. This included the procurement of a web based application which facilitates and simplifies business continuity management and encompasses Business Impact Analysis (BIA), planning and exercise management. The information held centrally can be collated to produce an overarching Business Continuity Plan (BCP) which includes recovery time objectives, crisis management plans and procedures. This enables the delegation of business continuity management (BCM) responsibilities across the Council and the monitoring of plan maintenance. The application is currently in development, with a project management board in place to oversee the development and implementation of the software. Responsibility for the management and maintenance of the toolkit will then be overseen by the Head of Audit and Risk, with individual service managers having responsibility for the validity of the toolkit content for their area. Once the toolkit content is complete, it will be used to facilitate training and testing of services plans; this is

	critical for ensuring BCM plans are as effective as possible and can be flexible to the changing needs of the organisation.
Progress update	The purchased business continuity system has been subject to user testing, and the training of a range of users, including administrators and Heads of Service is nearing completion. This training has covered a reminder of Business Continuity Management principles as well as training on the product. Plans are now being populated onto the software. The next phase of the programme will be for Directors and Executive Directors to review plans across their operational areas; this will ensure moderation of plans, identify inter-dependencies and ensure sufficient coverage. A working group has also been established to look at cross-functional services, such as Communications, Estates, ICT and Customer Services. Moderation will identify areas for further refinement or development of plans and ensure support expectations can be met. The product is scheduled to be in full usage by January 2020. Ongoing review of plans will be facilitated through regular scenario testing, the results of which will inform further development of individual plans and the product.
Recommendation	To note progress, but for the item to remain on the AGS progress update.

Council Funding	
Description of Issue	Ongoing 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. 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.
Responsibility	Director of Financial and Customer Services (Section 151 Officer)
Action proposed at the time of inclusion in the	The Council's approach to the continuing financial challenges, linked to austerity, are being addressed through a range of activities and communication channels. Senior accountants are fully engaging with government and professional bodies (such as CIPFA, SCT, RSN

AGS	and UTS), in the review of local government finance. Responses have been provided to consultations and regular seminars and meetings have been attended to ensure that issues relevant to Cheshire East Council are being discussed. Estimates have been developed with the Portfolio Holder, and Cabinet members, around the main funding sources. This includes Council Tax levels, tax base growth, potential Business Rates growth and the diminishing grant position. The revised Corporate Plan also introduces the Council's commitment to developing a self-financing approach to achieving outcomes. The Council's increasing level of collaboration with public sector partners, such as health services and neighbouring local authorities, is also subject to significant review and work is ongoing in line with CIPFA's Aligning Public Services model. The best fit of service providers, also described in the Corporate Plan, remains a key element of the Council's approach. Contract management, with its strong links to achieving outcomes, is also developing as a key feature of the Council's control framework.
Progress Update for AGS 2018/19	The 2018/19 outturn was balanced, albeit with the use of reserves and non-domestic rates income that would otherwise have been unused. This position was reported as likely throughout the year, and this allowed the main issues to be addressed as part of the budget setting process for 2019/20. Overspending occurred in a number of service areas. Most notably it was demand led pressure that caused Childrens Services to overspend, whereas unachievable savings caused overspending in Environmental and Corporate Services. General Reserve levels remained unaffected, in line with the approved Reserves Strategy. The total earmarked reserves balance remained constant, although there was movement in individual reserves as reported in the accounts. Financial uncertainty associated with consultations on local government funding still remain, although growth in the local domestic and non-domestic tax bases also remain strong.

Progress update	The Mid-Year Review 2019/20 highlighted potential overspending or up to £7.5m, based again on demand led pressures within People services, but also linked to unachievable savings in Corporate Savings. Mitigating action is being taken to stop or delay non-essential spending across the Council as well as looking again at options related to reserves and capital receipts where they have exceeded forecasts. Planning for 2020/21 has seen the launch of the Pre-Budget Consultation document. The proposals present a balanced position for 2020/21, significantly supported by the strong tax base and positive announcements within the September Spending Round. But there are potential deficits in the medium term due to significant uncertainty from unresolved consultations on Fairer Funding and Business Rate Retention.
Recommendation	To note progress, but for the item to remain on the AGS progress update.

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

	June 2016 regarding Cheshire East's plans for BCF in 2016/17. The expected status is "approved with support". At the time of submission, there were areas requiring further work and attention including: • Final agreement for expenditure plans; • Lack of a Delayed Transfers of Care (DToC) plan for South Cheshire Clinical Commissioning Group; and • Assurance that DToC is a standing item on Systems Resilience Group agendas (now called A&E Delivery Boards). These areas had to be addressed by the end of June 2016 to avoid escalation to national level of assurance; these areas have now all been addressed within timescale. The BCF plan for Cheshire East has been approved by the Health and Wellbeing Board. In April 2016 Mersey Internal Audit Agency published a report on the BCF arrangements in operation over 2015/16 which contained three key "medium" ranked recommendations: • Failure to identify and effectively manage BCF risks; • CEC and CCG's Programme Management Office approaches to the BCF are not co-ordinated; and • Poor Information Governance. These were included on the BCF risk register. The risk register and the risk assessment process have been reviewed and improved, to ensure that mitigating actions are Specific, Measurable, Assignable, Realistic and Time-related (SMART). Red rated risks are reviewed and updated on a monthly basis to ensure action is taking place to address. A piece of work took place to look at Programme Management Office approaches across CCGs and LAs. This had already been done by PMO leads and good practice has been shared by them and adopted accordingly to ensure more consistent approaches. We also agreed a number of actions between us to streamline reporting processes.

	Work on Information Governance is still ongoing but is the priority item on the agenda for the BCF Governance Group is to establish any gaps and allocate necessary actions.
Progress Update for AGS 2018/19	Cheshire East Council is a proactive partner in the work of the Cheshire East Place Health and Care Partnership (one of nine such Place-based Partnerships in the Cheshire and Merseyside Health and Care Partnership). At a Cheshire and Merseyside level the Council is represented by the Acting Chief Executive at the System Management Board. Within the Cheshire East Place Partnership governance, the Acting Executive Director of People is the SRO and attends the Partnership Board (with the Portfolio Holder for Adults Social Care and Health and other officers) and he chairs the Partnership Executive Group. The Partnership has recently submitted its Five Year Plan, endorsed by the Cabinet and all Partner governing bodies. Updates regarding the work of the Place Partnership are provided to the Cheshire East Health and Wellbeing Board. The BCF/iBCF schemes have continued to operate during the course of 2019, an end of year report covering the progress of the schemes during 2018/19 has been produced, and this includes information on the financial performance, data performance as well as summary of patient stories which will be presented to the Health and Wellbeing Board. Since the last progress update in October 2018 a number of metric deep dives were carried out into: • Non-elective admissions (General and Acute): • Admissions to residential and care homes; • Long stay patients; and • Delayed transfers of care. The aims of the deep dives were as follows: • Understand system performance in relation to metric; • Highlight differences between east and south; • Highlight patterns/themes where greater resource can be targeted; and • Produce a series of recommendations to be implemented by organisations.

	An Integrated Leadership event has been planned for 8th May 2019; The aim of this workshop is to help identify our ambitions, capacity and commitment to achieving a fully integrated health and care system. The workshop will help offer insight into where we are now and the right way forward. We have invited stakeholders from the health and social care system across Cheshire East in order that we can work on a place based approach. Work is underway to create a single winter plan across Cheshire East, the single plan across Cheshire East would help identify: • A single view of the overall Cheshire East problem (in regards to winter demand), a breakdown of the specific problems faced across CCG footprints as well as social care issues/problems across HWB footprint; • The timescale for the implementation of winter schemes; • Available funding; • Lead organisations for winter schemes; • Geographic coverage of the deployed scheme; • Performance metrics which the schemes will impact against; and • Reporting and governance requirements. The BCF Governance Group continues to underpin the strategic approach towards health and social care integration. A monthly highlight report covers progress to date, update on key areas of work, risks and issues. On a quarterly basis the local BCF performance is reported to the central national BCF team, this performance is reported through a standardised template. This template is then converted into a narrative report which gets reported to HWB each quarter. In order to meet and demonstrate a robust and clear outcomes framework for reporting, a monthly process for reporting across all schemes continues to operate, together with an integrated approach to data management across all three BCF partners in Cheshire East. Data leads from each organisation support the production of a

	performance dashboard which is produced on a monthly basis. This, along with the highlight report is supplied to the BCF Governance Board. The dashboard identifies the latest position in respect of a number of the national metrics. For the 2019/20 period a range of new schemes and descriptors have been produced these will be shared with partners in readiness for the assurance process for the 2019/20 plan.
Progress update	Cheshire East Council is a proactive partner in the work of the Cheshire East Place Health and Care Partnership (one of nine such Place-based Partnerships in the Cheshire and Merseyside Health and Care Partnership). At a Cheshire and Merseyside level the Council is represented by the Acting Chief Executive at the System Management Board. Within the Cheshire East Place Partnership governance, the Acting Executive Director of People is the SRO and attends the Partnership Board (with the Portfolio Holder for Adults Social Care and Health and other officers) and he chairs the Partnership Executive Group. The Partnership has recently submitted its Five Year Plan, endorsed by the Cabinet and all Partner governing bodies. Updates regarding the work of the Place Partnership are provided to the Cheshire East Health and Wellbeing Board. Health and social care integration can be demonstrated in a number of areas within the local system. This evidence can be demonstrated through; joint programmes of work (Better Care Fund), jointly commissioning services (Care at home and Homecare), developing a joint shared understanding and a joint strategic approach towards commissioning. <u>Joint programmes of work</u> The Better Care Fund - partners are committed to continuing to prioritise the schemes within the Better Care Fund and improved Better Care Fund, as a means of pooling resources to achieve common objectives. The emphasis is particularly to support individuals to remain independent but also to support them back into the community following an emergency admission to hospital (to minimise 'Delayed Transfers of Care'), including effectively arranging appropriate care either within their own home or temporarily within an intermediate care setting, during a period of rehabilitation.

	<u>Developing a joint shared understanding</u> An agreed set of shared values have been spelled out in a Memorandum of Understanding (MoU) which has been established between Cheshire East Council, South Cheshire CCG and Eastern Cheshire CCG as part of a Joint Commissioning Group. In addition to the MoU we have a joint Health and Wellbeing strategy that sets out a commitment by the NHS, the Local Authority and our other partners on the Health and Wellbeing Board to collaborate to tackle the complex, difficult and inequitable health and wellbeing issues together. <u>Jointly commissioning services</u> Examples of joint commissioning across the Council and CCGs at an individual level includes commissioning of Care at Home (Domiciliary Care) and Accommodation with Care (Nursing and Residential Care). Service Specifications have been developed jointly across the Council and CCGs, including options which make local provision more flexible to meet individual needs and also to provide continuity of care. This includes the inclusion of low level CHC provision. <u>Joint strategic approach towards commissioning</u> From a Commissioning perspective the strategic documents are currently under development i.e. the papers cover Older People and CYP. The 'Older Persons Integrated Commissioning' paper will provide recommendations in terms of the Commissioning Resources and Mechanisms (Staff, Aligned Budgets (but not pooled), Governance and existing Commissioning Frameworks / Dynamic Purchasing Systems etc.). <u>A number of papers have been shared with committees, a summary of those focusing on joint programmes of work is shown below:</u> • Quarterly reports HWB – The purpose of this paper was to provide the Health & Wellbeing Board (HWB) with a summary of progress made during the Quarter. Cheshire Health and Wellbeing Board 26/03/2019.

	• Local systems review – This report provided an update on the readiness of the Cheshire East system in anticipation of a potential future local system review by CQC. The purpose of the local system reviews is to determine how well people move through the health and social care system. The local system review align to the HWB vision and principles. Cheshire Health and Wellbeing Board 23/07/2019. • Improved Better Care Fund - This report described the areas of activity and the proposed expenditure for the grant money being received directly by Cheshire East Council in 2019/20 through the Improved Better Care Fund (iBCF). It identified a number of schemes and presents the rationale of how they meet the needs and demands of the local care and health economy in Cheshire East. Cabinet 10/09/2019. • End of year report – This report highlighted the performance of the Better Care Fund including the Improved Better Care Fund in Cheshire East in 2018/19. Cheshire Health and Wellbeing Board 24/09/2019. • Delayed transfer of care - This report considers the impact of winter pressures on DTOC performance for the winter period for 2018/19. The report comprised of the following areas: Winter pressures faced, Solutions which were implemented locally and what impact this had on DTOC performance. Health and Adult Social Care Overview and Scrutiny Committee 10/10/2019
Recommendation	To note progress, but for the item to remain on the AGS progress update.

Consolidated Findings report by Internal Audit re Asset Transactions	
Description of Issue	Early in 2017/18, the Acting Chief Executive and the Executive Director of Place and Acting Deputy Chief Executive requested that Internal Audit undertook a review of the Council's arrangements for asset disposals and purchases. This was started in July 2017, and concerns have been identified over a number of acquisitions.
Responsibility	Internal Audit, reporting to the Acting Chief Executive
Action proposed at the time of inclusion in the AGS	Internal Audit work in this area is ongoing, and findings to date have been referred to the North West Regional Organised Crime Unit for consideration and further investigation. The Council's external auditors have confirmed that their value for money conclusion for 2016/17 was qualified due to the findings identified and reported by Internal Audit.

Progress Update for AGS 2018/19	Internal Audit work in this area is now complete, although support is being provided to the ongoing police investigations. The service has responded positively to the Consolidated Findings report produced by Internal Audit and significant progress has been reported to Corporate Leadership Team. Progress is monitored by the Executive Director Place and a detailed follow up review will be undertaken by Internal Audit during 2019/20 to seek assurance that the previously identified issues have been addressed and the overall control environment is sufficiently robust to mitigate the associated risks.
Progress update	Internal Audit work is concluding in this area. A draft report is being prepared and findings support the significant progress reported by the service. There remain a number of actions which are in progress however, testing results indicate that processes are being embedded and a Satisfactory opinion will been given.
Recommendation	As there has been significant progress in this area, it is recommended that this item is removed from the Annual Governance Statement. Future monitoring of compliance in this area will be undertaken by the Executive Director of Place and reported to Corporate Leadership Team. Follow up on actions identified within the Internal Audit report will be undertaken in line with Internal Audit's follow up policy and reported as part of the regular updates to Audit and Governance Committee.

Holiday Pay	
Description of Issue	During the course of investigating and managing the Council's responsibilities in relation to sleep in payments, and developing case law on changes to holiday pay calculations, the Council has also identified that there could be a challenge over holiday pay. HR colleagues have undertaken work to understand the scale of this issue, and ensured the risks are being managed effectively, with regular reports being taken to the Corporate Leadership Team and briefings to the Portfolio Holder. In addition to the actions already undertaken, work will continue to be undertaken to establish the potential

	impact of this changing case law on all Council services where staff earnings fluctuate which could affect future holiday pay liabilities both going forward and retrospectively to meet employment law compliance.
Responsibility	Head of HR
Action proposed at the time of inclusion in the AGS	The following actions have so far been undertaken: • On going reports to CLT and ELT to discuss the legal and financial implications, as well as timescales and options available for completing this exercise; • Discussions with the Trade Unions on this matter continue; and • External and internal legal advice taken on this matter. The risk has been included in the HR Risk register but until the matter is quantified across all Council service areas the risk cannot be identified and assessed before putting on the corporate risk register.
Progress Update for AGS 2018/19	Throughout 2018/19, work has been ongoing to identify service areas that may have to review their holiday pay arrangements using a risk based approach. This included agreeing an action plan for each service to ensure future compliance. With the exception of Schools and Catering services, the risk assessment for all Council services and ASDVs is now complete. Schools and Catering services require a different method of calculation due to their contractual positions. Action is now required by services to provide details to allow the calculation of arrears where non-compliance has been identified and this is on-going. In relation to Care4CE all arrears calculations for Phase 1 (1st April 2017 to 31st October 2018) have been calculated and have been agreed and signed off for payment by the service and Corporate Leadership Team (CLT) for payment in May salaries. In addition some 45 grievances for sleep in and holiday pay have been heard and dealt with in line with Council procedures. Phase 2 arrears (1st November 2018 to 31st March 2019) are in the process of calculation during May/June and will also be paid in June /July salaries completing all arrears payments up to 1st April 2019 In May 2019 CLT received a report regarding this progress and options for the way forward for future annual

	leave liabilities for this financial year. The costs of these arrears are included in the Medium Term Financial Strategy. Discussions with the trade unions continue and the Council has sent a Memorandum of Understanding to all unions for their sign up and support. The HR risk register and corporate risk registers will be updated to reflect this progress.
Progress update	Considerable progress has been made to ensure the Council is compliant with the current case law changes in holiday pay. Future case law will be monitored to ensure any further legal changes are actioned as appropriate. Most Council services and ASDVs employees due arrears have now been paid and the system for calculating holiday pay is live in Oracle and is a planned development in B4B. CLT continues to monitor progress through regular update reports and Unions continue to be consulted. One area of development which is still under case law review is the application of holiday pay for Term Time Workers. This applies mainly to CEC and ASDV employees employed in maintained schools, Catering and TSS services. The latest case law in this area was recently challenged in a Tribunal case which is under consideration by ACAS and the outcome awaited. Work will be undertaken identify the implications and options going forward for these effected services and findings will be reported to CLT in due course.
Recommendation	It is now recommended this item is removed from the AGS due to significant progress being made and that plans are in place with regular reports to CLT. The risk register will be updated and included in service plan to reflect this current position.

Proposed change to the Committee system of governance	
Description of Issue	Following the change in political leadership in May 2019, the Council will be exploring a change from the Leader and Cabinet Model of governance to the implementation of a full Committee model of governance.

	This will be developed during 2019/20 with a view to taking effect from the beginning of the 2020/21 Municipal Year subject to a legally and constitutionally robust process, led by the Council's Constitution Committee, and agreed by Council.
Responsibility	Acting Chief Executive
Action proposed at the time of inclusion in the AGS	The change in the Council's decision making arrangements and governance framework will be undertaken through the Council's Constitution Committee and Council to ensure that the process of change is legally compliant and delivers the intended outcome.
Progress Update for AGS 2018/19	n/a – First recognised in the 2018/19 Statement
Progress update	A cross party Governance Working Group has been established to oversee the work required to progress the implementation of a full Committee model of governance. The Group has been established with the following objectives in its terms of reference; • to learn from other Council's who have implemented a committee system, • establish a timeline to ensure the Council can make a final determination upon the matters approved in the notice of motion, • develop a form of governance for consideration by the Constitution, giving regard to any financial and constitutional changes that would be required; • the implications, for the timeliness of decision-making, of available alternative models of governance, and associated proposals. • to report back to the Constitution Committee at key stages, as and when required, with additional meetings of the Committee if required. Reports will be considered by the Constitution Committee and by Council.
Recommendation	To note progress, but for the item to remain on the AGS progress update.

Replacement of the Council's Core Financial Systems	
Description of Issue	The Council is in the process of replacing its existing Enterprise Resource Planning (ERP) system, in a joint project with Cheshire West and Chester Council. This will see the replacement of the existing Oracle system including core modules covering accounts payable, income and payroll. The new system will achieve business efficiencies through changes in the software and supporting business processes. Change in the Council's core business system needs to be carefully managed to ensure the new system is fit for purpose that the change over managed with minimal disruption, and that the transition to new business processes is successfully implemented to deliver the intended benefits.
Responsibility	Executive Director of Place and Acting Deputy Chief Executive.
Action proposed at the time of inclusion in the AGS	The governance model adopted to deliver the replacement business system recognises the significance of the change required and risk involved in project delivery. Member involvement has been set up through the Shared Services Joint Committee and a specific joint scrutiny working group. Programme delivery is monitored by a Programme Board; this is attended by the external implementation partner and is supported by a jointly staffed internal team which has been involved from the procurement stage. The Councils' Internal Audit teams are undertaking a joint programme of review and assurance throughout the implementation of the replacement and ahead of the new system going live.
Progress Update for AGS 2018/19	n/a – First recognised in the 2018/19 Statement
Progress update	In partnership with Cheshire West and Chester Council, a fundamental review of the Best 4 Business

	programme has been taking place since August 2019. This has been undertaken by an external advisor and has resulted in constructive and helpful feedback to enable the programme to move forward and deliver successfully. To ensure delivery of the programme, a number of changes to programme management and governance have been made, including the appointment of a Programme Director and Programme Manager. Focus will now move on to reviewing arrangements with Agilysis to ensure the right solution for both Councils is achieved. A review of the programme business case will be undertaken, with any variances from the original budget being included in the Council's Medium Term Financial Strategy. Progress updates have been provided to the Council's Overview and Scrutiny Committees, and the Shared Service Joint Committee and Cabinet. A joint scrutiny working group is being developed, with terms of reference and approach to be agreed.
Recommendation	To note progress, but for the item to remain on the AGS progress update.

This page is intentionally left blank

Agenda Item 15

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Committee Work Plan

Senior Officer: Jan Bakewell, Director of Governance and Compliance

1. Report Summary

1.1. This report presents the Committee's Work Plan for the remainder of 2019/20 (Appendix A) to the Committee for consideration.

2. Recommendations

2.1. That the Committee:

2.1.1. considers the Work Plan and determine any required amendments;

2.1.2. notes that the plan will be brought back to the Committee throughout the year for further development and approval.

3. Reasons for Recommendations

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

4. Other Options Considered

4.1. Not applicable

5. Background

5.1. Aspects of the Audit and Governance Committee's agenda are determined by statutory requirements such as the Statement of Accounts and Annual Governance Statement. Outside these agenda items, the Committee should aim to manage its agenda according to its assurance needs to fulfil its terms of reference. The Committee is asked to consider the contents of the Work Plan (Appendix A) and identify any amendments that will enable it to meet its responsibilities.

5.2. By identifying the key topics to be considered at the Audit and Governance Committee meetings, and receiving appropriate reports, Committee Members are able to undertake their duties effectively and deliver them to a high standard. In turn, this adds to the robustness of the risk management framework, the adequacy of the internal control environment and the integrity of the financial reporting and corporate governance of the Council.

5.3. Members will recognise that some items are brought to Committee on a more regular basis than others and ensure that staututory requirements are complied with. There are also individual requirements of the Committee's Terms of Reference which are only used on an ad-hoc basis. The Work Plan will be re-submitted to the Committee for further development and approval at each subsequent meeting.

5.4. In order to help with their deliberations, Members are asked to consider the following:

5.4.1. that care is taken to avoid duplication and maintain the focus on the Committee's core functions as defined by its terms of reference rather than wider issues that are subject to the work of other committees or assurance functions.

5.4.2. that the Audit and Governance Committee should operate at a strategic level with matters of operational detail resolved by service managers.

5.4.3. that the number and frequency of reports should be proportional to the risk ensuring the core business of the Committee gives sufficient focus and attention.

5.5. Two additional items have been included on the December agenda to provide the Committee with information on the Council's Accounting Policies and the outcome of the recent review undertaken by the Investigatory Powers Commissioner's Officer (IPCO).

5.6. The outcome of the Annual Audit and Governance Committee Self Assessment is deferred to March 2020 to enable analysis of the responses provided by Members and inform a programme of briefings and training sessions to address identified gaps in skills and knowledge.

5.7. Members of the Committee met in November 2019 to discuss the Work Plan and review progress against the Terms of Reference. The outcome of the meeting was that:

5.7.1. Members concluded that the Work Plan for the remainder of 2019/20 contained the necessary reports to ensure that the terms of reference are met.

5.7.2. A report was requested to provide the Committee with assurance around the effectiveness of the governance arrangements in place to manage significant partnerships and collaborations.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. The Work Plan for 2019/20 complies with the requirements of the Accounts and Audit Regulations 2015.

6.2. Finance Implications

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

6.2.2. There are no adjustments required to the Medium Term Financial Strategy as a result of this report.

6.3. Policy Implications

6.3.1. There are no policy implications in this report.

6.4. Equality Implications

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

6.5. Human Resources Implications

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

6.6. Risk Management Implications

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

However, an effective audit committee can:

6.6.1.1. raise awareness of the need for robust risk management, control and corporate governance arrangements and the implementation of audit recommendations,

6.6.1.2. increase public confidence in the objectivity and fairness of financial and other reporting

6.6.1.3. reinforce the importance and independence of internal and external audit and any other similar review process

6.6.1.4. provide additional assurance through a process of independent and objective review

6.7. **Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People/Cared for Children**

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

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.10.1. There are no climate change implications in this report.

7. Ward Members Affected

7.1. All wards affected.

8. Consultation & Engagement

8.1. The Work Plan for 2019/20 was prepared following discussion with key officers who regularly provide updates to the Audit and Governance Committee and approved by the Audit and Governance Committee in March 2019.

8.2. A review of the Committee's Work Plan has recently been undertaken by Committee Members and is referred to earlier in the report.

9. Access to Information

9.1. Not applicable.

10. Contact Information

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

Name: Josie Griffiths

Job Title: Head of Audit and Risk

Email: josie.griffiths@cheshireeast.gov.uk

This page is intentionally left blank

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
5th December 2019			
External Audit Plan 2019/20 (Mazars)	To receive and comment on External Audit's planned work for the audit of financial statements and the value for money conclusion 2019/20	135	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
		137	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Certification Report 2018/19	The report provides a summary of the key findings that have been identified during the External Auditors' certification process for 2019/20 claims and returns.	135	To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
Review of Accounting Policies	To receive and comment on the Council's Accounting Policies including the proposed changes to the ASDV pension arrangements.	123	To review and approve the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the audit that need to be brought to the attention of the Council.
Draft Treasury Management Strategy and Minimum Revenue Provision Statement 2020/21	Update on the contents of the Council's Treasury Management Strategy for 2019/20. 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.	120	To review and monitor the Council's treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
Members Code of Conduct: Standards Report (Update Report)	To note the numbers and outcomes of complaints made under the Code of Conduct for Members to the end of September 2019	109	To promote high standards of ethical behaviour by developing, maintaining and monitoring the Code of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Upheld Complaints to the Local Government Ombudsmen (If required)	Members have requested that they receive a report where there is a complaint upheld by the Local Government Ombudsmen. This will need to be a <u>standing agenda item</u>, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish: • 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	146	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. (a) There are statutory obligations which will, in some circumstances, require reports to be taken to Cabinet or full Council. (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.

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
	doesn't duplicate any existing process or reporting.		
Outcome of the Remote Investigatory Powers Commissioner's Officer (IPCO) Inspection	This report will update the Committee on the outcome of the recent remote desktop inspection by IPCO regarding the use of the Council's RIPA powers, including recommendations from the inspection and the action plan.	93	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Risk Management Update	This report will update the Committee on Risk Management and Business Continuity activity in the Council.	114	To monitor the effective development and operation of risk management in the council.
Internal Audit 2019/20 Plan Progress Update	Progress report against the Internal Audit Plan 2019/20.	127	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.
Annual Governance Statement - Progress Update	Update on actions to improve governance arrangements and respond to emerging issues identified in the 2018/19 Annual Governance Statement. Proposed process for the production of the 2019/20 Annual Governance Statement.	110	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
Work Plan 2019/20	Forward looking programme of meetings and agenda items for 2019/20 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
Contract Procedure Rule Non-Adherences (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee.	112	To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.
12th March 2020			
External Audit 2019/20 Progress and Update Report	To receive an update from the Council's External Auditors in relation to the 2019/20 external audit report and other issues	135	To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
		137	To comment on the scope and depth of external audit work and to ensure it gives value for money.
Audit and Governance Committee Self-Assessment	Self- assessment of the effectiveness of the Committee, which provides an assurance for the Annual Governance Statement.	40	To report to full Council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
Risk Management Update	This report will update the Committee on Risk Management and Business Continuity activity in the Council.	114	To monitor the effective development and operation of risk management in the council.
Internal Audit 2019/20 Plan Progress Update	Progress report against the Internal Audit Plan 2019/20.	127	To consider reports from the head of internal audit's performance during the year.
Draft Internal Audit Plan 2020/21	Approval of the summary risk based Internal Audit Plan for 2020/21.	123	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.

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
Work Plan 2019/20	Forward looking programme of meetings and agenda items for 2020/21 to ensure comprehensive coverage of the Committee's responsibilities.	ALL	ALL
Contract Procedure Rule Non-Adherences (Part 1 and Part 2)	Report to update Committee on the quantity and reasons for Non Adherences approved since the last Committee.	112	To consider the Council's arrangements to secure value for money and to review and scrutinise assurances and assessments on the effectiveness of these arrangements.
Unscheduled			
Upheld Complaints to the Local Government Ombudsmen (If required)	Members have requested that they receive a report where there is a complaint upheld by the Local Government Ombudsmen. This will need to be a standing agenda item, and will require ongoing co-ordination between the Compliance Manager, Democratic Services, the responsible service and the Chair/Vice Chair to establish: • if there have been any upheld complaints to be reported on to the next agenda • the appropriate part of the agenda for	146	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. (a) There are statutory obligations which will, in some circumstances, require reports to be taken to Cabinet or full Council. (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.

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
	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.		
Approach to disclosure of Internal Audit Reports *Carried forward from 2018/19 work plan*	Report to the Audit and Governance Committee regarding the current approach to the sharing of Internal Audit reports and presenting options for future consideration	127	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.
		129	To consider summaries of specific internal audit reports as requested.
Update on Internal Audit Report on Land		116	To consider reports on the effectiveness of internal controls and monitor the implementation of agreed

Work Plan 2019/20

		Extract from Committee Terms of Reference	
Agenda Item	**Description**	**No**	**Detail**
Transactions *Carried forward from 2018/19 work plan*			actions, including calling managers to explain lack of progress.
		129	To consider summaries of specific internal audit reports as requested.
Members Code of Conduct *Requested at March 2019*	Members requested a review of the information provided to Committee regarding the Members Code of Conduct	109	To promote high standards of ethical behaviour by developing, maintaining and monitoring the Code of Conduct for Members of the Council (including co-opted Members and other persons acting in a similar capacity).
Governance Arrangements and Assurance Relating to Significant Partnerships. *Requested November 2019*	Members requested assurance in relation to the governance arrangements in place to manage significant partnerships in which the Council participates.	119	To review the governance and assurance arrangements for significant partnerships or collaborations.

This page is intentionally left blank

Cheshire East Council

Working for a brighter future together

Audit & Governance Committee

Date of Meeting: 05 December 2019

Report Title: Waivers and Non-Adherences (WARNs)

Senior Officer: Alex Thompson – Director of Finance and Customer Services - S151 Officer

1. Report Summary

1.1. The purpose of this report is to provide an update to the Audit and Governance Committee on the number of cases where, and reasons why, procurement activity has required the use of waivers and/or non-adherences (WARNs). The report covers approved cases between the 1st September 2019 and the 31st October 2019.

1.2. The approved WARNs are published retrospectively for information on the next appropriate Audit and Governance Committee. The total number of WARNs to be presented to the July Audit and Governance Committee is 2 (consisting of 2 Waivers and 0 Non adherences).

1.3. All WARNs will be presented to the Audit and Governance Committee without any information redacted. However, they will be presented in Part 2 of the Committee as they may contain commercially sensitive information and/or Officer Details.

2. Recommendation

That the Audit and Governance Committee:

2.1. Notes the number and reason for 2 further waivers approved between 1st September 2019 and 31st October 2019 (11 in total).

3. Reasons for Recommendation

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

4. Other Options Considered

4.1. N/A

5. Background

5.1. All WARNs approved in the period between Audit and Governance Committees will be presented to the next Committee meeting. This report contains all WARNs approved from the 1st September 2019 to the 31st October 2019 (2 in total).

The WARN process records the following;

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

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

Table 1: WARNS have reduced in the last three years

WARNs	**2016-2017**	**2017- 2018**	**2018-2019**	**April - Oct 2019**
Non Adherence	33	10	5	0
Waiver	40	20	16	11
Grand Total	**73**	**30**	**21**	**11**

5.2. The total number of WARN's for 2018-2019, at 21, was a further reduction of 30% from the previous year. This reduction in waivers and non adherences is the result of improved forward planning, better information such as enhanced contracts register and Council pipeline/workplan of procurements and proactively working with services to inform better outcomes and ensuring compliant contracts are in place.

6. Implications of the Recommendations

6.1. Legal Implications

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

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

6.2. Finance Implications

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

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

6.3. Policy Implications

6.3.1. N/A

6.4. Equality Implications

6.4.1. N/A

6.5. Human Resources Implications

6.5.1. N/A

6.6. Risk Management Implications

6.6.1. The focus is the risk that processes are not complied with, which increases the likelihood of legal challenge causing financial and reputational risk to the Council. This includes procurement processes.

6.7. **Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People/Cared for Children**

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

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.10.1. There are no direct implications for public health.

7. Ward Members Affected

7.1. N/A

8. Consultation & Engagement

8.1. N/A

9. Access to Information

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

10. Contact Information

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

Name: Lianne Halliday

Job Title: Senior Manager - Procurement

Email: lianne.halliday@cheshireeast.gov.uk

Appendix 1

CPR WAIVERS – CATEGORIES FOR INTERNAL REPORTING

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

This page is intentionally left blank