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NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 26 February 2016

Time: 10.30 am

Place: LB31 Loxley House, Station Street, Nottingham, NG2 3NG

Councillors are requested to attend the above meeting to transact the following business

Corporate Director for Resilience

Governance Officer: Catherine Ziane-Pryor **Direct Dial:** 0115 8764298

AGENDA		Pages
1	**APOLOGIES FOR ABSENCE**	
2	**DECLARATIONS OF INTERESTS**	
3	**MINUTES** Of the meeting held on 27 November 2015 (for confirmation).	5 - 12
4	**RESILIENCE OF CITY COUNCIL IT SYSTEMS** Verbal update by the Head of Information Technology	
5	**REVIEW OF ACCOUNTING POLICIES** Report of Director of Strategic Finance	13 - 30
6	**STATEMENT OF ACCOUNTS AND CHANGES TO PUBLIC INSPECTION** Report of Director of Strategic Finance	31 - 32
7	**TREASURY MANAGEMENT 2016/17 STRATEGY** Report of Director of Strategic Finance	33 - 68

IF YOU NEED ANY ADVICE ON DECLARING AN INTEREST IN ANY ITEM ON THE AGENDA, PLEASE CONTACT THE GOVERNANCE OFFICER SHOWN ABOVE, IF POSSIBLE BEFORE THE DAY OF THE MEETING

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NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB31 Loxley House, Station Street, Nottingham, NG2 3NG on 27 November 2015 from 10.30 - 12.17

Membership

Present	Absent
Councillor Sarah Piper (Chair)	Councillor Anne Peach
Councillor Steve Young (Vice Chair)	
Councillor Michael Edwards	
Councillor John Hartshorne	
Councillor Toby Neal	
Councillor Andrew Rule	
Councillor Malcolm Wood	

Colleagues, partners and others in attendance:

Tony Crawley	)	KPMG External Auditors
Tom Tandy	)	
Shail Shah	-	Head of Audit and Risk
Glyn Daykin	-	Treasury Management Finance Analyst
Lynne North	-	Senior Customer Services Officer
Jane O'Leary	-	Insurance and Risk Manager
Barry Dryden	-	Senior Finance Manager
Theresa Channell	-	Head of Strategic Finance
Catherine Ziane-Pryor	-	Governance Officer

28 APOLOGIES FOR ABSENCE

Councillor Anne Peach (Personal)

29 DECLARATIONS OF INTERESTS

None.

30 MINUTES

The Committee confirmed the minutes of the meeting held on 18 September 2015 as a correct record and they were signed by the Chair.

31 OMBUDSMAN ANNUAL LETTER

Lynne North, Senior Customer Services Officer, presented the report which informs the Committee of the number and nature of complaints lodged with the Ombudsman Service against the City Council, the outcome of those complaints, and the Local Government Ombudsman's Annual Review Letter 2015, and a comparative chart of similar local authority's complaints, and a copy of the 'Handling Complaints For Service Improvement' councillor workbook issued by the Local Government Ombudsman.

The following points were highlighted:

(a) 110 complaints were received and only 6 have been upheld;

(b) it is noted that a Public Sector Ombudsman is predicted to be announced in the Queen's speech;

(c) the reduction in complaints can partially be attributed to improvements in ensuring staff are aware of operating processes and that policies are clear and transparent;

(d) Members are encouraged to read the councillor workbook 'Handling Complaints For Service Improvement' which they may find interesting and useful.

The Chair welcomed the detailed information contained within the report.

RESOLVED

(1) to note the report and the Ombudsman Annual Letter;

(2) for the electronic version of the 'Handling Complaints For Service Improvement' councillor workbook to be sent to all City Councillors.

32 PROGRESS REPORT AND TECHNICAL UPDATE

Tom Tandy and Tony Crawley of KPMG External Auditors were in attendance to present the report.

Tony presented the report which provides an overview of KPMG's progress in delivering the external auditor's responsibilities, along with highlighting the main technical issues which are currently impacting on Local Government.

The technical update identified three areas of medium level impact, which include:
- the new Local Audit Framework;
- CIPFA survey on infrastructure and assessments;
- and reporting developments: infrastructure assets;

Low level impacts areas included:
- NAO report - care act first - phase reforms;
- local audit and accountability act 2014 - provisions affecting auditor's work from 1 April 2015;

No high level impact issues were identified.

It is noted that further, more detailed information, will be provided to the next meeting.

Member's questions were responded to both by KPMG representatives and Finance colleagues as follows:

(a) the cost of providing this report is minimal as KPMG cater to over 100 Local Government clients, for which much of the required information is similar;

(b) completing the CIPFA Survey on Infrastructure Assets during 2016/17, which is required to identifying and assess the current value and replacement cost of highways infrastructure assets, will have a cost impact on the City Council;

(c) the National Audit Office (NAO) is requiring that the infrastructure survey is undertaken across the country, including infrastructure, are accounted for in a meaningful way to provide a complete and up-to-date account of assets;

(d) infrastructure land, although an asset, cannot be used to generate income but the cost of replacing it needs to be known by Central Government as this will be taken into consideration with regard to allocation of future resources.

RESOLVED

(1) to note report;

(2) for Barry Dryden, Senior Finance Manager, to provide members of the committee with confirmation of which required infrastructure information can be retrieved via Geographic Information System (GIS).

33 ANNUAL AUDIT LETTER

Tony Crawley, Senior Auditor for KPMG External Auditors presented the report which confirms the outcomes of KPMG audits during 2014/15, including the financial statements and the 2014 value for money conclusion.

Members were assured by colleagues that the issues originally identified regarding potential weaknesses within the Service Level Agreement for East Midlands Shared Services have now been addressed and that processes, should any further partnerships be proposed, including expectations and responsibilities, will be precisely defined.

RESOLVED

(1) to note the report, including the identified key issues and resulting recommendations;

(2) for the Head of Internal Audit to alert the Audit Committee of any pending or new partnership agreements as and when he is informed.

34 TREASURY MANAGEMENT 2015/16 HALF YEARLY UPDATE

Glyn Daykin, Treasury Management Finance Analyst, presented the report which, prior to the update being submitted to Executive Board, informs the Committee of the Treasury Management actions taken so far during 2015/16.

In referring to the report the following points were highlighted:

(a) up to 30 September 2015, no new long-term borrowing has taken place as it has not been necessary;

(b) no debt rescheduling has taken place and no prepayment opportunities were identified;

(c) the average return on investments exceeded the benchmark average, and is predicted to do so for the remainder of the year;

(d) the services of Arlingclose, Investment Benchmarking, ensure that a broader view of financial markets and trends is available when making decisions;

(e) when committing to new loans, the duration of those loans are considered alongside the remaining period of existing loans, none of which are tied to individual assets;

(f) it is predicted that when borrowing for large projects such as the redevelopment of the Broadmarsh area, there will be a cost impact of approximately 4% interest on new debt financing until the revenue stream kicks in (assuming no Minimum Revenue Provision due to asset under construction rule being applied);

(g) the stability of the economy is reflected in risk assessments and the investment strategy which includes instruction to reduce investments. This is happening and will continue to do so with any additional investments very carefully considered i.e. with other local authorities.

RESOLVED

(1) to note the Treasury Management actions taken in 2015/16 to date;

(2) for Glyn Daykin, Treasury Management Finance Analyst to provide Audit Committee Members (on a confidential basis) with an economic update and interest rate forecast provided by Arlingclose.

35 INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION

Shail Shah, Head of Internal Audit, introduced the report which informs the Committee of the internal audits undertaken with regard to foster caring and adoption, and budgetary control.

Foster Caring and Adoption

Steve Comb, Head of Children in Care, was in attendance and informed the Committee of the following:

(a) with regard to issues concerning payments, within fostering and adoption a range of payments are made. Primarily an area of concern from previous audits related to the historic practice of providing car loans available to Foster Carers to enable them to transport the children within their care. This facility is no longer routinely available with only rare exceptions made in very exceptional circumstances, such as when a couple adopted a sibling group of six children;

(b) Steve had met with Internal Audit colleagues and requested that specific areas of payments were further considered such as foster caring ‘connected payments’;

(c) concerns regarding foster care and adoption IT systems have been addressed with further work planned. However, Central Government is currently considering implementing regionalised administration, which would include a revision of IT systems. If this proposal is progressed, regionalised administration could be in place by 2020;

(d) it is noted that there are currently more children in care now than there have been within the last 30 years;

(e) overall internal audit conclusions are viewed as positive.

Some members of the Committee expressed concern that the new IT system was not performing as expected and there are concerns with regard to data protection issues, to which Steve responded that Fostering And Adoption is a high-risk area of work, but one of the most important undertaken by the Council. Spot checks and monitoring are ongoing, and Internal Audit comments regarding management processes and procedures have been considered in detail.

Budgetary Control

The Committee were assured by Theresa Channell, Head of Strategic Finance, that since the Budgetary Control Audit, 60% of managers and directors were now able to access self-service facilities, and within their remit, were able to directly make financial decisions. The facility will be rolled out as part of the wider Financial Management Improvement Programme which also enables managers to access and retrieve data for themselves.

Committee members commented that while they had seen the dashboard, they wish to see how the self-service facility operated in practice.

RESOLVED that having critically appraised the internal audit reports, to agree that:

(1) the response of the fostering and adoption service and the financial services Section, the responses to the internal audit reports, were sufficiently proportionate robust and prompt;

(2) with regard to the financial services budgetary control report, for a demonstration of the Oracle self-service facility for managers, to be demonstrated to the audit committee, at the next meeting.

36 CAPITAL PROGRAMME 2015/16 TO 2019/20

Barry Dryden, Senior Finance Manager, and Theresa Channell, Head of Strategic Finance, presented a report on the Capital Programme 2015/16 to 2019/20, and delivered a presentation which was submitted to the agenda following the meeting.

The following information was outlined within the presentation:

(a) the 4 key principles which underpin the application and ongoing development of the Capital Strategy: Accountable, Affordable, Prudent, Realistic and Deliverable;

(b) Capital Programme Principles;

(c) Capital Programme Summary;

(d) Programmes and Individual Schemes.

In response to a Member's question Theresa stated that for some individual schemes which require funding of thousands of pounds, but which are reliant on other factors, specialist panels are convened to consider in detail the risks and overall procedures.

RESOLVED for the following areas to be considered in more detail, either during a formal meeting or during a member training session, with further discussion to be held at the next meeting:

(i) the arrangements, financial risk analysis and implications to the City Council regarding the transformation of the Broadmarsh area , Daykin Street, Nottingham Castle Transformation, and the Eastcroft Incinerator third line;

(ii) the lessons learnt and new measures in place as a result of issues around the latest tram project.

37 COUNCIL TAX DISCOUNTS

Barry Dryden, Senior Finance Manager, presented the report which outlines the reasons why council tax discounts have been issued.

It is noted that the Fraud Team are currently investigating some aspects of discounts and exemption applications. Council tax band 'H' properties include student halls of residence.

RESOLVED to note the report.

38 REVIEW AND IMPROVEMENT OF THE DELIVERY OF STRATEGIC RISK MANAGEMENT

Jane O'Leary, Insurance and Risk Manager, presented the report which requests that the Committee approved a review of the current policy, strategy and process for the delivery of strategic risk management to ensure that City Council Risk Management it is fit for purpose and can achieve the required objectives.

The following points were made in response to member's questions:

(a) the City Council needs to understand risk appetite and properly define it depending on the focus, and manage the risk accordingly;

(b) it is not intended that the current Risk Management Framework will be completely revised, only that it will be refreshed and updated as some aspects work well, but new areas of risk are emerging so the Risk Management Framework must be fit for purpose with evidence of mitigation;

(c) revisions of the framework will include;

(i) opportunity management alongside risk management;
(ii) notional value to be recognised;
(iii) error management;
(iv) proper cost and price calculations based on risk.

Members of the Committee are invited to suggest any specific additional areas and actions which they would want to see included within a revised risk management plan.

Contingency management is suggested and any further suggestions should be communicated to Jane.

RESOLVED

(1) to approve a review of the current policy, strategy and process for the delivery of strategic risk management;

(2) to agree to an update and improved policy, strategy and process to be presented to the audit committee on 26 February 2016 and 6 May 2016.

39 INTERNAL AUDIT QUARTERLY REPORT (SECOND QUARTER)

Shail Shah, Head of Internal Audit, presented the report which outlines the work of the Internal Audit Service for the second Quarter of 2015/16.

RESOLVED to note the report.

40 COUNTER FRAUD STRATEGY

Shail Shah, Head of Internal Audit, presented the report which includes the City Council's Counter Fraud Strategy and Fraud Response Plan.

It is noted that the revised counter fraud arrangements are now more extensive than ever with a refreshed focus on developing and strengthening a counter fraud culture within the Council.

A bespoke Counter Fraud Policy for Schools has been developed and will be promoted for adoption by school governing bodies.

RESOLVED

(1) to endorse the City Council's Counter Fraud Strategy as set out in Appendix 1 to the report;

(2) to endorse the Counter Fraud Strategy for Schools as set out in Appendix 2 to the report.

41 AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME

Shail Shah, Head of Internal Audit, presented the report which provides the Audit Committee Terms of Reference and the Committee's Annual Work Programme to the end of the municipal year.

RESOLVED

(1) to note the functions of Audit Committee and the benefits arising from its existence;

(2) to endorse the outline work Programme at Appendix 1 to the report and the Terms of Reference at Appendix 2 to the report.

AUDIT COMMITTEE – 26th FEBRUARY 2016

Title of paper:	**Review of Accounting Policies 2015-16**	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	**Wards affected:** All
Report author(s) and contact details:	Tom Straw, Finance Manager Capital thomas.straw@nottinghamcity.gov.uk 0115 8763659	
Other colleagues who have provided input:	Susan Risdall, Team Leader – Technical Accounting	

Recommendation(s):	
1	Review and agree the Statement of Accounting Policies for inclusion in the 2015/16 annual accounts (within appendix 1).
2	Review and agree the proposals where International Financial Reporting Standards (IFRS) allow a degree of choice.

1 REASONS FOR RECOMMENDATIONS

1.1 Part 3 of the Annual Accounts and Audit Regulations 2011 (the Regulations) require the City Council to produce an annual Statement of Accounts. In accordance with IFRS, the Statement of Accounts must include a statement of accounting policies.

1.2 The Regulations also require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 30 June. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2015/16 Statement of Accounts is produced.

1.3 In addition, where IFRS allows a degree of choice, Audit Committee should be aware of and confirm the choices made.

2 BACKGROUND

2.1 The draft 2015/16 accounting policies are included in Appendix 1. The policies are reviewed annually to identify any which should be removed as they are no longer relevant or have no material effect to the Statement of Accounts for 2015/16. Due to the introduction of IFRS13 which is applicable from this year, a new accounting policy called 'Fair Value Measurement' has been included. Existing accounting policies relating to investment properties and assets held for sale have been reviewed and updated where appropriate in line with IFRS13 terminology. Other than IFRS13 there have been no significant changes to the accounting policies from 2014/15.

In order to give the main focus to the core financial statements, only the critical Accounting Policies will be included in the body of the Statement of Accounts with a full version shown as an appendix.

2.2 **Critical Accounting Policies**
The critical accounting policies provide the fundamental bases for producing the Statement of Accounts and warrant particular consideration. The only change from 2014/15 is the policy for the 'Valuation of Non-Current Assets' due to definition of fair

value under IFRS13. The proposed 2015/16 Critical Accounting Policies are shown below:

Accruals of Expenditure and Income
The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor is recorded in the Balance Sheet.

Government Grants and Contributions
Government Grants and contributions are credited to income in the Comprehensive Income and Expenditure Statement only when there is reasonable assurance that any attached conditions will be met. Specific grants are credited to the relevant service line, while non-ring fenced and capital grants are credited to Taxation and Non-specific grant income.

Any grants received where conditions have not been met are carried in the Balance Sheet as creditors.

Charges to Revenue for Non-Current Assets
Service revenue 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 attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

Valuation of Non-Current Assets
Generally non-current assets are valued initially at cost and subsequently revalued at fair value. The main exceptions are infrastructure, which are generally valued at depreciated historical cost, council dwellings, which are valued at Existing Use Value for Social Housing and heritage assets, which are valued at market value by an external valuer.

Interests in Companies and Other Entities
Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

2.3 **Choices made under IFRS**
For some policies the IFRS provide different options that can be used. The choices made in these instances have been applied consistently over the years, however, it would be prudent for Audit Committee to reaffirm the choices made. The key proposals are detailed below:

De Minimus Capital Expenditure
All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet:

	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Componentisation
Where an asset consists of significant components that have different useful lives and or depreciation methods to the remainder of the asset, these components are separately identified and depreciated accordingly. The Council has chosen to only apply componentisation where the value of the asset is in excess of £3m.

Depreciation (including amortisation of intangible assets)
Certain Property Plant and Equipment components and Intangible Assets are written down over time and charged to revenue. International Financial Reporting Standards allow the Council to assess the period as well as the depreciation method. The following assets are depreciated on a straight line basis over their individually assessed useful life, unless otherwise stated:

- Dwellings, buildings, vehicles, plant, furniture and equipment
- Infrastructure and Community are depreciated over 25 years
- Intangible assets are depreciated over 5 years

2.4 The draft accounting policies will also be reviewed by the external auditors, KPMG, and therefore are still subject to change. Any major changes will be highlighted to Audit Committee at a future meeting.

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

3.1 None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

4.1 Annual Accounts 2014/15
Accounting and Audit Regulations 2011
Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

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(Appendix A)
Accounting Policies

This section explains the accounting policies applied in producing the Statement of Accounts.

1.1 General Principles

1.1.1 Statutory Guidance and Accounting Standards used

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year end of 31 March 2016. It provides the reader with information about the Council's financial position and its stewardship of public funds. The Statement of Accounts is a legal requirement under the Accounts and Audit Regulations 2011 and must comply with proper accounting practices. These practices are set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) which is based on approved accounting standards. In addition to compliance with the Code, the Council's accounts also comply with the Service Reporting Code of Practice 2015/16. This Code sets out proper practice for financial reporting to ensure consistency and comparability across Councils. The accounts are supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 7 of the 2011 Act.

1.1.2 Accounting Convention

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.

1.1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

A prior period adjustment will be made to the accounts as a result of a change in accounting policies. Changes in accounting estimates will be accounted for prospectively. Material errors in prior periods are corrected retrospectively by amending opening balances and comparative amounts. A full disclosure as to the nature, circumstance and value of the adjustment will be disclosed in the notes to the accounts.

1.1.4 Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the Balance Sheet date of 31 March and the date when the Statement of Accounts is authorised for issue. The two types of events and the accounting treatment are given below:

- For any material events after the balance sheet date which provide additional evidence regarding conditions existing at the balance sheet date, an adjustment has been made to the Statement of Accounts.

- Material events after the balance sheet date which concerned conditions not existing at 31 March have been disclosed as a separate note to the accounts.

1.1.5 Accruals of Expenditure and Income

The revenue and capital accounts of the Council are maintained on an accrual basis. This means that income and expenditure are recognised in the accounts in the period in which they are earned or incurred and not when money is received or paid. Further details are given below:

- Where income and 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. Cash received or paid and not yet recognised as income or expenditure is shown as a creditor (receipt in advance) or debtor (payment in advance) in the Balance Sheet and the Comprehensive Income and Expenditure Statement (CIES) adjusted accordingly. 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.
- Fees, charges and rents due from customers are accounted for as income at the date that the Council provides the associated goods or services.
- Supplies are recorded as expenditure in the period during which 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. For some quarterly payments including gas and electricity, expenditure is recorded at the date of meter reading rather than being apportioned between financial years. This practice is consistently applied each year and therefore does not have a material effect on the year's accounts.
- Works are charged as expenditure, once complete, prior to completion they are carried as 'works in progress' on the Balance Sheet.
- For significant accruals such as pay awards, estimates are made based on the best information available at the time. Cost of pay awards not yet settled but likely to apply to part of the financial year to which the accounts relate are based on forecasted cost.
- Interest payable on borrowings and interest receivable on investments is accounted for as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Income and expenditure are credited and debited to the relevant service revenue account in the CIES. Capital expenditure creates a fixed asset which is shown on the Balance Sheet.

  Accruals have been made on the basis of the known value of the transaction wherever possible. Where estimates have been required to be made, they are based on appropriate and consistently applied methods. In the case of highways and building works, the related assets or liabilities will be valued at the year-end by colleagues working in the relevant service. Where there has been a change to an estimation method from that applied in previous years and the effect is material, a description of the change and if practicable, the effect on the results for the current period is separately disclosed.

1.2 Policies primarily affecting the CIES

1.2.1 Government Grants and Contributions

Government grants and other contributions are recognised as due to the Council when the attached conditions have been satisfied and there is reasonable assurance that the grant or contribution will be received.

Grants and contributions are credited to income when there is reasonable assurance that the attached conditions will be met. Any grants received where conditions have not been met are carried in the Balance Sheet as creditors. When all conditions are satisfied, the grant is credited to the relevant service line and non-ring fenced grants and capital grants are credited to Taxation and Non-specific grant income in the CIES.

1.2.2 Business Improvement Districts (BID)

A BID scheme applies across the whole of the Council. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as principal under the scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the CIES.

1.2.3 Operating Leases

Receivable (Council as lessor)

Where the Council has granted 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 CIES. Credits are made on a straight line basis over the life of the lease and any direct costs incurred in negotiating and arranging the lease are added to the carrying amount and charged as an expense over the lease term on the same basis as rental income.

Payable (Council as lessee)

Rentals paid under operating leases are charged to the service benefiting from use of the leased asset in the CIES. Charges are made on a straight-line basis over the life of the lease, regardless of the pattern of payments.

1.2.4 Employee Benefits

Benefits Payable During Employment

Wages and salaries, paid annual leave and paid sick leave 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 the holiday entitlements or for any form of leave, e.g. time off in lieu, which employees have earned during the year but are able to carry forward into the next financial year.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept voluntary redundancy. They are charged on an accruals basis to the Non Distributed Costs line in the CIES when the Council is demonstrably committed to the termination of the employment of an employee or group of employees or are making an offer to encourage voluntary redundancy.

Teachers Pension Scheme

Pension costs relating to Teachers' Pension Scheme have been treated as defined contribution schemes and the costs are charged to Children's and Education in the CIES.

Defined Benefit Schemes (Local Government Pension Scheme)

Within the CIES, service revenue accounts have been charged with their current service cost, which represents the extent to which the pension liability has increased as a result of employee service during the year. Past service costs, settlements and curtailments have been charged to non-distributable costs.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.2.5 Charges to Service Revenue Accounts for Non-Current Assets

Service revenue 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 attributable to the clear consumption of economic benefits on tangible fixed assets used by the service, and other losses where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible fixed assets attributable to the service.

1.2.6 Financing and Investment

The financing and investment line of the CIES is charged or credited for the following amounts relating to investments:

- Gain or loss on the difference between net sale proceeds and carrying value of investment properties.
- Rental income from investment properties
- Gains and losses on the repurchase or early settlement of borrowing.
- Net interest on the net defined benefit pension scheme liability / asset.

1.2.7 Other Operating Expenditure

Other operating expenditure includes charges for:

- The proportion of receipts relating to HRA disposals payable to the Government

- Gains or losses on sale and derecognition of non-current assets (excluding investment properties)

1.2.8 Overheads and Support Services

Overheads and support services are charged to service revenue accounts, trading undertakings and other support services in accordance with the Service Reporting Code of Practice. The basis for apportionment is generally time spent by colleagues on relevant tasks although other bases are used where more appropriate. The costs of Corporate and Democratic and Non-Distributable costs are not charged to service revenue accounts but are shown as separate lines on the CIES.

1.2.9 Carbon Reduction Commitment Scheme

As energy is used and carbon dioxide is emitted, an expense is charged to services in the CIES based on the current market price of allowances, together with a corresponding liability being created on the Balance Sheet. The expense is apportioned to services on the basis of energy consumption. The liability is subsequently discharged when the allowances are purchased retrospectively.

1.2.10 Landfill Allowance Schemes

When landfill is used an expense is charged to the CIES. This expense is matched by treating the use of landfill allowances allocated by DEFRA as government grants. Landfill used in excess of the allowances will appear as an expense in the form of allowances purchased from other Waste Disposal Authorities or a cash penalty paid to DEFRA.

Any residual allowances are measured at the lower of cost or net realisable value. However, due to the significant level of surplus landfill allowances available and trading being minimal, any surplus landfill allowances are judged to have no value.

1.2.11 Exceptional Items

Normally any material exceptional items are separately identified on the face of the CIES, in order to give a fair presentation of the accounts. Where these items are less significant they are included within the cost of the relevant service, however, details of all exceptional items are given in the Explanatory Foreword.

1.2.12 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

1.3 Policies primarily affecting the Balance Sheet

1.3.1 Property, Plant and Equipment (PPE), Heritage Assets and Intangible Assets

PPE - Recognition

All expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it brings benefits to the Council for more than one financial year. Expenditure that maintains but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as an expense when it is incurred.

PPE - Surplus Assets

Assets that are surplus to service needs but that do not meet the classification of Investment Property or Assets Held for Sale are classified as PPE ‘Surplus’, pending a decision on the future use of the asset.

PPE - Private Finance Initiative (PFI) and Similar Contracts

In accordance with the code, the Council accounts for its PFI contracts in accordance with IFRC 12 Service Concession Agreements. The Council is deemed to control the services that are provided under its PFI schemes and ownership will pass to the Council at the end of the contracts for no additional charge (with the exception of LIFT Joint Service Centres for which there is an option to purchase). Therefore, the Council carries the assets used under the contracts, on its Balance Sheet as PPE, where they are accounted for in the same way as the other assets. The original recognition of assets is at fair value with a corresponding liability for the amounts due to the scheme operator.

The amounts payable to the PFI operators is comprised of 5 elements. The Fair Value of Services received during the year, Finance Cost, Contingent Rent, and Lifecycle replacement costs are posted to the CIES. The final element is a payment towards the outstanding liability on the balance sheet.

PPE - Finance Leases

Leases are classified as finance leases where substantially all of the risks and rewards incidental to ownership of the PPE transfer 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.

Finance Leases – where the Council is Lessee

The asset is matched by a liability for the obligation to pay the lessor. Any initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the PPE – applied to write down the lease liability and
- A finance charge which is debited to the Financing and Investment Income and Expenditure line in the CIES.

Finance Leases – the Council as Lessor

Where the Council grants a finance lease over a property or an item of plant or equipment, the carrying amount of the asset is written off and a long term debtor raised in the Balance Sheet.

Lease rentals receivable are apportioned between the principal repayment which reduces the debtor balance and interest which is credited to the Financing and Investment Income and Expenditure line in the CIES.

Heritage Assets – Recognition

Acquisitions are either purchased by the City Council or donated by a third party. Purchases are initially recorded at cost while donations are held at nil value until the assets related collection is externally valued within the heritage asset valuation cycle.

Items are omitted from the Balance Sheet where the Council is unable to obtain the valuations at a cost which is commensurate with the benefits it would provide to users of the financial statements.

Intangible Assets – Recognition

Intangible assets where the Council has control of the asset through either custody or legal protection for e.g. software licences, are capitalised at cost.

Measurement

Assets are initially measured at cost, i.e. purchase price plus any costs incurred in bringing the asset into working condition for its intended use. The Council does not capitalise borrowing costs. Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure for e.g. roads and bridges and community assets for e.g. parks and land used for cemeteries and crematoria are generally valued at depreciated historical cost.
- Council dwellings are valued at current value; that is Existing Use Value for Social Housing as defined in the Royal Institute of Chartered Surveyors valuation manual. The valuation exercise was carried out in accordance with guidance issued by the Department for Communities and Local Government in 2009/10 by Chartered Surveyors Herbert Button & Partners and Freeman and Mitchell.
- Other land and buildings are valued at current value. For non-specialised properties this is the amount that would be paid for the asset in its existing use. Where insufficient market based evidence of fair value is available because an asset is specialised in nature, Depreciated Replacement Cost has been applied.
- Finance leases are recognised at fair value or the present value of the minimum lease payments if lower.
- Heritage assets are reported in the Balance Sheet at market value and have been valued by an external valuer, the valuation dates range from 2001 to 2008. These external valuations have been carried out by a variety of qualified experts in the relevant field. These external valuations are adjusted annually by the Council to provide an internal valuation which is used until the collection is periodically externally revalued.
- All other assets are valued at fair value, which is the price paid between market participants at the measurement date.

Assets included in the Balance Sheet at current value are revalued, as a minimum, every 5 years. However, if there is evidence that there have been material changes in the value a further valuation will be undertaken.

Increases in valuations are credited to services within the CIES where they arise from the reversal of a revaluation or an impairment loss previously charged on the same asset. Any gains in excess of previous revaluation losses are matched by credits to the Revaluation Reserve.

Any revaluation losses are firstly written down against any previous revaluation gains held in the Revaluation Reserve. Where there are no previous revaluation gains, the losses are charged to the relevant service line of the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

De Minimis Levels

All assets acquired can be included in the Balance Sheet, regardless of their cost. However where the current value is less than the following amounts the Council may choose to exclude the asset from the Balance Sheet.

Description	£m
Vehicles and Plant	0.003
Computer Equipment	0.005
Land & Buildings	0.010

Impairment

Asset values are assessed at the end of each financial year for evidence of reductions in value. If identified either as part of this review or as a result of a valuation exercise, they are accounted for as follows:

- Where there is a balance of revaluation gains on the Revaluation Reserve for the relevant asset the impairment loss is charged against that balance until it is used up. Thereafter, or if there is no balance of revaluation gains the impairment loss is charged to the relevant service line of the CIES.
- For intangible assets there will be no Revaluation Reserve balance, so impairment losses are charged to the relevant service line of the CIES only.

Depreciation and Amortisation

Depreciation is provided for on all PPE assets. The annual charge to the CIES is calculated by dividing the value less any residual value of the asset by the estimated asset life. There is no depreciation on the assets in the year of acquisition, although a full year of depreciation is charged in the year of disposal. In accordance with recommended accounting practice, depreciation is not provided for in respect of freehold land, Heritage Assets, certain Community Assets and assets under construction.

Depreciation is calculated on the following bases:

- Dwellings – straight line allocation over the useful life on the building major components.
- Buildings – straight-line allocation over the useful life of the property as estimated by the valuer.

- Vehicles, plant, furniture and equipment – straight line allocation over the useful life.
- Infrastructure and Community – straight-line allocation generally over 25 years.
- Finance leases - over the lease term. If the lease term is shorter than the asset's estimated useful life and ownership of the asset does not transfer to the authority at the end of the lease period.
- Intangible assets – amortised on a straight line basis over the economic life, which is generally assessed to be 5 years.

Where an item of PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Componentisation

Where an asset consists of significant components that have different useful lives and / or depreciation methods to the remainder of asset, these components are separately identified and depreciated accordingly. A component value must be at least 20% of the whole asset. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the parts have been grouped to determine the depreciation charge. Componentisation only applies to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010 with a de-minimis level of £3m.

Fair Value Measurement

Some non-financial and financial assets of the Council are measured at fair value at the reporting date. Fair value assumes the transaction takes place either:

- In the principal market for the asset or liability, or
- The most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Valuation techniques are used which maximise the use of observable inputs and minimise the use of unobservable inputs. After reviewing the inputs used the valuation is categorised within the following fair value hierarchy:

Level 1 – quote prices (unadjusted) in active markets for identical assets / liabilities that can be accessed at the measurement date.

Level 2 – inputs other than quoted prices within level 1, that are observable either directly or indirectly.

Level 3 – unobservable inputs.

1.3.2 Investment Property

Investment properties are those used solely to earn rentals and/or for capital appreciation and does not apply to properties which are being used to deliver services for the Council.

Investment properties are measured initially at cost. They are not depreciated but are revalued annually at fair value to reflect the highest and best use according to market conditions.

1.3.3 Long Term Investments

Interests in Companies and Other Entities

Inclusion in the Council's Group Accounts is, in accordance with the Code, dependent upon the extent of the Council's interest and control over an entity. In the Council's single-entity accounts, the interests in companies and other entities are shown as investments and valued at cost less any provision for losses.

Available-for-sale Financial Assets

Available-for-sale assets are valued at fair value. Where available-for-sale assets are quoted in an active market, the quoted market price is taken as fair value.

1.3.4 Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. Assets held for sale are carried at the lower of carrying amount and fair value (highest and best use) less costs to sell.

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.

1.3.5 Inventories and Work in Progress

Stocks are largely valued at latest purchase price and any difference between this and actual cost is not considered to be material. Other less significant stocks are valued at average or actual cost.

1.3.6 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet initially at fair value and carried at their amortised cost. Interest payable is charged to the Financing and Investment Income and Expenditure line of the CIES. The amount shown in the Balance Sheet is the carrying amount of the loan at 31st March.

1.3.7 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet, initially at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

1.3.8 Provisions

Provisions have only been recognised in the accounts where there is a legal or constructive obligation to transfer economic benefits as a result of a past event and where such an amount can be reliably estimated. Provisions are charged to the CIES and, depending on their materiality, are either disclosed as a separate item on the Balance Sheet or added to the carrying balance of an appropriate current liability. When expenditure is eventually incurred, it is charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it is apparent that the provision is not required or is lower than originally anticipated, the provision is reversed and credited back to the relevant service

Where some or all of the payment required to settle a provision is expected to be recovered from another party, for e.g. from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Provisions are also set up for bad and doubtful debts, but are offset against the debtor balance on the balance sheet, rather than being included in the provisions figure.

1.3.9 Contingent Liabilities

Where a material contingent loss cannot be accurately estimated or an event is not considered sufficiently certain, it has not been included in the accounts but is disclosed in the Explanatory Foreword/notes.

1.3.10 Contingent Assets

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.3.11 Defined Benefit Schemes (Local Government Pension Scheme)

For defined benefit schemes, pension fund assets are accounted for at fair value as follows:

- Quoted and unitised securities - current bid price
- Unquoted securities - professional estimate
- Property - market value.

Pension liabilities are measured on an actuarial basis, using an assessment of the future payments that will be made for retirement benefits earned to date by employees. This assessment includes assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted at the Balance Sheet date using a discount rate that takes into account the duration of the employer's liabilities and the requirements of IAS19. The discount rate chosen is the annualised yield at the 18 year point on the Merrill Lynch AA rated corporate bond curve.

1.3.12 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Transfers to and from reserves are shown in the MIRS and not within services. Expenditure is charged to the CIES and not directly to any reserve. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement, and employee benefits and are not usable resources for the Council

1.4 Policies Affecting the Cash Flow Statement

1.4.1 Cash and Cash Equivalents

The Council's Cash Flow Statement reflects the movements in cash and cash equivalents during the year and is shown net of bank overdrafts that are repayable on demand. Cash is represented by cash in hand and deposits with the Council's own bank. Cash equivalents are deposits with financial institutions repayable without penalty on notice of not more than 24 hours. This includes Council deposits in other UK bank call accounts and Money Market Funds

1.5 Policies used to account on a Funding Basis

In a number of areas statutory provisions require the Council to account for transactions relating to the General Fund (and subsequently the amount to be raised from Council Tax) differently from the treatment required by IFRS. In each case the adjustment required is offset by a transfer to a specific reserve. The adjustments are shown within the MIRS as Adjustments between accounting basis and funding basis under regulations.

1.5.1 Depreciation, amortisation, revaluation gains and losses and impairment

Instead of these charges the Council is required to make an annual provision from revenue to contribute towards the reduction in its borrowing requirement (at least 4% of the adjusted Capital Financing Requirement, excluding amounts attributable to HRA). The difference between the two transactions is adjusted with the Capital Adjustment Account.

For the HRA, depreciation is replaced by a contribution to the Major Repairs Reserve.

1.5.2 Gains and Losses on Sale of Assets

Where sale proceeds are in excess of £10k, the gain or loss on sale or disposal (including finance leases) is removed from the General Fund and adjusted with the Usable Capital Receipts Reserve (sale proceeds) and the Capital Adjustment Account (carrying value in the Balance Sheet).

A proportion of receipts relating to HRA disposals is payable to the Government and a corresponding sum is therefore transferred back from the Capital Receipts Reserve to the General Fund.

1.5.3 Capital grants

Capital Grants are reversed out of the General Fund to the Capital Grants Unapplied Account. When the grant is applied to fund capital expenditure, it is posted to the Capital Adjustment Account.

1.5.4 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Certain items of expenditure and related grant funding charged to the CIES under IFRS may be treated as capital for funding purposes. A transfer is made between the General Fund and the Capital Adjustment Account reserve for these items.

1.5.5 Termination Benefits - Pension Enhancements

Pension costs calculated according to IAS 19 are replaced by the actual pension payment for the year. The difference between the two transactions is transferred between the General Fund and the Pensions Reserve

1.5.6 Financial Liabilities

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund to be spread over future years. The gain or loss is spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The difference between the two approaches is transferred between the General Fund and the Financial Instruments Adjustment Account.

1.5.7 Loans and Receivables

Statutory provisions allow the General Fund to be charged with the actual interest receivable for the financial year. The adjustment to the CIES for soft loans is therefore removed and adjusted with the Financial Instruments Adjustment Account.

1.6 Accounting Policies not relevant or not material

The accounting policies are reviewed each year to assess whether it is appropriate for individual policies to be included. There are a number of accounting policies that have not been included above, because the statements are not materially affected by their implementation. These policies include:

- Use of capital receipts to fund disposal proceeds
- Intangible Assets – Recognition of website development and other internally generated assets
- Derecognition or impairment of available for sale financial assets, loans and receivables
- Valuation of available for sale financial assets other than at quoted market price
- Restructuring of loan portfolios and treatment of bonds
- Treatment of soft loans
- Changes to accounting policies
- Community Infrastructure Levy

- Subsequent revaluation of assets held for sale
- Jointly controlled assets
- Provision for backpay arising from unequal pay claims
- Treatment of foreign currency translations

Agenda Item 6

AUDIT COMMITTEE - 26th FEBRUARY 2016

Title of paper:	Statement of Accounts and changes to Public Inspection	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	**Wards affected:** All
Report author(s) and contact details:	Tom Straw, Finance Manager Capital thomas.straw@nottinghamcity.gov.uk 0115 8763659	
Other colleagues who have provided input:	Susan Risdall, Team Leader – Technical Accounting	
Recommendation(s):		
1	The report is for noting only	

1 REASONS FOR RECOMMENDATIONS

1.1 No recommendations are made within this committee report as the report is for noting only.

2 BACKGROUND

2.1 Nottingham City Council is required to make its Statement of Accounts available for public inspection at the end of each financial year.

2.2 The legislation regarding public inspection has changed since 2014/15. It is now governed by the Accounts and Audit Regulations 2015 and is applicable to accounting periods ending 31st March 2016.

The CIPFA Code of Practice on Local Authority Accounting 2015/16 sets out the requirements for local authorities and further details are provided in the update to the 2015/16 code.

The main difference between the 2 sets of regulations is as set out below:

Inspection Period	2015/16 (The Accounts and Audit Regulations 2015)	2014/15 (The Accounts and Audit (England) Regulations 2011)
Public inspection period	30 working days which must include the first 10 working days in July.	20 working days before the date appointed by KPMG for questions and/or objections

From financial year 2017/18 the Public Inspection period will change to 30 working days which must include the first 10 working days in June.

2.3 The Council must inform the public, including advertising on the website that the accounts and related documents are available to inspect for a period of 30 days. The period 1 -14 July 2016 will be a common period of inspection during which all councils' accounts are available to inspect.

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

3.1 None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

4.1 CIPFA Code of Practice on Local Authority Accounting 2015/16
CIPFA Code of Practice on Local Authority Accounting – update to the 2015/16 code
The Accounts and Audit (England) Regulations 2011
The Accounts and Audit Regulations 2015

AUDIT COMMITTEE – 26 FEBRUARY 2016

Title of paper:	**TREASURY MANAGEMENT 2016/17 STRATEGY**	
Director(s)/ Corporate Director(s):	Glen O'Connell, Corporate Director for Resilience	**Wards affected: All**
Report author(s) and contact details:	Geoff Walker, Director of Strategic Finance Tel: 0115 8764157 E-mail: geoff.walker@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Glyn Daykin, Finance Analyst Treasury Management Tel: 0115 8763724 E-mail: glyn.daykin@nottinghamcity.gov.uk	

Recommendation(s):

1	Audit Committee are asked to consider and comment on the proposed Treasury Management Strategy for 2016/17, attached as Appendix 1, and, in particular: **a.** the strategy for debt repayment (Minimum Revenue Provision) in 2016/17 **(Appendix 4)**; **b.** the Investment Strategy for 2016/17 (within **Appendix 1)**; **c.** the prudential indicators and limits for 2015/16 to 2018/19 **(Appendix 3)**; **d.** adopt the current Treasury Management Policy Statement **(Appendix 5)**.

1 REASONS FOR RECOMMENDATIONS

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code are both adopted by the Council. There is a requirement for authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. It is considered that the City Council's Audit Committee is the most appropriate body for this function.

In undertaking this function, the Audit Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices, and to deliver this in advance of the associated annual strategies being formally approved by Council in March. This provides an opportunity for detailed scrutiny and analysis of the Treasury Management Strategy by those charged with governance.

The approval of the proposed Treasury Management Strategy for 2016/17 is to be considered at the meeting of City Council on 7 March 2016.

2 BACKGROUND

2.1 Treasury management is the management of an organisation's borrowings and investments, the effective management of the associated risks and the pursuit of optimum performance or return consistent with those risks.

The treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the City Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice.

The City Council retains external advisors to provide additional input on treasury management matters. The service provided includes economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy, creditworthiness, credit ratings and other counterparty criteria and technical assistance on other related matters, as required.

2.2 In 2015/16 officers undertook to review the Council's existing policy for Debt Repayment otherwise known as Minimum Revenue Provision (MRP). As part of the proposed Treasury Management Strategy for 2016/17 there is a revised MRP policy.

Since 1 April 2007, MRP requirements have been relaxed significantly and the set aside is no longer a prescribed amount. There is freedom for authorities to consider an annual profiling of MRP which best fits the prudent management of their own financial circumstances, providing they meet the basic test of "prudence" which is to repay debt over the life of the benefit or the period implied by the associated grant.

3 PROPOSED TREASURY MANAGEMENT STRATEGY 2016/17 (APPENDIX 1)

3.1 This document sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place in the forthcoming year. Within this context, the objectives of the strategy are:

- To achieve the lowest net interest rate costs on the City Council's external debt, whilst recognising the risk management implications
- To protect the Medium Term Financial Strategy (MTFS) from fluctuations in interest rates and to prevent the need for excessive borrowing in future years, when rates may be unfavourable
- To maintain the security and liquidity of external investments, and within those parameters, to seek to maximise the return on such investments.

The main elements of the proposed strategy for 2016/17 are:

- Borrowing strategy (**Appendix 1, page 4**)
- Debt rescheduling (**Appendix 1, page 6**)
- Debt repayment (Minimum Revenue Provision statement) (**Appendix 4**)
- Housing Revenue Account strategy (**Appendix 1**)
- Investment strategy (**Appendix 1, page 6**)
- Prudential indicators (**Appendix 3**)
- Risk Management Action Plan (**Appendix 6**)

3.2 Minimum Revenue Provision (MRP) arises because there is statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement - CFR), i.e. the borrowing taken out in order to finance capital expenditure.

It is proposed that the methodology for calculating MRP on capital expenditure financed from borrowing prior to April 2007 is changed from the 'Regulatory Method' to a fixed, straight line method (equal instalments) over a period of up to 50 years commencing in 2016/17. Whilst it is acknowledged that this method is not specifically recommended in the Guidance for pre April 2007 debt, it is considered prudent by the Section 151 Officer.

The proposal to change the MRP policy was included in the public consultation on the council's budget proposals in January 2016 and no significant issues were raised to suggest there was not support for this proposal.

4 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

4.1 PWLB records, economic and interest rate forecasts and working papers.

5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

5.1 Department for Communities and Local Government – Capital Finance Guidance on Minimum Revenue Provision

Appendix 1

NOTTINGHAM CITY COUNCIL

TREASURY MANAGEMENT STRATEGY 2016/17

Executive Board 23 February 2016
Audit Committee 26 February 2016
City Council 7 March 2016

Introduction

In March 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

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 Council's treasury management strategy.

External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 2.4% a year, and the unemployment rate has dropped to 5.2%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 4.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was 2.1% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.
The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates. China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. Financial markets have reacted extremely negatively on concerns that the Chinese slowdown will present a significant drag on global growth. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators suggested recent global turbulence has not knocked the American recovery off course, although activity has weakened a little. The Federal Reserve raised policy rates at its meeting in December as expected, but accompanying statements suggested that the tightening cycle will be gradual and very much data dependent. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation and undertook further monetary easing late in the year.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.
Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling at or below 2% several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 1.8% level by around 0.3% a year. The uncertainties surrounding both the timing of UK and US interest rate rises, and the fallout from slower Chinese growth are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by the Arlingclose is attached at Appendix 2.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.80%, and that new long-term loans will be borrowed at an average rate of 3.50%.

Local Context

The Council currently has £698.6m of borrowing and £110.0m of investments. This is set out in further detail at Appendix 9. Forecast changes in these sums and the estimated future borrowing requirement are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	31.3.16 Estimate £m	31.3.17 Estimate £m	31.3.18 Estimate £m	31.3.19 Estimate £m
General Fund CFR	679.4	938.2	1036.8	1087.5	1051.1
HRA CFR	281.3	280.8	284.2	284.8	292.0
Total CFR	**960.7**	**1219.0**	**1321.0**	**1372.3**	**1343.1**
Less: Other debt liabilities *	-103.5	-236.3	-226.0	-216.2	-208.7
Borrowing CFR	**857.2**	**982.7**	**1095.0**	**1156.1**	**1134.4**
Less: External borrowing **	688.9	673.8	658.3	642.4	608.0
Internal borrowing	**168.3**	**308.9**	**436.7**	**513.7**	**526.4**
Less: Usable reserves	-250.9	-251.4	-212.5	-204.2	-201.6
Less: Working capital	-133.5	-133.5	-133.5	-133.5	-133.5
Investments or (New borrowing)	**216.1**	**76.0**	**-90.7**	**-176.0**	**-191.3**

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

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 Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, subject to holding a minimum investment balance of £30m.
The Council has an increasing CFR due to the capital programme, and a reducing amount of investments and will therefore be required to borrow up to £191.3m over the forecast period.

The 2014/15 investments include £100m raised from the Public Works Loan Board (PWLB) in 2012/13 to finance a required capital contribution for the Nottingham Express Transit (NET) Phase 2 scheme. This borrowing was raised in advance of need, to take advantage of low interest rates and the cash was expended in August 2015.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

Borrowing Strategy

The Council currently holds £698.6m of loans (excluding £238.9m PFI debt), an increase of £9.7m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £90.7m in 2016/17. The Council may also commit to borrow additional sums at fixed rates to pre-fund future years' requirements, to reduce its level of internal borrowing or for additional capital schemes that are not yet in the capital program approval providing this does not exceed the authorised limit for borrowing of £1,081 million.

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Borrowing decisions are also influenced not only by the absolute level of borrowing rates but also the relationship between short and long-term interest rates in order to achieve best value for money
for the Council.

There are short term cost benefits in using internal resources or to borrow short-term loans for some of the council's overall borrowing requirement.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term/internal 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. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine the amount that the Council borrows at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council may arrange forward starting loans during 2016/17, 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.

In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

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

- Public Works Loan Board (PWLB) and its successor body
- 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 Nottinghamshire County Council Pension Fund)
- capital market bond investors

- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as the European Investment Bank (EIB), local authority loans and bank loans, that may be available at more favourable rates. The Council may also look to do a formal funding selection exercise via Arlingclose that will seek proposals from a wide range of banks and organisations that are interested in lending to local authorities.

European Investment Bank (EIB): The EIB is the world's largest multilateral development bank. The Bank is a not for profit institution and has a relatively low cost of funding which now represents an attractive funding source for authorities with a sufficiently large capital programme. The product range allows a more sophisticated approach to risk management incorporating forward starting loans, sculpted repayment profiles and a mix of fixed and floating rate debt can be utilised to complement the existing debt portfolio.

LGA 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 may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; 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.

LOBOs: The Council holds £49m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £34m of these LOBOS have options during 2016/17, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and Variable Rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

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 Council 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 a reduction in risk.

Forward Starting Loans: In order to minimise the risk of the uncertainty of future interest rates, we will consider the use of ‘Forward Starting loans’ to fix the rate of interest for a specific loan where the cash will be taken at a set future date. These will be considered where it clearly demonstrates a reduction in the overall financial risk the council is exposed to commensurate to the financial impact of the deal.

Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council’s investment balance has ranged between £91m and £258m, but investment balances are expected to continue to reduce towards a minimum balance of £30m in the forthcoming year as surplus cash will continue to be used to meet borrowing requirements.

Objectives: Both the CIPFA Code and the CLG Guidance require the Council 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 Council’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 receiving unsuitably low investment income.

Strategy: Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council aims to avoid credit risk by further reducing the balances invested and then to diversify into more secure asset classes during 2016/17. Around 60% of the Council’s surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This further diversification will therefore represent a continuation of the new strategy adopted in 2015/16.

Approved Counterparties: The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a
AAA	£10m 5 years	£15m 20 years	£15m 50 years	£10m 20 years
AA+	£10m 5 years	£15m 10 years	£15m 25 years	£10m 10 years
AA	£10m 4 years	£15m 5 years	£15m 15 years	£10m 10 years
AA-	£10m 3 years	£15m 4 years	£15m 10 years	£10m 10 years
A+	£10m 2 years	£15m 3 years	£15m 5 years	£10m 5 years
A	£10m 13 months	£15m 2 years	£15m 5 years	£10m 5 years
A-	£10m 6 months	£15m 13 months	£15m 5 years	£10m 5 years
None	n/a	n/a	£15m 25 years	n/a
Pooled funds	£10m per fund			

This table must be read in conjunction with the notes below:-

Lloyds Bank: The Council's own bank, will be subject to the limits in table 2 for investment balances, but also accommodate necessary short-term cash management balances for periods of up to 4 days with no maximum sum.

Credit Rating: Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

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.

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 highest 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.

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

Registered Providers: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

Pooled Funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus corporate bonds, commercial paper, 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.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council 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 Council's investment objectives will be monitored regularly.

Risk Assessment and Credit Ratings: Credit ratings are obtained and monitored by the Council'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.

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.

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

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 Council 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 Council'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.

Specified Investments: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

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

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£50m
Total investments without credit ratings or rated below A-	£10m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£10m
Total non-specified investments	£50m

Investment Limits: The Council's revenue reserves available to cover investment losses are forecast to be c.£161 million on 31st March 2016. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£15m per group
Any group of pooled funds under the same management	£30m per manager
Negotiable instruments held in a broker's nominee account	£75m per broker
Foreign countries	£20m per country
Registered Providers	£30m in total
Unsecured investments with Building Societies	£30m in total
Money Market Funds	£75m in total

Other Items

There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Liquidity Management: The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.

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).

The Council 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 Council 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.

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.

Policy on Apportioning Interest to the HRA: On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured and interest transferred between the General Fund and HRA at the average 3 month UK Government Treasury Bill interest rate to reflect a credit risk free return.

Investment Training: The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers: The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The current contract is due to expire in March 2017 and so during 2016/17 the council will seek to go through a re-tender exercise for future services.

Investment of Money Borrowed in Advance of Need: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. Consideration will be given to the use of forward starting loans as an alternative where appropriate. These risks will be managed as part of the Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £1,081 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Management of Risk: Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. Appendix 6 details the specific risks identified in respect of treasury management within the Council and the adopted Risk Management Action Plan. This Plan is reviewed at regular intervals at meetings of the Treasury Management Panel.

Arlingclose Economic & Interest Rate Forecast December 2015

Underlying assumptions: Underlying assumptions:

- The global economy is facing a period of slower growth, as China reorients slowly towards domestic demand. Lower demand for raw materials will depress growth in mainly developing countries where extraction is the primary industry and countries particularly reliant on exports will also face more challenging conditions.
- Countries with stronger domestic demand, such as the UK and US, will be able to weather a temporary global slowdown, helped by lower commodity prices. However, persistently slower growth will have economic repercussions for these countries.
- Additional US monetary policy tightening will be gradual and not pre-planned. The US economy will absorb the rise in interest rates without choking off growth.
- UK economic growth will slow further but remain within the long term trend range. Economic growth softened in Q3 2015 but remained reasonably robust at 2.3% year-on-year.
- Inflation is currently very low and will likely remain so over the next 12 months, on the back of low commodity prices and expectations that UK monetary policy will be tightened (strengthening sterling). The CPI rate will to rise towards the end of 2016.
- Domestic demand is key for UK growth. Household spending has been and will remain the key driver of GDP growth through 2016. Consumption will continue to be supported by real wage and disposable income growth.
- On the back of strong consumption, business investment has strengthened, which should drive some productivity growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Annual average earnings growth was 2.4% (including bonuses) in the three months to October. With low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term and may alleviate the wage pressure on companies. The development of wage growth is one of the factors being closely monitored by the MPC.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressures.

Forecast:

- We have maintained our projection for the first rise in Bank Rate in Q3 2016. Risks remain weighted to the downside. We project a slow rise in Bank Rate. The appropriate level for Bank Rate will be lower than the previous norm and will be between 2 and 3%.
- We project medium term gilt yields on a shallow upward path in the medium term, with interest rate and inflation expectations remaining subdued.
- The uncertainties surrounding UK and US monetary policy, and global growth weakness, are likely to continue to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

Appendix 3

PRUDENTIAL INDICATORS 2014/15 – 2018/19					
	2014/15 Act £m	**2015/16 Est £m**	**2016/17 Est £m**	**2017/18 Est £m**	**2018/19 Est £m**
1. PRUDENCE INDICATORS					
i) Capital Expenditure					
General Fund	123.5	249.9	194.7	134.7	37.0
HRA	60.0	54.6	74.2	50.2	40.2
	183.5	**304.5**	**268.9**	**184.9**	**77.2**
ii) CFR at 31 March					
General Fund	576.2	701.9	810.9	871.3	842.4
HRA	281.3	280.8	284.2	284.8	292.0
PFI-related debt	103.2	236.3	226.0	216.2	208.7
	960.7	**1,219.0**	**1,321.1**	**1,372.3**	**1343.1**
iii) External Debt at 31 March					
Borrowing	688.0	680.7	755.2	819.3	815.0
Other (PFI debt)	103.2	236.3	226.0	216.2	208.7
Gross debt	**791.2**	**917.0**	**981.2**	**1035.5**	**1,023.7**
2. AFFORDABILITY INDICATORS					
i) Ratio of financing costs to net revenue stream					
General Fund		14.62%	14.61%	18.91%	19.03%
HRA		11.90%	12.02%	12.23%	12.71%
ii) Impact of capital investment decisions			**£s**	**£s**	**£s**
Council Tax Band D (per annum)			16.38	47.65	40.01
HRA rent (per week)			0.05	0.23	0.19
		£m	**£m**	**£m**	**£m**
iii) Authorised limit for external debt		1,091.6	1,081.2	1,135.5	1,123.7
iv) Operational Boundary for ext. debt		1,041.6	1,041.2	1,095.5	1,083.7
v) HRA limit on indebtedness					
HRA CFR		280.8	284.2	284.8	292.0
HRA Debt Cap (CLG prescribed)		319.8	319.8	319.8	319.8
Difference - headroom		**39.0**	**35.5**	**35.0**	**27.8**
3. TREASURY MANAGEMENT INDICATORS					
i) Upper limit on variable interest rate exposure	-97.1	250.0	250.0	250.0	250.0
ii) Upper limit on fixed interest rate exposure	571.2	800.0	800.0	800.0	800.0
iii) Fixed Debt maturity structure					
- under 12 months	8%	0-25%	0-25%	0-25%	0-25%
- 12 months to 2 years	3%	0-25%	0-25%	0-25%	0-25%
- 2 to 5 years	10%	0-25%	0-25%	0-25%	0-25%
- 5 to 10 years	19%	0-50%	0-50%	0-50%	0-50%
- 10 to 25 years	35%	0-50%	0-50%	0-50%	0-50%
- 25 to 40 years	22%	0-25%	0-25%	0-25%	0-25%
- 40 years and above	3%	0-75%	0-75%	0-75%	0-75%
iv) Sums invested for >364 days - in-house limit	£10.0m	£50m	£50m	£20m	£20m
v) Adoption of the *CIPFA Code of Practice for Treasury Management*	YES				
vi) Credit risk	Provided in Appendix 1,				

NOTES TO THE SCHEDULE OF PRUDENTIAL INDICATORS

1) **<u>Prudence Indicators</u>**

i) *'Estimate of total capital expenditure'* – a "reasonable" estimate of total capital expenditure to be incurred in the next 3 financial years, split between the General Fund and the HRA.

- This estimate takes into account the current approved asset management and capital investment strategies.

ii) *'Capital financing requirement' (CFR)* – this figure constitutes the aggregate amount of capital spending which has not yet been financed by capital receipts, capital grants or contributions from revenue, and represents the underlying need to borrow money long-term. An actual figure at 31 March each year is required, together with estimates for the next three financial years.

- This approximates to the previous Credit Ceiling calculation and provides an indication of the total long-term debt requirement.
- The figure includes an estimation of the total debt brought 'on-balance sheet' in respect of PFI schemes and finance leases.

iii) *'External debt'* - the actual level of gross borrowing (plus other long-term liabilities, including the notional debt relating to on-balance sheet PFI schemes and leases) calculated from the balance sheet, with estimates for the next three financial years.

2) **<u>Affordability Indicators</u>**

i) '*Ratio of financing costs to net revenue stream'* – expresses the revenue costs of the Council's borrowing (interest payments and provision for repayment) as a percentage of the total sum to be raised from government grants, business rates, council and other taxes (General Fund) and rent income (HRA). From 1 April 2012, the General fund income figure includes revenue raised from the Workplace Parking Levy.

- These indicators show the impact of borrowing on the revenue accounts and enable a comparison between years to be made. The increase in the General Fund ratio reflects the falling grant from government and the impact of existing and proposed capital expenditure.

ii) *'Incremental impact of capital investment decisions'* – expresses the revenue consequences of future capital spending plans to be met from unsupported borrowing and not financed from existing budget provision, on both the level of council tax and weekly housing rents.

- This is a key indicator, which provides a direct link between the capital programme and revenue budget and enables the revenue impact of additional unsupported capital investment to be understood.

iii) *'Authorised limit for external debt'* – this represents the maximum amount that may be borrowed at any point during the year. An estimate for the next three financial years is required.

- This figure allows for the possibility that borrowing for capital purposes may be undertaken early in the year, with a further sum to reflect any temporary borrowing as a result of adverse cash flow. This represents a ‘worst case’ scenario.

iv) *‘Operating boundary for external debt’* – this indicator is a working limit and represents the highest level of borrowing is expected to be reached at any time during the year - It is recognised that this operational boundary may be breached in exceptional circumstances.

v) *‘HRA limit on indebtedness’* – from 1 April 2012, a separate debt portfolio has been established for the HRA. The CLG have imposed a ‘cap’ on the maximum level of debt for individual authorities and the difference between this limit and the actual HRA CFR represents the headroom available for future new borrowing.

3) **Treasury Management Indicators**

i) *‘Upper limit on variable interest rate exposure’* - is set to control the Authority’s exposure to interest rate risk. The upper limits on variable rate interest rate exposures, expressed as the amount of net principal borrowed for the next three financial years are required.

- A high level of variable rate debt presents a risk from increases in interest rates. This figure represents the maximum permitted exposure to such debt.

ii) *‘Upper limit on fixed interest rate exposure’* - is set to control the Authority’s exposure to interest rate risk. The upper limits on fixed interest rate exposures, expressed as the amount of net principal borrowed for the next three financial years are required.

- Fixed rate borrowing provides certainty for future interest costs, regardless of movements in interest rates.

iii) *‘Upper and lower limits with respect to the maturity structure of the Council’s borrowing’* – this shows the amount of fixed rate borrowing maturing in each period, expressed as a percentage of total fixed rate borrowing.

- This indicator is designed to be a control over having large amounts of fixed rate debt falling to be replaced at the same time.

iv) *‘Total sums invested for periods of greater than 364 days* – a limit on investments for periods longer than 1 year. A three-year estimate is required.

- This indicator is designed to protect the liquidity of investments, ensuring that large proportions of the cash reserves are not invested for long periods.

v) *The adoption of the CIPFA Code of Practice for Treasury Management in the Public Services’.* This is not a numerical indicator, but a statement of good practice.

- The Council adopted the Code on 18 February 2002. Revised Codes, issued in 2009 and 2011, have subsequently been incorporated within the Council’s strategy and procedures.

vi) *Credit risk* – The Council monitors a range of factors to manage credit risk, detailed in its annual Treasury Management Strategy.

Appendix 4

Annual Minimum Revenue Provision Statement 2016/17

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

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

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance as well as locally determined prudent methods.

- For capital expenditure incurred before 2007/08, and for supported capital expenditure incurred on or after that date, MRP policy will be to charge 2% of the balance at 31 March 2016 on a straight line basis so the whole debt is repaid after 50 years. Starting in 2016/17 this represents a prudent adaptation to Option 1 in the guidance.

- For unsupported capital expenditure incurred after 2007/08, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments *or* as the principal repayment on an annuity, 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 the guidance)*

- 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.

- Where loans are made to other bodies for their capital expenditure, MRP will be charged in line with the principal repayment profile in the 3rd party agreement.

- No MRP will be charged in respect of assets held within the Housing Revenue Account.

- Voluntary MRP may be made at the discretion of the Director of Finance.

- Capital receipts maybe voluntarily set-aside to clear debt and replace with future prudential borrowing to temporarily reduce the MRP charge. This use of capital receipts will be at the discretion of the Director of Finance.

Capital expenditure incurred during 2016/17 will not be subject to a MRP charge until 2017/18.

NOTTINGHAM CITY COUNCIL TREASURY MANAGEMENT POLICY STATEMENT

The following treasury management policy statement was formally adopted by the City Council on 5 March 2012.

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities

- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council (i.e. full Council) will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Executive Board and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

2.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

2.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

<u>Appendix 6</u>

Risk Management Action Plan (RMAP)

Likelihood	
1	Remote
2	Unlikely
3	Possible
4	Likely
5	Almost Certain

Likelihood (L)					
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5
	Impact (I)				

Impact	
1	Negligible
2	Minor
3	Moderate
4	Major
5	Catastrophic

Low Seriousness	Medium Seriousness	High Seriousness

Summary Business Risk: SRR17 – Failure to protect the Council's investments				
Owned by: DCEX/CD - Resources	Completed by: DCEX/CD – Resources and Treasury Management Panel	Completed: November 2015	Next Review: February 2016	
Prevailing Summary risk Threat Level (LxI)	4.86 (average) (2.00 x 2.43)	Target summary Risk Threat Level	3.47 (average) (1.43 x 2.43)	
Summary risk mitigation effectiveness (Effective, yet to secure improvement, may not be enough)		Effective		

Risks under risk management:

Risk Ref:	Description	Current Risk Rating Score (LxI)	Target Risk Rating Score (LxI)
1	Inappropriate investment strategy (TMP 1.1, 1.2, 1.3, 1.8, 3, 4 & 11)	1 x 4 = 4	1 x 3 = 3
2	Inappropriate borrowing strategy (TMP 1.2, 1.3, 1.5 & 1.8)	3 x 1 = 3	3 x 1 = 3
3	Revenue implications of capital program not accurately reflected in the MTFP (TMP 7)	3 x 3 = 9	1 x 3 = 3
4	MRP Policy is Inappropriate (TMP 7)	2 x 2 = 4	1 x 3 = 3
5	Poor cash management (TMP 1.2, 1. 8)	1 x 3 = 3	1 x 3 = 3
6	Colleague fraud (TMP 1.7 & 5)	2 x 2 = 4	1 x 2 = 2
7	Failure to comply with CIPFA Code of Practice and/or respond to changes in relevant legislation (TMP 1.6)	2 x 2 = 4	2 x 2 = 4

Current Management Action / Controls Acting on Risk? Delete as applicable: Some								
Risk Ref.	**Current Management/actions in place**	**Adequacy of action/control to mitigate risk**	**Additional management action/ controls**	**Responsibility for additional action**		**Critical success factors of additional actions**	**Key Dates**	
				CD	**D/ HoS**		**Additional controls complete**	**Progress review frequency**
1	• Continued use of external advisors – Arlingclose contract renewed from April '13 to March '17 • Use of counterparties list based on range of formal credit ratings and wider market intelligence and advice	EFFECTIVE	• Maintain current arrangements	GO	GW	• Monthly check by S151 officer of current investments.	Ongoing	Ongoing
	• Limits set for amounts and time periods with individual institutions		• Internal audit plan includes 16 scheduled audit days per annum.			• Latest Internal Audit report findings give "High assurance on controls" (March 15)	Ongoing	As received
	• Counterparty limits amended as and when required and future investments suspended if deemed appropriate					• Weekly meetings with portfolio holder	Ongoing	Weekly
	• TM and investment strategy reviewed and amended as required					• TM Panel meets regularly to review the overall position.	Ongoing	Quarterly
	• Quarterly review of the investment					• Implementation of amendments	Ongoing	As required

	portfolio carried out at TM Panel meetings. • Monitoring of wider economic environment provided by advisors, with amendments to the existing strategy, as required. • Regular reviews of interest rate forecasts • Up to date knowledge of existing and developing investment products through regular attendance at seminars and workshops • CFO action under delegation (and in consultation with portfolio holder) to respond quickly to emerging issues.					to the investment strategy when appropriate • TM colleagues work with advisors and colleagues to keep abreast of wider economic conditions and respond accordingly.	Ongoing	Quarterly
2	• Identification and monitoring of annual borrowing requirement • Monitoring of PWLB borrowing rates • Use of alternative	EFFECTIVE	• Capital programme review completed • Maintain existing	GO	GW TC	• Sufficient resources identified to cover capital expenditure and cash flows • Continued	Ongoing Ongoing	Quarterly Quarterly

	loan products as appropriate • Regular review of arrangements and possibilities • Review of capital programme, informing new capital strategy. • Retention of strong external advisors • Establishment and maintenance of a liability benchmark, to monitor Minimum Revenue Provision against debt and Capital Financing Requirement • Opportunities for rescheduling identified and implemented		arrangements • Continued strong performance of external advisors			regular review by TM Panel.		
3	• Treasury Costs in MTFP based on latest capital program and balance sheet forecasts • Regular review of capital program • Monitor Interest rate forecasts • Retention of strong external advisors • Support Corporate	ONGOING	• Continued support from external advisors	GO	GW	• Continued regular review by TM Panel	At TM Panel meetings	Quarterly

	Finance Team to develop systems to monitor and control investment strategy income streams required to repay debt							
4	• Benchmark other Local Authorities MRP policies • Attendance of Treasury/Finance workshops on MRP policy reviews • Fully review the current MRP policy in the light of prevailing and forecast circumstances • Incorporate new policy and financial implications into MTFP	ONGOING		GO GO	GW GW	• Continued regular review by TM Panel. • Changes to policy included in TM Strategy Report	At TM Panel meetings Annual TM strategy	At least Quarterly Annual

5	• Use of cash forecasting models, with regular monitoring and updates undertaken • Track record is sound • Continuous adaptation of model in the light of prevailing and forecast circumstances • Require to incorporate the cash implications of the funding streams on investment strategy projects	ONGOING	• Maintain existing arrangements	GO	GW	• Continued regular review by TM Panel	TM Panel meetings	Quarterly
6	• System of delegation and approved processes • Separation of duties between treasury management dealing and accounting • Use of professional indemnity insurance • Governance checks in place – e.g.: review by s151 officer and TM Panel in place and satisfactory outcomes to date	EFFECTIVE	• Periodic system tests • Maintain existing arrangements – to be changed if testing identifies any issues • Maintenance of an updated Treasury Management Manual of Procedures and Practices	GO	GW	• Satisfactory outcome of internal audit review • Continuing satisfactory outcome of checks by s151 officer and system tests. • TM Panel review is robust	Internal audit reports Ongoing TM Panel meetings TM Panel meetings	Quarterly Ongoing Ongoing
7	• Formal adoption of	EFFECTIVE	• Existing	GO	GW	• Continued	Ongoing	Ongoing

Page 63	Code in place since inception. • Updates are reflected in annual review of TM and Investment Strategies • Review of requirements to take place as early as possible • Training on accounting issues • Regular attendance at treasury management workshops and seminars • Provide councillor training to ensure adequate scrutiny of Treasury activities		arrangements to continue • LAAP bulletin updates to be identified through specific closedown action note			application of current arrangements • Revisions are promptly and accurately reflected • Satisfactory internal audit review outcome • Robust appraisal by TM Panel	Annual TM and investment strategy Audit report TM Panel meetings	Annual Annual At least quarterly

Other Options Considered

The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the portfolio holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

GLOSSARY OF TREASURY MANAGEMENT TECHNICAL TERMS	
TERM	**DEFINITION**
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate".
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Certainty Rate (PWLB)	A 0.20% discount offered on new loans from PWLB in return for submission of information on future borrowing requirements.
Certificates of Deposit	Tradeable debt instrument issued by financial institution with fixed interest rate and maturity.
CNAV	See Money Market Funds
Credit Default Swaps	A financial instrument for swapping the risk of debt default; the buyer effectively pays an insurance premium against the risk of default.
Credit Rating	A formal opinion issued by a registered rating agency of a counterparty's (or a country's) future ability to meet its financial liabilities; these are opinions only and not guarantees.
Debt maturity	The date when an investment or loan is scheduled to be repaid.
Debt maturity profile	An analysis of the maturity dates of a range of loans/investments.
Diversification	The spreading of investments among different types of assets or between markets in order to reduce risk.
European Investment Bank (EIB)	A non-profit bank created by the European Union principally to make or guarantee loans to EU members for projects contributing to regional development within the Union. Funding is raised through the issuance of bonds, guaranteed by member states.
Funding For Lending Scheme	A Government/Bank of England scheme to provide banks with cheaper funding with the aim of increasing banks' overall net lending activity.
Government Gilts	Bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Int. Financial Accounting Standards (IFRS)	Guidelines and rules set by the International Accounting Standards Board that companies and organisations follow when compiling financial statements.
Minimum Revenue Provision	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets
Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
MMFs - CNAV	Constant Net Asset Value - a term used in relation to the value of a unit share in a pooled fund. The value of a share is always £1.
MMFs or Pooled Funds - VNAV	Variable Net Asset Value - a term used in relation to the value of a unit share in a pooled fund. A proportion of the assets may be valued at market value, rather than purchase price, reducing the value of the share on a temporary basis.
Negotiable Instruments	Term used for instruments such as Certificates of Deposits, Covered Bonds, Medium Term Notes and Corporate Bonds, where it is possible to realise the investment on the secondary market before maturity.
Non-Specified Investments	Term used in the CLG guidance. It includes any investment for periods greater than one year or those with bodies that do not have a high credit

	rating, use of which must be justified.
Pooled funds	Funds in which several investors collectively hold units or shares. The assets in the fund are held as part of a pool.
Premiums and Discounts	A penalty or payment arising from the premature repayment of debt. The calculation is dependant on the relative level of interest rates for the existing loan and current market rates.
Private Finance Initiative	A way of funding major capital investments, without immediate recourse to the public purse. Private consortia are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Prudential Code	Developed by CIPFA as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators.
PWLB	Public Works Loans Board. A statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Quantitative Easing	The process used by the Bank of England to directly increase the quantity of money in the economy. The Bank buys assets from private sector institutions and credits the seller's bank account. The seller has more money in their bank account, while their bank holds a claim against the Bank of England (known as reserves). The end result is more money out in the wider economy.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
Specified Investments	Term used in the CLG Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supranational Bonds	Debt issued by international organisations such as the World Bank, the Council of Europe and the European Investment Bank
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest).
Treasury Bills	Government-issued short-term loan instrument
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Appendix 9 – Existing Investment & Debt Portfolio Position

	At 31 December 2015 **Actual Portfolio £m**	**Average Rate %**
External Borrowing:		
PWLB – Fixed Rate	566.470	4.16
PWLB – Variable Rate	54.295	0.66
Local Authorities	27.100	0.42
LOBO Loans	49.000	4.35
Bonds/Stock	0.621	3.00
Other	1.164	0.50
Total External Borrowing	**698.650**	**3.75**
Other Long Term Liabilities:		
PFI	236.662	
Finance Leases	2.204	
Total Gross External Debt	**937.516**	
Investments:		
Short-term investments	100.034	0.58
Long-term investments	10.000	1.40
Pooled Funds	10.000	0.70
Total Investments	**110.034**	**0.72**
Net Debt	**827.428**	

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External Audit Plan 2015/2016

Nottingham City Council

February 2016

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£12 million.**

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.6 million**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Management override of controls;**
- **Net2 – accounting and associated PFI disclosures; and**
- **Controls over transactions**

Other areas of audit focus

Those risks we consider could potentially develop into a significant risk and therefore worthy of audit understanding have been identified as:

- **Consolidated Group Accounts**
- **MRP Calculation**
- **PPE Valuation (including IFRS 13 Surplus Assets)**

See pages 3 to 5 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- **New possible group entity - Adducere**
- **Delivery of Savings Plans**
- **Better Care Fund**

See pages 6 to 9 for more details.

Logistics

Our team is:

- Tony Crawley – Director
- Richard Walton – Senior Manager
- Thomas Tandy – Manager
- Oliver Stidwell – In-charge

More details are on **page 12.**

Our work will be completed in four phases from December 2015 to September 2016 and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11.**

Our fee for the audit is £172,118 (£229,490 2014/2015) see **page 10.**

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Financial Statements Audit Planning → Control Evaluation → Substantive Procedures → Completion

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 [and the findings of our VFM risk assessment].

Risk Assessment → Identification of significant VFM risks → VFM audit work → Conclude → Reporting

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2015 to February 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

Keys: ● Significant risk ● Other area of audit focus
● Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

Management override of Controls

- We flagged an issue in the ISA260 last year regarding management override of controls. This included instances of non-compliance with the approval limits for non-pay expenditure, as highlighted by our controls testing in 2014-15.
- During our testing this year we will review the steps taken by the Authority to address the issues raised in the ISA 260 through discussions with the Authority's officers and internal audit.
- We will perform controls testing over non-pay expenditure as part of our interim audit visit, focussing on transactions processed through the accounts payable system and other material expenditure systems, including the Abacus system (used to process payments related to Adult Social Care).
- Management override will be considered during all areas of testing with particular focus over journals and non pay expenditure.

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Net2

- The Net2 Tram service has been completed during the year. This means there will be complex accounting entries relating to bringing the assets into operation, along with required PFI disclosures which need to comply with the CIPFA Code and accounting standards.
- As part of our interim visit we will review the draft accounting treatment for NET2 and respective disclosures.

Controls over Transactions

- The Authority uses the East Midlands Shared Service team to process including accounts payable and payroll, where it was identified in the prior year some inconsistencies and weakness over key controls.
- We will review the SLAs and perform procedures to check that the key controls are operating effectively.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

PPE Valuation & IFRS 13 Surplus Assets

- Due to the inherent risk associated with the estimation of assets and the implementation of IFRS 13 which require surplus assets to be measured at fair value for 2015/16, we consider this to be a significant risk.
- We will undertake the following procedures over this significant risk:
  - Review the terms of engagement with the valuer to ensure compliance with the Authority's accounting policies.
  - Review the revaluation basis and consider its appropriateness with CIPFA Code of Practice and the underlying IFRS accounting standards.
  - Undertake appropriate work to understand the basis upon which any impairments have been calculated.

Group Accounts

- Due to the group structure, the Authority will need to ensure its group accounts are complete and intra group transactions correctly identified and removed.
- We will review proposed consolidation procedures as part of our interim work.

MRP Calculation

- The Authority is currently in the process of updating its policy in regard to MRP (Minimum Revenue Provision).
- We review the new policy and the process of approval to confirm that the Authority has obtained the appropriate legal advice and had sufficient regard to the regulations in place.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

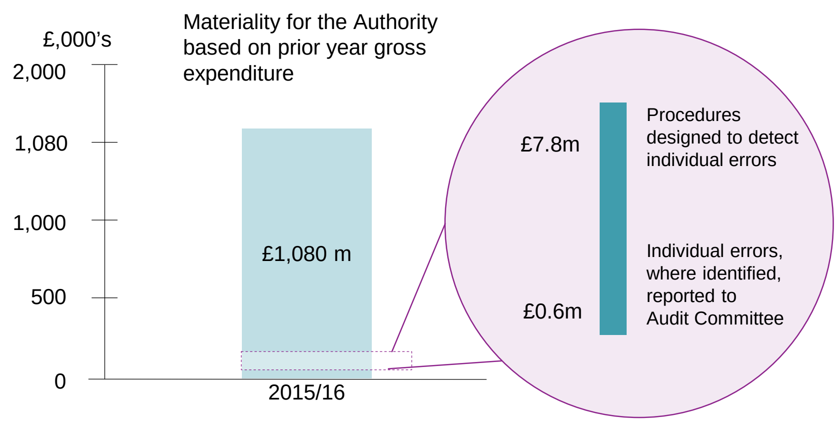
Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £12 million for the Authority's standalone and group accounts. This equates to 1.1 percent of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.



Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.6 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Group audit

The expectation is still that individually none of the subsidiaries constitute a significant component.

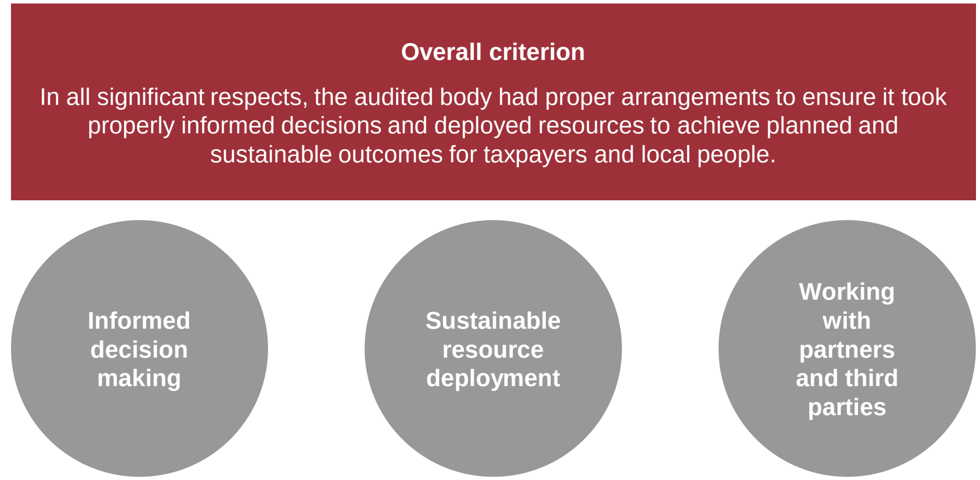
Value for money arrangements work

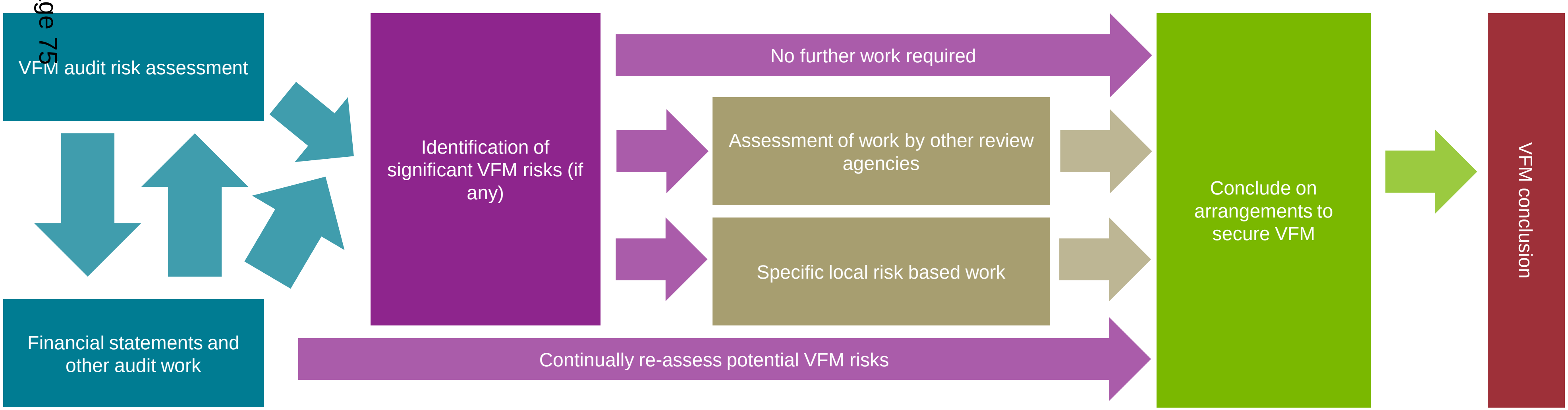
Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The diagram to the right shows the details of this criteria.





Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	On the following page, we report the results of our initial risk assessment. We will also update our assessment throughout the year should any issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Significant Risk 1

- **New possible group entity - Adducere**

  The Authority is in the process of setting up a new joint venture 'Adducere' to deliver the construction of a new building within the City. This joint venture has an innovative structure which has not been used by the Authority before.

- The proposed structure will be reviewed by KPMG's leasing specialist in KPMG's tax team to consider the arrangements in place and flag and risk areas that the Authority should consider further.

Significant Risk 2

- **Delivery of Saving Plans**

  As reported in the Authority's medium term financial plan in February 2015, central government's settlement funding for the Authority has reduced by £69m since 2013/14, however further strong financial challenges lie ahead. The Authority forecasts further savings will need to be found as the Authority faces further expenditure pressures and a continued reduction in resources including a savings requirement of £20.5m in 2016-17. Therefore we consider this as a significant risk.

- We will undertake the following procedures over this significant risk:
  - Review the delivery of the Authority's savings programme.
  - Review the delivery of the saving plans including any actions taken by the Authority where savings are achieved in line with the plan.
  - Evaluate the arrangements the Authority have in place in identifying further savings for future years.

Significant Risk 3

- **Better Care Fund**

  In 2015/16 the Authority entered into Section 75 agreement with Nottingham City Clinical Commissioning Group to pool funds of £23m to implement the local Better Care Fund. The implementation of the Better Care Fund drives integration of services to improve outcomes for the patient and public as well as delivery efficiencies and effectively manages limited resources during challenging times. We consider this a significant risk as the Better Care Fund is in its early stages and therefore there are risks associated with the delivery of improved health and social care in Nottingham and achieving significant savings.

- We will undertake the following procedures over this significant risk:
  - Review the Better Care Plan and progress made against the plan.
  - Review the delivery of the services against targets and consider any actions taken by the Authority where delivery is under performing significantly.
  - Review the savings achieved are in line with those planned and consider how the Authority will fund any savings which are not achieved.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Tony Crawley. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £172,118. This is a reduction in audit fee, compared to 2014/2015, of 25% (£229,490).

Our audit fee includes our work on the VFM conclusion and our audit of the Authority’s financial statements.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team

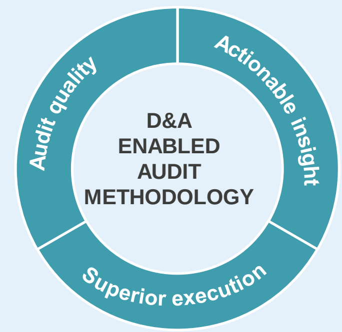
- Audit strategy and plan (Feb)
- ISA 260 (UK&I) Report (Sep)
- Annual Audit Letter (Oct/Nov)

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Audit workflow

- Initial planning meetings and risk assessment (Jan)
- Interim audit (Feb)
- Year end audit of financial statements and annual report (Jun)
- Sign audit opinion (Sep)

Planning	Control evaluation	Substantive testing	Completion
■ Perform risk assessment procedures and identify risks ■ Determine audit strategy ■ Determine planned audit approach	■ Understand accounting and reporting activities ■ Evaluate design and implementation of selected controls ■ Test operating effectiveness of selected controls ■ Assess control risk and risk of the accounts being misstated	■ Plan substantive procedures ■ Perform substantive procedures ■ Consider if audit evidence is sufficient and appropriate	■ Perform completion procedures ■ Perform overall evaluation ■ Form an audit opinion ■ Audit Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective ‘business intelligence.’ Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department.

Name	Tony Crawley
Position	Director
	‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive.’

Tony Crawley

Director

Telephone: +44 116 2566067

Email: Tony.Crawley@KPMG.co.uk

Name	Richard Walton
Position	Senior Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Tony and the team to ensure we add value. I will liaise with the Director of Finance and other Executive Directors.’

Richard Walton

Senior Manager

Telephone: +44 115 9454471

Email: Richard.Walton@KPMG.co.uk

Name	Thomas Tandy
Position	Manager
	‘I will work with Richard and Oliver to co-ordinate the audit process and ensure that the day to day running of the audit runs smoothly.’

Thomas Tandy

Manager

Telephone: +44 115 9454480

Email: Thomas.Tandy@KPMG.co.uk

Name	Oliver Stidwell
Position	On-site In-charge
	‘I will oversee the audit fieldwork, including the accounts; coordination of work completed by KGS and audit assistants; coordination of work of specialists and advisors.’

Oliver Stidwell

On-site In-charge

Telephone: +44 121 6096076

Email: Oliver.Stidwell@KPMG.co.uk

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP’s independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office’s Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA’s Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA’s written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact […], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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cutting through complexity

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External audit progress report and technical update

Agenda Item 8b

Nottingham City Council

February 2016

External audit progress report and technical update – February 2016

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

External audit progress report – February 2016

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

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Area of responsibility	Commentary
Financial statements & Value for Money	*We have began planning for our 2015/16 audit and held initial discussions with your finance team in regard to emerging risk areas such as infrastructure assets (although this is a 2016/17 issue), business rate retention and your MRP policy.* *We discussed the initial budget and planned savings for both 2016/17 and 2017/18 with your finance team.* *Our full External Audit Plan has been discussed with the Director of Finance and will also be presented at this Audit Committee.* *The timetable for the year end accounts production and approval has been discussed with dates agreed by the finance team and KPMG. Due to the changes to the structure of both your finance team and our audit team we have held an introduction meeting so that both teams were briefed on the latest changes which will impact on the audit.* *Our interim audit work commenced on the 8^{th} of February.*

Area	Comments
Local Government Technical Update – February 2016	We are pleased to confirm that we will once again be running a series of local government accounts workshops for key members of your finance team. The workshops are focussed at Chief Accountants and similar staff who will be involved in and responsible for the 2015/16 close down and statement of accounts. The workshops will be led by our regional local government audit teams supported by our national local government technical lead Greg McIntosh. The agenda will include: ■ Review of 2014/15; ■ Key Issues and developments for 2015/16; ■ Longer term developments; and ■ Tax and Pensions specialists. The events are due to take place as follows: ■ Leeds – 4 February 2016 ■ Leicester – 5 February 2016 ■ Preston – 8 February 2016 ■ Birmingham – 12 February 2016 ■ London (Canary Wharf) – 22 February 2016 ■ Bristol – 24 February 2016 For more information, please contact Richard Walton. Invites have been sent directly to your finance team.

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Narrative statements	Low	Authorities will need to be aware that the *Accounts and Audit Regulations 2015* require local authorities to produce and publish a narrative statement. Section 8 of the Regulations, which apply first from the 2015/16 financial year, states: *Narrative statements* *1) A Category 1 authority must prepare a narrative statement in accordance with paragraph (2) in respect of each financial year.* *2) A narrative statement prepared under paragraph (1) must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.* Authorities will need to publish the narrative statement along with the financial statements. The narrative statement does not form part of the financial statements and is therefore not subject to audit. As part of their audit work however, auditors will need to review the statement for consistency with their knowledge. The narrative statement replaces the explanatory foreword and will need to be prepared in accordance with CIPFA/LASAAC's *Code of Practice on Local Authority Accounting* (the accounting code). The 2016/17 accounting code will contain high level principles for authorities to follow when preparing their narrative statements. The principles set out in the accounting code will also be relevant to 2015/16 and we understand that CIPFA/LASAAC is likely to publish an update to the 2015/16 accounting code to clarify this.	***The Committee may wish to seek assurances that their authorities have arrangements in place to meet the new requirements***

Area	Level of Impact	Comments	KPMG perspective
Accounts and Audit Regulations 2015 – Exercise of public rights	Low	Authorities will be aware that the Accounts and Audit Regulations 2015 (the Regulations) set out new arrangements for the exercise of public rights from 2015/16 onwards. Paragraph 9(1) of the Regulations requires the responsible financial officer to commence the period for the exercise of public rights and to notify the local auditor of the date on which that period was commenced. Paragraph 9(2) is clear that the final approval of the statement of accounts by the authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, this means that authorities will not be able to approve their audited accounts or publish before 15 July 2016.	***The Committee may wish to seek assurances that the necessary arrangements are in in place for their Authority.***

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Area	Level of Impact	Comments	KPMG perspective
Consultation on 2016/17 audit work programme and scales of fees	Low	Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/17 proposed work programme and scales of fees. The consultation sets out the work that auditors will undertake at principal audited bodies for 2016/17, with the associated scales of fees. The consultation documents, and list of individual proposed scale fees, are available on the PSAA website at www.psaa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/ There are no planned changes to the overall work programme for 2016/17. It is proposed that scale fees are set at the same level as the scale fees applicable for 2015/16, set by the Audit Commission before it closed in March 2015. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13. Following completion of the Audit Commission's 2014/15 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established shortly. The work that auditors will carry out on the 2016/17 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office. The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.	***The Committee may wish to seek assurances on how their Authority have responded to the consultation.***

Technical update

Area	Level of Impact	Comments
Greater Manchester Combined Authority	For Information	Greater Manchester Combined Authority (GMCA) has pioneered the concept of local devolution within England. 'Devo Manc" encompasses a broad range of proposals to address the challenges and opportunities GM is facing: **Health and Social Care** Greater Manchester is facing an estimated financial deficit of c. £2 billion by 2020/21. A Memorandum of Understanding was signed in February 2015 between all partners in GM, committing the region to produce a comprehensive Strategic and sustainable Plan for health and social care. As part of the Plan, GM is seeking to use its share of the £8 billion promised to the NHS in the CSR to support new recurrent costs and protect social care budgets, closing over a quarter of the funding gap. A further investment by the partners of £500 million, phased over three years, will release future recurrent savings with a likely payback of £3 for every £1 invested. **GM proposals** In addition, GM has made a number of proposals to reform the way public services work together and deliver services within the region: ▪ Investment in transport infrastructure ▪ New funding mechanisms to support site remediation and infrastructure provision ▪ Making better use of Social Housing Assets to support growth ▪ Locally led low carbon ▪ A scaled-up GM Reform Investment Fund ▪ Devolution of decision making for apprenticeships and training, and reform to careers advice and guidance ▪ Fundamental review of the way services to children are delivered ▪ Research and innovation funding ▪ Investment in integrated business support to drive growth and productivity ▪ Reform of the New Homes Bonus ▪ Further employment and skills reform ▪ GM approach to data sharing across public agencies ▪ Fiscal devolution, including reform to Business Rates, Council Tax, Stamp Duty Land Tax and a Hotel Bed Tax All of these proposals involve joint working, not just with other GM agencies, but also central government departments. This allows the existing financial resources provided to the region to be redeployed more efficiently to maximise the benefits to GM.

Area	Level of Impact	Comments
Local government pension scheme	For Information	**Disclosures** Following the recent changes to the local government pension schemes (LGPS), a number of disclosure changes are now being made which will impact the Authority's financial statements: *Fair value measurement* New accounting standards will apply to pension schemes from 2015/16, The new rules could lead to changes in the way that pensions assets are valued for accounts purposes. From 2016/17, there will also be increased disclosures required on the methods used to value the assets and the assumptions underpinning those methods. *LGPS Management Costs Code* CIPFA have recently issued new guidance in form of the LGPS Management Costs Code. This Code provides more detailed guidance on how costs should be accounted for and disclosed, and is designed to promote greater consistency between different LGPS schemes. While not mandated, from 2016/17 CIPFA/LASAAC has recommended that authorities have regard to the guidance to make management expenses clearly understandable by the public. Elements of the Code may be made mandatory for 2017/18. **Asset pooling** The DCLG document, *LGPS: Investment Reform Criteria and Guidance*, provides a framework for authorities to develop proposals for pooling assets across different regional schemes. Pools should contain at least £25 billion of scheme assets, to achieve economies of scale, strong governance, reduce costs and improve capacity to invest in infrastructure. Administering authorities will have to explain the benefits of pooling scheme assets, explain how investments will be managed and governed, and provide assurances that these mechanisms are appropriate. A copy of the document can be found on the DCLG website at https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance

Area	Level of Impact	Comments
Public Sector Audit Appointments Ltd (PSAA) – VFM profiles update	**For Information**	Public Sector Audit Appointments Ltd (PSAA) maintain the Value for Money profiles tool (VFM profiles) initially developed by the Audit Commission. The profiles were updated on 1 October 2015. The VFM profiles planned budget section now contains the 2015/16 data sourced from the Department for Communities and Local Government – General Fund Revenue Account Budget (RA). The values are adjusted with gross domestic product (GDP) deflators from the HM Treasury's publication in June 2015. The profiles can be accessed through the PSAA's homepage at http://www.psaa.co.uk/ Other sections of the VFM profiles have also been updated with the latest data values for the following data sources: - Inequality gap (2012/13) - Fuel poverty (2013) - Climate change (2013) - Alcohol related admissions (2013/14) - Mid-year population estimates (2014) - Chlamydia testing (2014) - Participation in education or work-based learning (2014) - Housing benefit speed of processing (2014/15) - CT and NNDR collection rates (2014/15) - NHS health checks (2014/15) - Planning applications (Quarter 4 2014/15) - Delayed transfers of care (Quarter 1 2015) - Under 5 provision (2015)

Appendix 1 – 2015/16 Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2016	February 2016 Audit Committee
Interim			
Interim report if required	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	March 2016	TBC
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2016	TBC

cutting through complexity

AUDIT COMMITTEE – 26th February 2016

<table>
<tr><td>Title of paper:</td><td colspan="2">Partnership Governance Health Checks and update to Register of Significant Partnerships</td></tr>
<tr><td>Director(s)/
Corporate Director(s):</td><td>Candida Brudenell, Assistant Chief Executive

Nigel Cooke, Director of One Nottingham

Colin Monckton, Director of Commissioning, Policy and Insight</td><td>Wards affected: All</td></tr>
<tr><td>Report author(s) and contact details:</td><td colspan="2">Elaine Fox, Corporate Policy Team, 0115 8764540 / elaine.fox@nottinghamcity.gov.uk</td></tr>
<tr><td>Other colleagues who have provided input:</td><td colspan="2">Rob Smith, Internal Audit</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="3">Recommendation(s):</td></tr>
<tr><td>1</td><td colspan="2">To note the key findings from the Partnership Governance Health Checks and Register of Significant Partnerships.</td></tr>
</table>

1 REASONS FOR RECOMMENDATIONS

1.1 It is recommended that Audit Committee note Section 2.5 and the key findings of the annual partnership governance health checks. The majority of partnerships scored ‘good/excellent’ in all areas. A sample of three of these health checks will be verified by colleagues from Corporate Policy and Internal Audit and reported back to a future meeting of Audit Committee.

1.2 It is recommended that Audit Committee approve the inclusion of the Education Improvement Board, the Safeguarding Children Board and the Safeguarding Adults Board in the Register of Significant Partnerships.

1.3 It is recommended that Audit Committee approve the removal of the following partnerships from the Register of Significant Partnerships, for the reasons outlined in Appendix 3. The rationale behind the removal of these partnerships was discussed with colleagues in Internal Audit who were supportive of the proposal:

- Economic Prosperity Committee
- Experience Nottinghamshire
- Greater Nottingham Growth Point Partnership
- Housing Strategic Partnership
- Nottingham Regeneration Ltd
- Strategic Cultural Partnership

2 BACKGROUND

2.1 The Council has a long and successful history of working in partnership across the public, private, voluntary and third sector. The benefits and opportunities of working in partnership are well understood but risks can arise from collaborative working and the Council must ensure that its involvement in partnerships does not expose it to an unacceptable level of risk.

2.2 The Partnership Governance Framework includes an annual 'health check' of each partnership which is significant to the City Council in terms of strategic, reputational or financial importance. This health check is designed to identify any risks to the Council from its involvement in any of the partnerships. The results of these health checks are reported to Audit Committee along with remedial actions that are needed to protect the Council from an unacceptable level of risk.

2.3 The partnerships that are deemed significant to the Council in terms of their strategic, reputational or financial importance are listed in the Register of Significant Partnerships. Any changes to the register are reported to Audit Committee annually.

2.4 **Health checks**

Each partnership on the Register of Significant Partnerships is asked to complete an annual self-assessment of the 'health' of the partnership's governance, giving a score as to how well they meet the criteria. The Health Check has been subject to minor revisions in 2015, which include simplifying the language used and removing any duplication present in the questions. These minor amendments were shared with colleagues in Audit and also with Cllr Piper as Chair of Audit Committee; the recommended changes were accepted. The scores from the health checks undertaken in 2015 are provided in Appendix 1, and Appendix 2 provides the revised health check template with the criteria.

2.5 As Appendix 1 shows, the majority of partnerships scored 'good/ excellent' (1/2) in all areas. This annual report usually draws Audit Committee's attention to partnerships with more than one rating of 3 (some key areas for improvement) or 4 (many key weaknesses). In 2015 two partnerships scored 3 or 4 more than once.

2.5.i The Education Improvement Board recorded a rating of 3 for the following:

- Performance Management – this is specifically a reference to the fact that there are not yet any Terms of Reference agreed for the Board and therefore individual roles and accountability have not yet been established. In addition it was determined that the query relating to "Delivery contracts and agreements are monitored and poor performance is tackled" was not applicable as there are no formal contracts, although there is a Strategy which will have an Action Plan with clear milestones by which the work of the Board will be measured.
- Evaluation and Review – this references the fact the current formation of the Board is relatively new and changes to membership are still under

consideration. The work of the Board going forward will be regularly reported on the Board's website, the method for doing this is currently being considered which contributed to the score given. Similarly the implementation of Board Action Plans to deliver its priorities will be formally evaluated and published on the website, but the appropriate format is currently being devised.

2.5.ii Green Nottingham Partnership recorded a rating of 4 for the following:

- Finance – This is not in relation to any risks which the partnership has regarding its financial conduct, this was due to the partnership not having a budget, which was deemed 'continues to hold back the partnership' as it 'relies on the good will of partners where any finance is required'. In addition, the officer who has taken minutes for the partnership 'has a different role and will need to be replaced in order to maintain good record keeping'. The financial risk is of the partnership ceasing to exist or being less effective than it could be if a budget was available.
- Partnership Risk Management – This directly relates to the financing of the partnership, highlighted above, putting the partnership's existence and effectiveness at risk.

2.6 Audit Committee requested that a sample of these health checks be verified; previously this was agreed at three partnerships per year. The previous schedule for verifying partnerships has been amended this year due to the removal and inclusion of several partnerships. The new schedule for approval is available to view in Appendix 5. This year, health checks for three of the partnerships will be considered by colleagues from Corporate Policy and Internal Audit, with the results being brought to a future meeting of Audit Committee. Additionally, included in the report will be the size of the grant given for the last three years to the three partnerships whose Health Checks are being verified. The health checks which will be verified and brought back to a future meeting are those for:

2.6.i Children's Partnership Board

2.6.ii Green Nottingham Partnership

2.6.iii N2 Skills and Employment Board

2.7 **Register of Significant Partnerships**

Three partnerships have been added to the Register of Significant Partnerships in 2015, these are the Education Improvement Board, the Safeguarding Children Board and the Safeguarding Adults Board. Six partnerships have been removed from the register, these are:

- Economic Prosperity Committee
- Experience Nottinghamshire
- Greater Nottingham Growth Point Partnership
- Housing Strategic Partnership
- Nottingham Regeneration Ltd
- Strategic Cultural Partnership

An updated register summarising the reasons for removal or inclusion of any partnerships is available in Appendix 3.
Those partnerships removed from the register due to there being a contract in place have been informed of this fact and advised that any performance monitoring should be undertaken as part of the contract management arrangements.

2.8 **Tax status**
The Committee may be aware of recent negative press coverage of some incidents of local authorities engaging with partnerships which do not fulfil their legal tax requirements. In response we posed an additional query of each partnership to enquire as to their tax status. If the partnership is not recognised as a legal entity they have to be underwritten by another body, which can be a local authority, a limited company, a governing body or similar. All partnerships responded to confirm that they were not legally recognised bodies and were all underwritten by local authorities, whether Nottingham City Council or another in the region; several also confirmed there is no budget associated with their partnership. Due to local authorities being exempt from VAT it was confirmed that there is no risk of any tax avoidance from any of the partnerships.

2.9 **Looking Ahead**
With the potential changes devolution will bring, combined with the funding challenges facing local authorities it is likely the partnership landscape will change significantly over the next few years. As this year, any new and emerging partnerships will be considered for inclusion on the register of significant partnerships and the validity of partnerships currently on the register will be evaluated.

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

4.1 Partnership Governance Framework, approved by the Executive Board Commissioning Sub Committee on 13 May 2009.

Appendix 1
Health check scores 2015

	Partnerships	Aims and objectives	Membership and structure	Decision making and accountability	Performance management	Evaluation and review	Equalities	Finance	Partnership Risk Management
1.	One Nottingham	1	1	2	1	2	1	2	2
2.	Children's Partnership Board	1-2	1-2	1-2	N/A	1	1	N/A	1
3.	D2N2 Local Enterprise Partnership	1	1	1	2	2	2	1	3
4.	Greater Nottingham Transport Partnership	1	2	1	1	2	1	2	2
5.	Green Nottingham Partnership	2	1	2	2	2	1	4	4
6.	Health & Wellbeing Board	2	2	2	2	2	2	2	2
7.	N2 Skills and Employment Board	2	2	2	2	2	2	2	2
8.	Crime and Drugs Partnership	2	1	2	1	2	1	1	1
9.	Education Improvement Board	2	2	2	3	3	2	2	2
10.	Safeguarding Children Board	2	2	2	2	2	2	2	3
11.	Safeguarding Adults Board	2	2	2	2	2	2	2	3

Appendix 2
Partnership governance health check guidance

PARTNERSHIP GOVERNANCE HEALTH CHECK GUIDANCE

The health check is a guide for an annual assessment of a partnership's governance and capacity. The aim is to make an overall assessment of the effectiveness of the partnership; identify whether there is any strategic, reputational or financial risk to the Council through its membership of the partnership; and lead to proposals for changes/improvements.

Some of the detailed definitions and examples may not be directly applicable. There may be some additional definitions of good governance that the nominated lead officer will need to apply given the specific circumstances or arrangements for a partnership. Evidence to support the findings of the health check will be held by the nominated lead officer.

This health check does not substitute for the partnership itself reviewing its governance and performance. The Council's nominated lead officer and chief officer have a responsibility to support and advise the partnership to carry out its own review and take any action required to improve its governance.

The health check has 4 categories:

Score	Category	Description
1	Excellent	There is an excellent system of governance designed to achieve the partnership's and the council's objectives; any potential financial risks for the council are noted and well managed; performance is on track.
2	Good	There is a basically sound system of governance, but some weaknesses that may threaten some of the partnership's and the council's objectives; any concerns regarding management of potential financial risks to the council are minor; performance is mainly on track
3	Some key areas for improvement	There are some significant weaknesses that could threaten some of the partnership's and the council's objectives; there are some significant concerns about potential financial risks to the council and their management; performance is not on track in some areas
4	Many key weaknesses	Governance and controls are generally weak leaving the partnership's system open to significant error or abuse; the partnership's and council's objectives are unlikely to be met; there are many significant concerns about financial risks to the council and their management; performance is not on track in most areas

NOTTINGHAM CITY COUNCIL
SIGNIFICANT PARTNERSHIPS GOVERNANCE HEALTH CHECK 2015

In consultation with your partnership please complete the tables below. Once the details have been agreed by the partnership please return them to elaine.fox@nottinghamcity.gov.uk. If you require any assistance please contact Elaine Fox, Policy Officer, Nottingham City Council, on 0115 87 64540.

Name of Partnership:
NCC Lead Councillor:
NCC Corporate Director:
NCC Lead Officer:
Partnership Chief Executive/Manager (if appropriate):

We have identified 8 areas of good governance. In each area we have provided a number of clear statements to illustrate what 'excellent' looks like for that area of governance. Using the criteria where 1 is 'excellent' and 4 is 'many key weaknesses' (page 1), please record a score (1-4) for each area of good governance for your significant partnership, making relevant notes on how the score could be improved.

Good governance	Health assessment (score 1-4)	Notes and further explanation
1. Aims and objectives 1. The partnership has clear aims and SMART objectives. 2. The partnership has clearly allocated responsibility for achieving its objectives, and has gathered assurance that the objectives will be achieved. 3. The partnership ensures that it uses its allocated resources to achieve its objectives.		•

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2. Membership and structure 1. The NCC lead officer is actively engaged. 2. The structure is clear, is set out in Terms of Reference, a Memorandum of Agreement or other governing documents and is regularly reviewed, to ensure roles, responsibilities and contributions are defined for all partners. Also set out in the governing documents are whistle-blowing protocols, how to respond to compliments and complaints, risk assessments, personnel and financial management and financial and performance reporting. 3. Key partners provide effective leadership. Their leadership roles and responsibilities are understood and fulfilled. 4. The membership provides the necessary knowledge, skills and experience to do the job. Partners ensure that the right people are in the right place at the right time. 5. Changes to membership, dispute resolution and exit strategies are considered and the governing documents say what will happen if/when a partner wishes to leave.		•
3. Decision making and accountability 1. Decision making is clear and transparent. Authority and delegations are set out in governing documents including a. Who can make what decisions b. Delegated responsibilities 2. The partnership has a clear procedure for dealing with conflicts of interest. 3. The role of the partnership in relation to finance and the extent of its powers to make financial decisions and approvals are stated and		•

understood.
4. Decisions are:
    a. properly recorded
    b. notified promptly to those who are affected by them
5. The partnership has:
    a. A communication plan to inform service users, members and the public about the partnership, its decisions, its achievements and successes, who is accountable and responsible for what. It provides routes for people to comment/contribute to the partnership's work
    b. Clear lines of accountability and arrangements for the timely reporting of performance and achievements to Council officers and Councillors.
    c. Processes in place for scrutiny of decisions and activities at the appropriate level		

4. Performance management 1. The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary. 2. Delivery contracts and agreements are monitored and poor performance is tackled.		•
5. Evaluation and review 1. The partnership regularly reviews its policies, strategies, membership and use of resources against its objectives and targets. 2. The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if		•

necessary.		
6. Equalities 1. The partnership assesses its policies and programmes for their impact on equalities and considers impact on inequality and deprivation as part of its performance management.		•
7. Finance 1. The partnership has a financial and /or procurement plan that identifies how it proposes to use these funding to achieve its objectives. 2. The partnership has effective arrangements for financial monitoring and reporting, uses its resources well and demonstrates how it uses them to add value and guarantees value for money. 3. Where applicable, for the most recent financial year the partnership has had "unqualified audit opinion" (i.e. it has passed audit without any qualifications) and any recommendations raised by auditors have been actioned.		•
8. Partnership Risk Management 1. The partnership has an agreed mechanism for identifying, assessing and managing risks.		•

Appendix 3
Updated Register of Significant Partnerships December 2015
Included rationale for remaining on the register, removal from it and consideration for any new partnerships identified

Number	Name of Partnership	Remain on Register?	Reason for inclusion/removal
1	One Nottingham	Yes	Strategic Partnership for Nottingham which includes financial risks.
2	Children's Partnership Board	Yes	High profile partnership making decisions concerning some of our most vulnerable young people.
3	Derby, Derbyshire, Nottingham, Nottinghamshire Local Enterprise Partnership (D2N2 LEP)	Yes	NCC is an accountable body.
	Economic Prosperity Committee	No	Joint Council Committee with other Nottinghamshire authorities using NCC funding therefore not an external partnership.
	Experience Nottinghamshire / Place Marketing Organisation	No	Will be governed by a contract going forward and any partnership will be appropriately managed through the contract.
	Greater Nottingham Growth Point Partnership	No	Receives no funding from NCC and is independent from it, in addition the existing funding stream comes to an end in 2017.
4	Greater Nottingham Transport Partnership	Yes	Funding believed to be in excess of £100,000 so meets at least one of the criteria for remaining on the register.
5	Green Nottingham Partnership	Yes	Does not have a significant budget however officers are of the opinion that this partnership could have significant reputational risk so we propose they remain on the list.
6	Health and Wellbeing Board	Yes	Statutory body - suggested to keep on due to commissioning arrangements and amount of money involved.
	Housing Strategic Partnership	No	The partnership has ceased.
7	N2 Skills and Employment Board	Yes	NCC facilitates the partnership rather than it being an organisation that is funded directly. NCC employs the co-ordinator and admin support which is funding through a three-way split between the City and County Councils and D2N2 LEP. Each provides £25k per annum.
8	Nottingham Crime and Drugs Partnership	Yes	Significant financial contribution from NCC.
	Nottingham Regeneration Ltd	No	Governed by contract.

	Strategic Cultural Partnership	No	Does not have a significant budget and is a voluntary partnership with the arts sector.
	Nottingham City Secondary Education Partnership (NCSEP)	Not to add	Fair Access Panel which NCSEP run through Bluecoat Academy is governed by contract. The behaviour and Alternative Provision aspects of the work are reported into Schools Forum which holds NCSEP to account.
9	Education Improvement Board	ADD	Will be receiving £1.2m (£600k from NCC, £600k from Schools Forum) so meets financial threshold, also has significant media interest therefore reputational risk exists.
	East Midlands Councils	Not to add	We are the accountable body and employer of the staff but this is contained within Council structures and monitored through that, this falls within Glen O'Connell's Department. The partnership element has a Service Level Agreement in place.
10	Safeguarding Children Board	ADD	Multi-agency partnership making decisions about some of our most vulnerable citizens, also subject to an inspection by Ofsted every three years. The Chair is independent and new in post so it was felt it would be a good time to include this partnership; following discussion with Birmingham City Council regarding partnership governance they felt that both Safeguarding Boards should be included in the process and we agreed.
11	Safeguarding Adults Board	ADD	Multi-agency partnership making decisions about some of our most vulnerable citizens. The Board has just separated from the Children's Board with a separate Chair who is independent and new in post so it was felt it would be a good time to include this partnership; following discussion with Birmingham City Council regarding partnership governance they felt that both Safeguarding Boards should be included in the process and we agreed.

Appendix 4
Nottingham City Council Register of Significant Partnerships - Contacts
Updated December 2015

	Title	Lead Councillor	Corporate Director Leads	Lead Officers
1.	One Nottingham	Cllr David Mellen	Candida Brudenell	Nigel Cooke
2.	Children's Partnership Board	Cllrs David Mellen & Sam Webster	Alison Michalska	Chris Wallbanks
3.	D2N2 Local Enterprise Partnership	Cllr Jon Collins	David Bishop	Nicki Jenkins / Alison Stacey
4.	Greater Nottingham Transport Partnership	Cllr Nick McDonald	David Bishop	Sue Flack
5.	Green Nottingham Partnership	Cllr Alan Clark	Andy Vaughan	Gail Scholes
6.	Health & Wellbeing Board	Cllr Alex Norris	Alison Michalska & Andy Vaughan	Alison Challenger & Colin Monckton
7.	N2 Skills and Employment Board	Cllr Nick McDonald	David Bishop	Nicki Jenkins
8.	Crime and Drugs Partnership	Cllr Nicola Heaton	Candida Brudenell	Tim Spink / Christine Oliver
9.	Education Improvement Board	Cllrs Jon Collins & Sam Webster	Alison Michalska	Pat and Sarah Fielding
10.	Safeguarding Children Board	Cllr David Mellen	Alison Michalska	Clive Chambers
11.	Safeguarding Adults Board	Cllr Alex Norris	Alison Michalska	Clive Chambers

Appendix 5
Schedule for Verifying Health Checks to 2020

No.	Name of Partnership	Remain on Register?	2013	2014	2015 (Feb 2016 Audit C'ttee)	2016	2017	2018	2019	2020
1	One Nottingham	Yes	Completed				Scheduled			Scheduled
2	Children's Partnership Board	Yes			Scheduled			Scheduled		
3	Derby, Derbyshire, Nottingham, Nottinghamshire Local Enterprise Partnership (D2N2 LEP)	Yes				Scheduled			Scheduled	
	Economic Prosperity Committee	No				Was due to take place				
	Experience Nottinghamshire / Place Marketing Organisation	No					Was due to take place			
	Greater Nottingham Growth Point Partnership	No	Completed					Was due to take place		
4	Greater Nottingham Transport Partnership	Yes		Completed			Scheduled			
5	Green Nottingham Partnership	Yes			Scheduled				Scheduled	
6	Health and Wellbeing Board	Yes		Completed				Scheduled		
	Housing Strategic Partnership	No	Completed				Was due to take place			
7	N2 Skills and Employment Board	Yes			Scheduled				Scheduled	
8	Nottingham Crime and Drugs Partnership	Yes		Completed				Scheduled		
	Nottingham Regeneration Ltd	No			Was due to take place					Was due to take place
	Strategic Cultural Partnership	No				Was due to take place				
9	Education Improvement Board	ADD				Scheduled				Scheduled

10	Safeguarding Children Board	ADD				Scheduled				Scheduled
11	Safeguarding Adults Board	ADD					Scheduled			

AUDIT COMMITTEE - 26 FEBRUARY 2016

Title of paper:	**ANNUAL GOVERNANCE STATEMENT – PROGRESS MADE TO DATE ON ISSUES REPORTED 2014/15 AND PROCESS FOR PRODUCING 2015/16 STATEMENT**	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	**Wards affected: All**
Report author(s) and contact details:	Shail Shah Head of Internal Audit ☎ 0115-8764245 ✉ shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		

Recommendation(s):

1	Note the progress made to date in addressing the issues reported in the 2014/15 AGS, as detailed in **Appendix 1**
2	Note the process and timetable for compiling and completing the 2015/16 AGS, as detailed in **Appendix 2**

1. REASONS FOR RECOMMENDATIONS

This report sets out the current position in respect of those issues reported in the 2014/15 Annual Governance Statement (AGS), and the process for compiling the 2015/16 AGS.

1.1 Update of Issues Reported

Issues identified in the AGS have been revisited and an update of the latest position established. Issues not resolved are shown at **Appendix 1**. In Summary

- **Central Government Review of Local Government Funding & Balancing the Council's Budget:** The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. In response, service and financial planning processes have changed to :

  - take account of the Council's priorities within the Council Plan:
  - address demographic and service pressures through investment
  - reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities;
  - support our determination to be efficient, improve performance and modernise our organisation
  - redirecting budgets to enable some resources to be targeted on the Council's current focus of supporting the most vulnerable, local jobs, and enjoying Nottingham.
  - continue to focus on regeneration and growth through its Capital Investment Strategy.

- **Children in Care:** The cost of funding children in care arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain more of our own foster carers and Social Workers to maintain stable children in care arrangements and reduce agency spend. Plans have been put in place to manage the numbers of children who remain in care

- **East Midlands Shared Service** (**EMSS) :** The Council's Accountancy and Audit services continue to closely monitor the activity and performance closely. Issues have been faced in terms of financial management since the implementation and delays have been experienced in making payments to certain suppliers. The causes of this issue have been addressed and the resulting payment backlog is being cleared. To provide clarity of responsibilities, a service level agreement has been set up between NCC and EMSS.

- **Nottingham Express Transit (NET) :** The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

- **Workplace Parking Levy (WPL) :** The WPL income projections will be continually updated to reflect the latest information available from the WPL team as the income collection is still in its infancy. In the event that over the 23 year life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

- **Information Governance :** Responsibility for information management risk and compliance rests with the Director of Resilience who acts as the Senior Information Risk Owner (Information governance within the Authority is managed and controlled by Information Management Services working to the Information Management Framework. The Authority recognises the operational and strategic benefits to improving information management practices. The current Information Matters Transformation Programme is looking to implement a range of key advancements, which include improvements to information rights and records management.

- **Nottingham Revenues and Benefits (NRB) :** The Council has entered into a partnership with Northgate Information Solutions for the provision of Revenues & Benefits Services. A unique element of the partnership is that Northgate are contractually-bound to sub-contract the work to Nottingham Revenues & Benefits Limited, a wholly-owned Nottingham City Council company. Accordingly appropriate governance arrangements have been developed and established

- **Information Technology :** The Council commissioned a report considering several key areas where the Council's IT Service has run installed infrastructure to the end of its useful life, with the view of identifying where investment is required to enable the Council to operate a technical environment that is fit for purpose. An improvement programme has been put in place to ensure that a continuing high level of IT service will be delivered. To date five of the seven major improvement projects have been implemented, with the remaining two projects targeted to be completed by April 2016 and December 2016 respectively.

1.2 Process for the Production of the AGS 2015/16

1.2.1 It is intended that the production of the AGS 2015/16 will closely follow the process of previous years noted by this committee, and the timetable is given at **Appendix 2**. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. A set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant groups and significant partnerships

1.2.2 The assurance will come from a self assessment based on customised questionnaires targeted at the appropriate assurance givers, together with other information provided in support of the AGS. The questionnaires will be based on the Council's Code of Corporate Governance and will be based on the relevant best practice developed produced by CIPFA/SOLACE.

1.2.3 Support throughout the process will be given by Internal Audit and the Head of Internal Audit who will visit all departmental management teams to discuss audit plans and introduce the 2015/16 AGS.

1.2.4 Completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes, and the annual review of governance arrangements in significant partnerships.

1.2.5 The final AGS will be an account of the Council's governance arrangements in a format addressing the principle embodied in the Local Code of Corporate Governance. It will reflect the failings identified and note actions put in place to address them. This will be discussed by members of the CGSG and will be presented to the Audit Committee for approval, and the document when approved will be published with the City Council's Statement of Accounts.

2 BACKGROUND

2.2 The Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which it is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.

2.3 The publication of an AGS is required by the Accounts & Audit Regulations 2015. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices. The 2007 CIPFA/SOLACE (updated 2016 (effective for 2016/17 statement)) publication "Delivering Good Governance in Local Government Framework" provided the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008.

2.4 In 2012 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS

2.5 Included in this Committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."

2.6 In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken in time to deliver it alongside the Council's Statement of Accounts. The timetable (**Appendix 2**) will be used to monitor the progress of the AGS.

2.7 The Committee has delegated authority for the formal approval of the AGS and approved the AGS for 2014/15 on 18 September 2015. It was signed by the Leader of the Council and Chief Executive and was published alongside the Statement of Accounts.

2.8 The AGS reflects the governance framework operating within the Council and its significant partnerships. The issues identified and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.

2.9 Part of the 2014/15 AGS reported on significant control issues affecting the Council and the action plans put in place to address them. In ascertaining the significance of the control issues, CIPFA defines a series of factors to be considered, as follows:

- The issue has seriously prejudiced or prevented achievement of a principal objective
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business
- The issue has led to a material impact on the accounts.
- The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.
- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- The 2014/15 AGS also reported on issues of note which do not merit categorising as significant but require attention and monitoring to maintain and improve the system of internal control. As with significant issues these may have been brought forward from previous statements if the issues have not been finally resolved.

3. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Accounts & Audit Regulations 2015
CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2007 (updated 2016)
Executive Board 20 May 2008 - Local Code of Corporate Governance
Nottingham City Council - Statement of Accounts 2014/15
Annual Governance Statement 2014/15

APPENDIX 1

AUDIT COMMITTEE – FEBRUARY 2016 – ITEMS TO FOLLOW UP.

- **Central Government Review of Local Government Funding & Balancing the Council's Budget**

As the coalition Government has undertaken a fundamental review of public spending which has reduced the level of funding available to the Council from 2010/11 onwards.
The combination of the impact of the global recession and the need for a significant investment in some services placed severe pressure on the Council's financial resources. The budget process, through the in depth analysis of spending requirements and the opportunities to generate income, highlighted the need to reduce net expenditure across the City Council.

Final Position

The Government has implemented a rapid and extensive programme of policy change, accompanied by significantly reduced funding for the public sector. On current projections the Government's settlement funding for the Council will have reduced by circa £100m between 2010/11 and 2015/16 and in response, service and financial planning process has once again facilitated significant proposed movements in resources. Such changes include to:

- take account of the Council's priorities within the Council Plan:
- address demographic and service pressures through investment;
- reflect the significant reductions in external funding (especially general and specific Government grants) by reducing expenditure on those activities;
- support our determination to be efficient, improve performance and modernise our organisation;
- recognise the very challenging financial landscape and future outlook and the impact on all sectors including the public sector.

Budgets have been redirected to enable some resources to be targeted on the Council's current focus of supporting the most vulnerable, local jobs, and enjoying Nottingham. Resources are proposed to be redirected by:

- reducing demand and reviewing the way we commission our services:
- reviewing and optimising income streams of all kinds;
- redesigning and modernising our service provision / identifying efficiencies.

In addition the Council will continue its focus on regeneration and growth through its Capital Investment Strategy.

Children in Care

The Children in Care service exists primarily to work with children who are at risk of significant harm and have been brought into the care of the Council. Our priorities for children in our care are to ensure that they are safe, healthy, and achieving their full potential in education. Wherever possible we will work to return children to live with their birth or extended families when it is safe to do so. If returning to family is not achievable then adoption and fostering are the next preferred options. For some children and young people residential care is the appropriate placement.

The cost of funding children in care arrangements and associated budget pressures are key issues facing the service. There is a need to recruit and retain more of our own foster carers and Social Workers to maintain stable children in care arrangements and reduce agency spend.

Latest Position

In a recent announcement the Department for Education have stated that nationally Children in Care numbers are at a 30 year high. Because of our early help preventative and support work with families the Council is performing well against similar Councils. Our Children in Care numbers have remained stable against the previous year; we currently (January 2016) have 583 children in our care this is 92 per 10.000 child population, similar Councils have 94 per 10.000 child population.

We have plans in place to manage the numbers of children who remain in care over the forthcoming year. Part of this work involves systematic use of various tools to help return young people to their birth families when possible, and having detailed exit plans for each child into adoption or other permanence arrangements, benchmarking all data against our statistical neighbours and ensuring a full complement of staff to deliver the business.

There is a renewed focus on recruiting local foster carers, and providing support to children on the edge of care driven through Big Ticket Projects.
A new payment scheme for our foster carers has been implemented, with improved financial rewards for those who care for teenagers, a new marketing strategy is in place, post graduate students from the Nottingham Business School have recently worked with the fostering service and produced a report that we will use to inform our marketing as we move forward.

Our web site and social media communication such as twitter and Facebook will be a new focus; a specific campaign to recruit 25 carers for 25 teenagers has taken place in December 2015, initial responses have been positive.

Performance in relation to placement stability for children in care for more than two years is better than the target. We continue to ensure the recording of the wishes and feelings of children and young people and ensure that these have influence within the care planning process.

Performance against children in care key performance indicators is strongly monitored and in some areas out performs against statistical neighbours. One area for renewed focus against key performance indicators is in ensuring the health of children in care is robustly monitored and action taken where appropriate to avoid delays in dental checks and health assessments.

Work is underway to match children and young people to adopters at an earlier point in the adoption process to ensure a stable and permanent family home for all of our children in care. Improving adoption timeliness and permanence and tackling delay is a key local and national priority area, we have reduced the time of entering care to adoption for children with an adoption plan from 101 to 83 weeks in the last year.

In the 2015/16 financial year to date 33 children have been adopted, 16 children have been discharged as a result of a Special Guardianship Order. 19 children have been discharged as the result of a Child Arrangement Order.

The reconfiguration of Nottingham City Council's Residential Services into Small Group Homes has served to support children and young people to have better placements and improved outcomes in a cost effective manner and ensured young people receive a quality service that keeps them safe. All of our registered children's homes have been inspected under a new tougher OFSTED framework in the second half of 2015; one is rated as outstanding and the other six homes are rated as good with outstanding features.

The leaving care team support 235 of our former children in care aged 18 - 21 into independence; we have a range of semi-independent settings that we use to assist young people during their transition, to their own accommodation.

Several of our Children in Care have obtained apprenticeships in the Council We currently have 10 care leavers at university; some young people are able to stay with their foster carer after their 18th birthday if they wish to do so we currently have 17 young people in so called staying put arrangements with foster carers that we fund.

There is strong collaboration between partners in Nottingham most notably between Health, Schools, Council, Police, Foster Carers and providers of residential accommodation. Levels of involvement in the criminal justice process of children in care aged 10-17 have fallen significantly in recent years and are now in line with similar Councils.

The Council has a strategy to support families and endeavours to ensure that children remain within immediate or extended family rather than entering Council care when it is safe to do so. The Edge of Care Intervention Hub, Targeted Family Support, Multi Systemic Therapy Team, and Priority Family Programme all work in a variety of ways to support children and families across the city.

- **East Midlands Shared Service (EMSS)**

Leicestershire County Council (LCC) and Nottingham City Council (NCC) have been working in partnership to develop and implement an East Midlands Shared Service to support both transactional finance and HR administration/payroll processes. The shared service is supported by an implementation of the Oracle E-Business Suite. As is usual with this type of extensive system implementation, a great deal of focus has been applied to the financial control processes requiring review and redesign. Much of the risk for NCC has been mitigated by the fact that the Council was migrating to an existing LCC platform.

Latest Position

The Council's Accountancy and Audit services continue to closely monitor the activity and performance of the Oracle system closely. No major concerns have yet arisen in this regard. Issues have been faced in terms of financial management since the implementation on 2 April 2013, and delays have been experienced in making payments to certain suppliers. The causes of this issue have been addressed and the resulting payment backlog is being cleared. To provide clarity of responsibilities, a service level agreement has been set up between NCC and EMSS.

- **Nottingham Express Transit (NET)**

Nottingham City Council entered into a 22 year Private Finance Initiative concession contract with Tramlink Nottingham Limited (“Tramlink”) in December 2011 to extend and operate Nottingham’s tram network. The concession contract passes the key design, build and construction risks, to Tramlink, the private sector concession company.

Latest Position

Construction of NET Phase Two is complete. The NET concession contract, including project risks remaining with the City Council, is being managed by an experienced in-house project team and overseen by a dedicated Project Board.

- **Workplace Parking Levy (WPL)**

The WPL is a levy which applies to all employers within the Nottingham City Council administrative boundary. Employers that provide any workplace parking places are required to get a WPL licence and those with 11 or more chargeable places, to pay a charge, from 1 April 2012. An important issue focuses on the ability of WPL to raise revenue to meet the Council’s contribution to the NET Phase 2, the HUB and Link Bus network. The scheme was introduced on 1st October 2011 and charging commenced in April 2012.

Latest Position

There has been concern regarding the ability of WPL to meet funding requirements. The WPL income projections will be continually updated to reflect the latest information available from the WPL team as the income collection is still in its infancy. In the event that over the 23 year life of the NET Phase 2 contract, insufficient WPL income is generated, decisions may be made in respect of the ongoing contributions to the Link Bus network and/or extending the WPL scheme beyond the life of the NET Phase 2 contract.

- **Information Governance**

Responsibility for information management risk and compliance rests with the Director of Resilience who acts as the Senior Information Risk Owner (SIRO). Information governance within the Authority is managed and controlled by Information Management Services working to the Information Management Framework. The Authority recognises the operational and strategic benefits to improving information management practices. The current Information Matters Transformation Programme is looking to implement a range of key advancements, which include improvements to information rights and records management.

Latest Position

The Authority’s Information Matters Transformation Programme, a corporate-wide transformation programme, entitled Information Matters has a number of work streams, which include;

- Culture and Governance
- Records Management
- Information Rights

Each of the work streams are looking to put in place robust governance structures and policies, along with assurance measures and Key Performance Indicators which will be reported in future Governance Statements.

The Authority has reviewed and restructured its corporate information management service to strengthen its ability to support the organisation to take forward and coordinate activities within the Programme. The restructuring of the corporate information management service, and of development of a dedicated Data Protection Team, will strengthen information management practices across the Authority.

Between February and April 2015 the Authority was monitored on its compliance with Freedom of Information Act and Environmental Information Regulations requests (non-personal information requests) by the Information Commissioners Office (ICO), the regulatory body for information rights. The ICO was pleased with the outcome of this monitoring where the Authority continued to exceed the statutory response rate expectations, as a result of the procedural and cultural changes that had been made with around these information requests.

The Authority is currently carrying out its annual self-assessment against the Department of Health's (DoH) Information Governance Toolkit which assesses performance against DoH information governance policies and standards. The Authority achieved level 2 score in each of the 28 requirements, attaining an overall compliance score of 69%, and a satisfactory overall grade last year. The Authority also achieved the Public Services Network Accreditation, and will reapply for accreditation in Spring 2016.

The management of information security and data breach incidents are carried out as per the Authority's information governance processes. All data breach incidents are reported to the SIRO and Caldicott Guardian where appropriate, and are investigated by the Information Management Services section, with a comprehensive action plan drawn up and the requirement for the business area to provide evidence of remedial actions carried out. In the first three quarters of 2015/2016 one data breach incident has been reported to the Information Commissioner, and after investigation no further action was taken by the regulatory body.

- **Nottingham Revenues and Benefits**

On 1st November 2014, Nottingham City Council entered into a 7-year partnership with Northgate Information Solutions for the provision of Revenues & Benefits Services. A unique element of the partnership was that Northgate are contractually-bound to sub-contract the work to Nottingham Revenues & Benefits Limited (NRB), a wholly-owned Nottingham City Council company.

Latest Position

Governance arrangements are now established, including meetings of the monthly Operations Board, monthly Transformation Board and quarterly Partnership Board. Furthermore new directors, to include three councillors nominated by the Portfolio holder are to be appointed to the NRB Board by the end of January 2016.

- **Information Technology**

The Council has commissioned a report considering several key areas where the Council's IT Service has run installed infrastructure to the end of its useful life with the view of identifying where investment is required to enable the Council to operate a technical environment that is fit for purpose.

Latest Position

An improvement programme has been developed to ensure that a continuing high level of IT service will be delivered to support the work of the City Council, and help to ensure that services of sufficient quality are provided to citizens. To date five of the seven major improvement projects have been delivered, with the remaining two projects targeted to be completed by April 2016 and December 2016 respectively.

APPENDIX 2

<u>AGS 2015 / 2016 Process</u>

Action	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Sept 2016	Oct 2016	Feb 2017	Mar 2017
Head of Internal Audit to meet Departmental Management Teams										
Plan the process for obtaining assurances from Corporate Directors and other significant partners										
Review 2014/15 AGS and take update to Audit Committee										
Update to Corporate Governance Steering Group										
Confirm significant partners and groups										
Revise and circulate questionnaires to obtain assurance										
Produce Internal Audit Annual Report with Head of Audit opinion										
Review extent to which the Council complies with the Local Code										
Review of Assurance sources available: • Partnership arrangements • Corporate Director Assurance Statements • Statutory Officers - 151 Officer, Monitoring Officer, Head of Paid Service • Other sources of assurance including: ○ Key Officers, including those with responsibility Internal Audit, Performance, Risk and HR ○ External Assurances including external inspections										
Draft AGS, outlining the governance environment and any significant governance issues that need to be disclosed										

Action	Feb 2016	Mar 2016	Apr 2016	May 2016	Jun 2016	Jul 2016	Sept 2016	Oct 2016	Feb 2017	Mar 2017
Take report to Audit Committee as the committee responsible for monitoring compliance with the Local Code										
Consider Issues from External Audit Annual Letter										
Report Final AGS to Audit Committee with Statement of Accounts										
Prepare / follow-up mid year report to Audit Committee for first meeting of new year										

AUDIT COMMITTEE – 26 February 2016

Title of paper:	**Update on the Review and Improvement of the Delivery of Strategic Risk Management**	
Director(s)/ Corporate Director(s):	Geoff Walker, Strategic Director for Finance Glen O'Connell, Corporate Director of Resilience	**Wards affected:** All
Report author(s) and contact details:	Jane O'Leary Insurance and Risk Manager 0115 8764158 Jane.oleary@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		

1	To provide a progress report on the Review and Improvement of the delivery of Strategic Risk Management project.

1 REASONS FOR RECOMMENDATIONS

1.1 The project has been approved and the review of the existing process is underway with recommendations for updated Framework and Process to be presented at Audit Committee on the 6 May 2016.

2 BACKGROUND

2.1 A report and recommendation was agreed at Audit Committee on the 27 November 2015 to undertake a root to branch review of the current risk management process with the objective of providing an improved processes that achieves a greater guarantee and assurance that the identification, assessment and mitigation of strategic risk is effective.

2.2 A project plan has been developed and this is as follows:-

- Benchmarking exercise to assess current risk maturity, attitudes to risk management and views on current processes
- Review of policies, procedures and framework
- Development of strategy/action plan to accompany risk management policy
- Interim review of corporate risk register

2.3 The detail of the Project Plan is attached in Appendix 1.

2.4 Due to current limited resources, availability of key stakeholders and the Finance Restructure progress has not been made as quickly as initially reported it would be. However the project has commenced as there is confidence that the Benchmarking Exercise can be completed by the 31 March 2016; the Review of Framework and Processes by the 30 April 2016; the Development of a Strategy that supports the plan by the 30 May 2016.

2.5 During the first stage of Benchmarking Exercise there will be a review of the current Strategic Risk Register and an updated report brought to the next Audit Committee on the 6 May 2016.

3 BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

3.1 None

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

4.1 None

Appendix One

Project		**Activity**
Review of risk management framework, policies and procedures		1. Desktop review of current documents 2. Draft improvements report with recommendations 3. Consultation on report to develop revised framework and supporting documents 4. Revised risk management framework
Benchmarking exercise		1. Preparation of bespoke benchmarking matrix to cover current risk maturity, attitudes to risk, views on processes etc. 2. Face to face meetings with Corporate Leaders, Directors, Strategic Leads as required (on site at NCC) 3. Draft report 4. Further consultation on outcomes and discussion of next steps 5. Action plan with suggestions for improvement
Strategy and action plan development		1. Based on outcomes from review and benchmarking exercise, development of strategy to accompany risk management framework with objectives, milestones, implementation plan.
Interim review of corporate risk register		1. Review of current risk register with consideration of comparable authorities, benchmarking findings

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AUDIT COMMITTEE – 26 FEBRUARY 2016

Title of paper:	**INTERNAL AUDIT QUARTERLY REPORT 2015/16 (THIRD QUARTER)**	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	**Wards affected:**
Report author(s) and contact details:	**Author and contact officer** Shail Shah – Head of Internal Audit Tel: 0115 8764245 Email: shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note and give views on the performance of Internal Audit during the period.	

1. REASONS FOR RECOMMENDATIONS

This report outlines the work of the Internal Audit service (IA) for the third quarter of 2015/16.

- **Appendix 1 -** Analysis of High Risk findings in Final Audit Reports issued in the period
- **Appendix 2** - List of final audit reports issued in the period with analysis of recommendations and level of assurance
- **Appendix 3** - Summary of position against updated Internal Audit Plan 2015/16.

1.1 Standards

The service works to a Charter endorsed by the Audit Committee. This Charter governs the work undertaken by the service, the standards it adopts and the way it interfaces with the Council. IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. It has adopted, and substantially complied with the principles contained in the PSIAS, and has fulfilled the requirements of the Account and Audit Regulations 2015, and associated regulations, in respect of the provision of an IA service. The service has internal quality procedures and is ISO9001:2008 accredited.

1.2 Local Performance Indicators (PIs)

Performance against PIs is illustrated in **Table 1**.

Table 1 : Performance v PI Targets					
Indicator		Target	Period	Actual Year	Comments
1	% of all recommendations accepted.	95%	98%	98%	Above Target
2	% of high recommendations accepted.	100%	97%	99%	Reasons known, in tolerance
3	Average number of working days from draft agreed to the issue of the final report	8	7	7	Above Target
4	Number of key / high risk systems reviewed.	11	11	11	Work underway and on target
5	% of staff receiving at least three days training per year.	100%	60%	60%	On Target
6	% of customer feedback indicating good or excellent service.	85%	95%	95%	Above Target

1.3 Activity

Appendix 3 summarises the internal audit plan for 2015/16. The IA Plan is produced annually and allocates audit resources throughout the year to review risks to the Council's vision, values and strategic priorities. The construction of the plan is informed by consideration of a range of factors including the Council Plan, the Council's Risk Register, previous internal and external audit activity, emerging themes and priorities, professional networks, the Council's transformation and improvement activity, and changes to national, local and regional policy. The Plan is regularly reviewed and adapted as risks and priorities change and develop through the year.

Table 2 shows that actual days achieved are in line with planned days set out in the updated Audit Plan. In summary, after allowance for seasonal work patterns, the plan is on target.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS		
Total Planned Days	Actual to date	Comments
2363	1641	Audit Plan on track for yearend completion.

Table 3 shows that in the year to date, acceptance of recommendations is above the target of 95% for all recommendations and is within tolerance of the 100% target for high recommendations.

TABLE 3: RECOMMENDATIONS ACCEPTED				
	To Date		**Period**	
	All	**High**	**All**	**High**
Total recommendations made	238	101	59	38
Rejected	5	1	1	1
Total recommendations accepted	233	100	58	37
% accepted	98%	99%	98%	97%

2. BACKGROUND

The Audit Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. The Public Sector Internal Audit Standards (PSIAS) set the responsibility for the management of Internal Audit with the Board. In practical terms this Board responsibility is vested in the Audit Committee and Section 151 Officer who exercise their Board responsibility via the Constitution and the associated policies and procedures of the City Council. This report is one of the regular updates on work planned and undertaken by the service.

3. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- Accounts and Audit Regulations 2015
- Internal Audit Plan 2015/16
- Public Sector Internal Audit Standards 2012

Reports issued in Q3 with High Risk Recommendations

Direct Payments 2014-15

Executive Summary

<table>
<tr>
<td rowspan="2">Organisation: Nottingham City Council

Directorate: Children and Adults

Previous reviews:

Direct Payments 2010-11 – Adult Assessment Children and Disability Team 2011-12
Direct Payment Monitoring 2012-13 – Adult Assessment and Family and Community Team
Direct Payment Monitoring 2014 – Follow-up Adults Social Care only</td>
<td>Overall Opinion:

Limited Assurance</td>
<td></td>
<td>Direction of Travel:

Overall, there has been no change to the level of controls that are in operation.</td>
</tr>
<tr>
<td colspan="3"><u>Scope and Approach:</u> This review will consider the following aspects of the system:

❖ The authorisation and payment process of the direct payments.
❖ Amendments to data and the authorisation process for changes in funding.
❖ The monitoring process to ensure that the funding has been appropriately utilised.
❖ Reconciliation of the payments made through Oracle to the City Council’s ledger.
❖ Access controls and the back-up process concerning the access database.
❖ Ascertain actions taken, from the National Fraud Initiative, to recover overpayments.
❖ It is worth noting, that nationally there has been a marked increase in Direct Payment frauds, therefore as part of this review, consideration will be given to the operation of counter fraud measures currently employed.</td>
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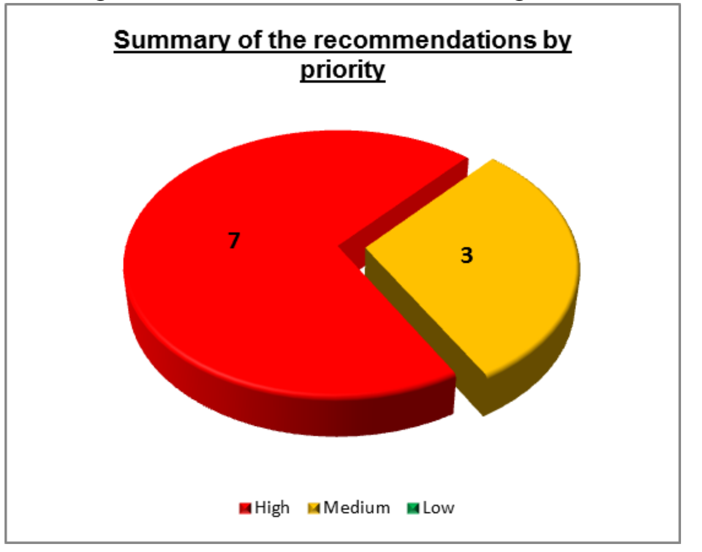
</table>

High Priority Recommendations

R3 Social Care colleagues should be reminded of the necessity of getting citizens to sign and understand the DP2 agreement. In addition, all agreements should be scanned and stored on Castle as a permanent record.



R4 The pathway approval levels should be discussed with the Corporate Director of Children and Families in order that there is a unified and consistent approach.

R5 Consideration should be given to moving Children's Direct Payments to ContrOCC as part of the planned change programme.

R7 Appropriate arrangements should be put into place, which meet ASC business requirements; in order that the work of the contractor can be appropriately managed.

R8 An operating model should be defined that establishes roles and responsibilities in order that the business needs of ASC and its customers are met.

R9 Specific KPI's for Direct Payments should be established in order to assist with contract management arrangements.

R10 Data quality issues need to be monitored and issues addressed on a regular basis to provide assurance that reporting is both accurate and complete.

Establishment Visits – Sports and Leisure

Executive Summary

Organisation: Nottingham City Council

Directorate: Commercial and Operations

Overall Opinion:

Significant Assurance

Direction of Travel:

This area has not been subject to any recent reviews.

Previous reviews:

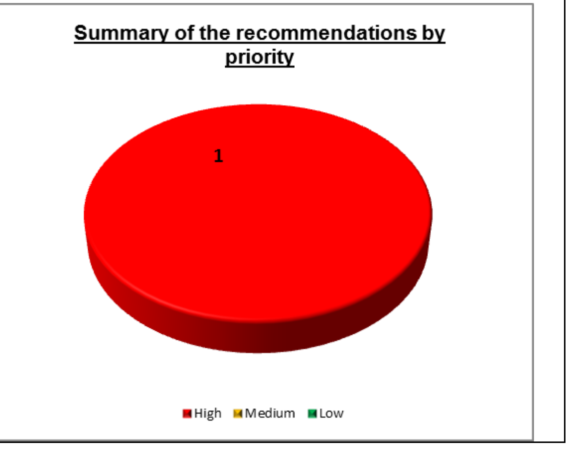
Scope and Approach: A number of unannounced audit checks have been carried out across a number of Council establishments. In respect of Sport and Leisure Centres the following establishments were visited: Tennis Centre, Clifton Leisure Centre, Djanogly Leisure Centre, and Victoria Leisure Centre.

Our work at each centre covered the following :-

- Till checks to ensure takings agree to till readings.
- Use of the safe to ensure all contents can be accounted for and to ensure restricted access.
- Awareness of Financial Regulations and financial procedures.
- Inventory checks to ensure an inventory is completed and checked periodically and that items on the inventory can be physically verified.

High Priority Recommendations

03 All income returns should be reviewed and signed by the Centre Manager.



Establishment Visits – Children and Adults

Executive Summary

<table>
<tr>
<td rowspan="2">Organisation: Nottingham City Council

Directorate: Resilience

(Business Support and Strategy provide administrative support for these areas)

Previous reviews:</td>
<td>Overall Opinion:

Limited Assurance</td>
<td></td>
<td>Direction of Travel:

This area has not been subject to any recent reviews.</td>
</tr>
<tr>
<td colspan="3"><u>Scope and Approach:</u> A number of unannounced audit checks have been carried out across a number of Council establishments. The following establishments were visited: Clifton Children’s Centre, Dunkirk Children’s Centre, Bulwell Forest Children’s Centre, Bulwell Children’s Centre, Bilborough Children’s Centre, Broxtowe Children’s Centre, Sneinton Children’s Centre, Laura Chambers Lodge, Crocus Fields, The Oaks, Oakdene, Woodview Mary Potter Centre

Our work at each establishment focused on the following areas:-

• Procedures for income collection/recording
• Petty cash
• Use of the safe
• Inventory
• Kangaroo tickets
• Written procedures for finance administration
• Awareness of Financial Regulations</td>
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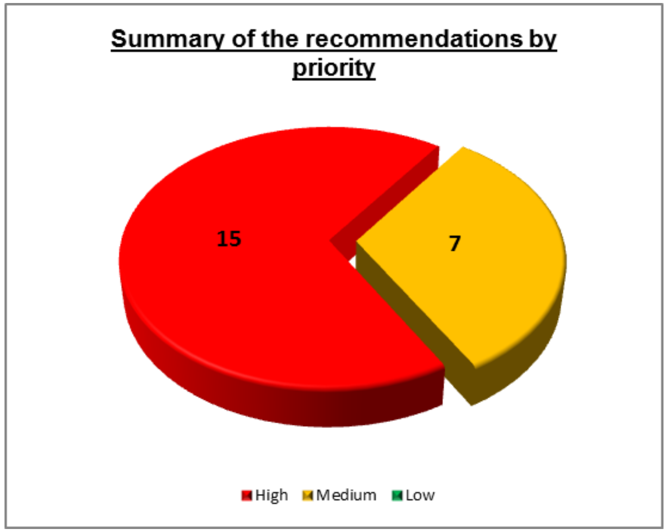
High Priority Recommendations



01 (a) All items of expenditure should be recorded within the expenditure record.

(b) A comprehensive record should be drawn up to show the full details of all income collected.

02 (a) There should be a comprehensive record in place for the social fund that should record all income and expenditure in respect of the fund.

(b) All receipts for expenditure should be retained.

03 Bankings should be carried out weekly.

04 There should be a periodic review of the income collection procedures.

06 (a) All expenditure from petty cash should be authorised by an appropriate senior officer.

(b) Recipients should sign for any cash received from petty cash.

07 Loans should not be made from the petty cash float to clients.

08 (a) The petty cash records should be kept up to date with all transactions recorded.

(b) Procedures should be put in place for the operating of the petty cash float.

11 The signatories to the bank account should be sorted out as soon as possible and the cash held should be banked immediately.

13 A stock record should be drawn up for the kangaroo tickets.

14 Written procedures should be drawn up for all financial areas of work.

15 Colleagues with responsibility for finance should receive training in Financial Regulations.

Establishment Visits – Children's Centres

Executive Summary

Organisation: Nottingham City Council

Directorate: Resilience

(Business Support and Strategy provide administrative support for these areas)

Previous reviews:

Overall Opinion:

Limited Assurance

Direction of Travel:

This area has not been subject to any recent reviews.

Scope and Approach: A number of unannounced audit checks have been carried out across a number of Council establishments. The following Children's Centres were visited: Clifton Children's Centre, Dunkirk Children's Centre, Bulwell Forest, Children's Centre, Bulwell Children's Centre, Bilborough Children's Centre, Broxtowe Children's Centre, Sneinton Children's Centre, and Hyson Green Children's Centre.

Our work at each establishment focused on the following areas:-

- Procedures for income collection/recording
- Use of the safe
- Inventory
- Kangaroo tickets
- Written procedures for finance administration
- Awareness of Financial Regulations

High Priority Recommendations

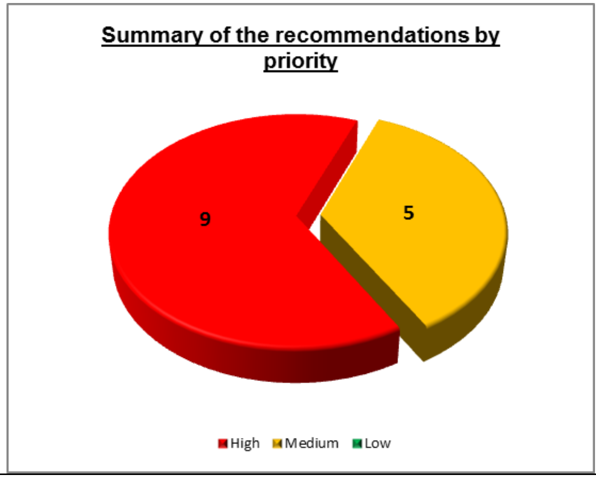
01 (a) Income should be banked on a weekly basis.

(b) More care should be taken when using carbon paper so that all entries in the receipt book are readable.

02 (a) Responsibilities should be assigned so all staff are clear who has responsibility for income collection.

(b) The above procedures in 1 should be followed so at any time it is clear how much income is held and what it relates to.

04 All cash should be held securely within the safe.



06	All cheques should be banked promptly.
07	The key to the safe should be held securely.
10	Written procedures should be drawn up for all financial areas of work.
11	All staff responsible for financial areas of work should receive training in Financial Regulations.

Income Collection

Executive Summary

Organisation: Nottingham City Council

Directorate: Resources & Development & Growth

Overall Opinion:

Limited Assurance

Direction of Travel:

Overall, the level of control has deteriorated from previous reviews.

Previous reviews:

Cash Collection 2012
Cash Collection 2013

Scope and Approach: This review will consider the following aspects of the system:

- Receipt and recording of income into Loxley House Mail Room
- Role of departments in income receipt and reconciliation
- Receipt and processing of income by Cashiers
- Storage and transport of income
- Outstanding banking of income

High Priority Recommendations:

R1 All income received by the Mail Room should be delivered to Cashiers. If cheques need to be banked by departments separately, they should be delivered by Cashiers.

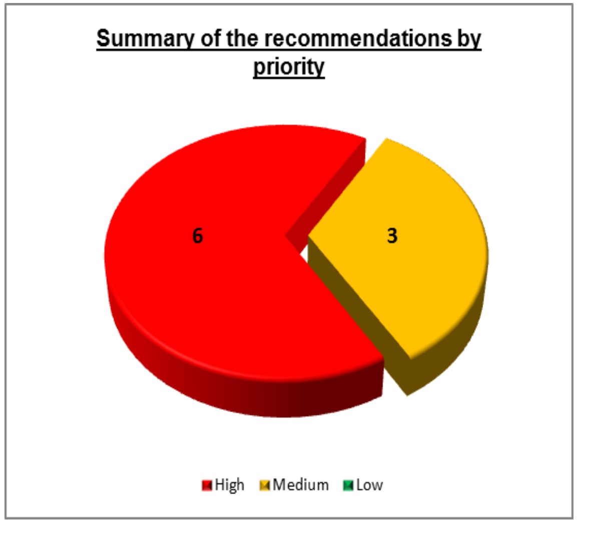
R2 A suspense account should be created for items with insufficient budget information. Details and a photocopy of the cheques should be provided to departments by Cashiers in order for the correct codes to be ascertained.

R3 All income received by the mail room or departments should be presented directly to Cashiers on a daily basis.

R4 The G4S twice weekly collection from Loxley House should be used by Cashiers for cash as well as cheques.

R5 The on-going resourcing of the Cashier Team should be considered.(Rejected)

R7 Full written procedures for Cashiers and the Mail Room should be created.



Final Audit Reports issued Q3

Department	Division	Activity Title	Audit Assurance	Recommendations Accepted		
				High	Medium	Low
Children and Adults	Adult Social Care	Direct Payments 2014-15	Limited Assurance	7	3	0
	Adult Social Care Total			7	3	0
Children and Adults Total				**7**	**3**	**0**
Commercial and Operations	Sports and Culture	Establishment Visits - (A) - Nottingham Castle	Limited Assurance	0	1	0
		Establishment Visits - (D) Sport & Leisure Centres	Limited Assurance	1	2	0
	Sports and Culture Total			1	3	0
Commercial and Operations Total				**1**	**3**	**0**
Resilience	Business Strategy and Support	Establishment Visits - (C) - Adults and Children	Limited Assurance	15	7	0
		Establishment Visits - (B) - Children's Centres	Limited Assurance	9	5	0
		Income Collection	Limited Assurance	5	3	0
	Business Strategy and Support Total			29	15	0
	Strategic Finance	Main Accounting 2015	Significant Assurance	0	0	0
	Strategic Finance Total			0	0	0
Resilience Total				**29**	**15**	**0**
			Grand Total	**37**	**21**	**0**

APPENDIX 3

SUMMARY OF POSITION AGAINST UPDATED INTERNAL AUDIT PLAN 2015/16

Audit Area	Planned Days	Days to Date
Strategic Risk	20	0
Fraud / Counter Fraud	954	706
Consultancy, Advice and Support	170	105
Companies / Other Bodies	288	253
Corporate Audits	307	146
Development	70	12
Communities	90	75
Children & Families	250	252
Chief Executive	85	43
Resources	119	49
Developments / Other	10	0
Total Days	2363	1641

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AUDIT COMMITTEE - 26 February 2016

Title of paper:	**AUDIT COMMITTEE TERMS OF REFERENCE AND ANNUAL WORK PROGRAMME**	
Director(s)/ Corporate Director(s):	Geoff Walker Director of Strategic Finance	**Wards affected:**
Report author(s) and contact details:	Shail Shah - Head of Internal Audit ☎ 0115-8764245 ✉ shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Note the functions of the Audit Committee and the benefits arising from its existence	
2	Endorse the outline work programme at **Appendix 1** and the terms of reference at **Appendix 2**.	

1. REASONS FOR RECOMMENDATIONS

Although an Audit Committee is not a legal requirement it reflects best practice reinforces the importance of probity, and performance and risk management. This report outlines the core functions of the Audit Committee, the benefits that will arise for the City Council and an outline annual work programme.

1.1 Role of the Audit Committee

The purpose of an Audit Committee is to provide independent assurance on the adequacy of the governance and control environment, effectiveness of the Risk Management Framework, and to oversee the annual financial reporting process.

1.2 Benefits of the Audit Committee

The benefits to be gained from operating an effective Audit Committee are that it:

- Raises greater awareness of the need for internal control and the implementation of audit recommendations;
- Increases public confidence in the objectivity and fairness of financial and other reporting;
- Reinforces the importance and independence of internal and external audit and any other similar review process, for example by providing a view on the annual governance statement;
- Provides additional assurance through a process of independent and objective review.

1.3 Governance Role

The Audit Committee aims to improve corporate focus on governance by:

- Providing assurance on the adequacy of the Risk Management Framework and the associated control environment;
- Scrutinising the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment;
- Overseeing the financial reporting process
- Approving the Council's Statement of Accounts;
- Commenting on the scope and nature of external audit;
- Overseeing proposed and actual changes to the Council's policies and procedures pertaining to governance

2. BACKGROUND

2.1 An Audit Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also maintains and increases public confidence in the objectivity and fairness of financial and other reporting as well as helping to deliver improved services. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

2.2 It is recognised that high performing councils develop effective financial and non-financial control mechanisms. The development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, and with Terms of Reference focussed on the key audit control and risk management areas critical to the Council's performance is a key part of these mechanisms.

2.3 The Committee's outline work programme is attached as Appendix 1. The work programme supports the Council's aim to improve its efficiency and effectiveness and has been developed to address the Terms of Reference for the Committee approved by the City Council included as Appendix 2. In accordance with CIPFA guidance, the Committee is politically balanced and will not have Executive membership. Membership will continue to be reviewed in accordance with guidance from the Department of Communities & Local Government (DCLG).

3. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

None

4. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Advice note from CIPFA Technical Audit Committees – Practical Guidance for Local Authorities (CIPFA)

Appendix 1

Audit Committee Programme of work 2016 / 2017

REPORT TITLE	Provisional DATE ▷ LEAD ▽	06/05/16	22/07/16	16/09/16	25/11/16	24/02/17	28/04/17
Annual Governance Statement Interim Report	GW/SS						
Annual Governance Statement	GW/SS						
Internal Audit Plan	GW/SS						
Annual Governance Statement Mid-Year Update	GW/SS						
Audit Committee Annual Report	Cllr P						
Audit Committee Role & Annual Work Programme	GW/SS						
Audit Committee Training Activity	GW/SS						
Counter Fraud Strategy	GW/SS						
EMSS Update	GW/SS						
Internal Audit Annual Report & Audit Charter	GW/SS						
Internal Audit Performance	GW/SS						
Internal Audit Reports Selected for Examination	GW/SS						
Performance Management Framework	AP/CC						
KPMG – Annual Audit Letter	KPMG						
KPMG – Certification of Claims & Returns Annual Report	KPMG						
KPMG – Report to Those Charged with Governance	KPMG						
KPMG – Regular update/statement progress	KPMG						
KPMG – External Audit Plan	KPMG						
LGO Annual Report	LN						
Partnership Governance Framework	NC						
Risk Management Annual Report	GW/JO						
Risk Management Quarterly Report	GW/JO						
Risk Management Strategy/Framework	GW/JO						
Risk Management Training	GW/JO						
Statements of Accounts	GW/TC						
Treasury Management Annual Report	GW/GD						
Treasury Management Strategy & Key Issues Update	GW/GD						

KEY : PEOPLE	
Cllr P	Councillor Piper
TC	Theresa Channell
KPMG	External Auditor
NC	Nigel Cooke
LN	Lynne North
R	Jane O'Leary
SS	Shail Shah
GW	Geoff Walker
CC	Chris Common
GD	Glyn Daykin

KEY : PURPOSE	
	As required
	For approval
	Reviewing performance

Appendix 2

Audit Committee Terms of Reference

TITLE	**AUDIT COMMITTEE**
POWERS / REMIT	

(a) Main Purposes:

1. Provide assurance of the adequacy of the risk management framework and the associated control environment;
2. Scrutinise the council's financial and non-financial performance to the extent that it affects the council's exposure to risk and weakens the control environment;
3. Oversee the financial reporting process;
4. Approve the council's Statement of Accounts;
5. Comment on the scope and nature of external audit;
6. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.

(B) Main Functions:

1. Reviewing the mechanisms for the assessment and management of risk;
2. Approving the council's statement of accounts;
3. Receiving the council's reports on the Statement on the Annual Governance Statement and recommending their adoption;
4. Approving Internal Audit's strategy, planning and monitoring performance;
5. Receiving the Annual Report and other reports on the work of Internal Audit;
6. Considering the external auditor's annual letter, relevant reports and the report to those charged with governance and the council's responses to them;
7. Considering arrangements for and the merits of operating quality assurance and performance management processes;
8. Considering the exercise of officers' statutory responsibilities and of functions delegated to officers;
9. To recommend external audit arrangements for the council;
10. To receive and consider the results of reports from external inspectors, ombudsman and similar bodies and from statutory officers;
11. Overseeing the Partnership Governance Framework, including annual health checks and the Register of Significant Partnerships.

ACCOUNTABLE TO: Council
MEETINGS: Normally six per annum plus specials where required
MEMBERSHIP: 9 non-executive members (politically balanced) plus 1 independent member.
ESTABLISHED SUB COMMITTEES: None.