



NOTTINGHAM CITY COUNCIL
AUDIT COMMITTEE

Date: Friday, 30 November 2018

Time: 10.45 am

Place: LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG

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

Corporate Director for Strategy and Resources

Governance Officer: Catherine Ziane-Pryor **Direct Dial:** 0115 876 4298

- 1 APOLOGIES FOR ABSENCE**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTES** 3 - 6
Of the meeting held on 28 September 2018 (for confirmation)
- 4 PARTNERSHIP GOVERNANCE FRAMEWORK AND ANNUAL HEALTH CHECK.** 7 - 24
Report of the Director of Strategy and Policy and the Head of Analysis and Insight
- 5 ANNUAL REPORT OF HEALTH AND SAFETY WITHIN THE COUNCIL** 25 - 30
Report of the Director of Legal and Governance
- 6 EXTERNAL AUDITOR - AUDIT PROGRESS REPORT AND SECTOR UPDATE** 31 - 48
Report of Grant Thornton, to be presented by John Gregory, Director
- 7 INTERNAL AUDIT HALF YEARLY REPORT 2018/19** 49 - 82
Report of the Strategic Director of Finance
- 8 TREASURY MANAGEMENT 2018/19 HALF YEARLY UPDATE** 83 - 100
Report of the Strategic Director of Finance

9 RESOLUTION OF COUNCIL 12 NOVEMBER 2018 - BREXIT

Following the resolution of full Council on 12 November 2018, to note that an additional meeting of the Audit Committee will be held on 18 January 2019, at 1.30pm in LB31 to consider the review of service and project plans with regard to Brexit, and the status of Emergency Planning with regard to Brexit.

10 AUDIT COMMITTEE ANNUAL WORK PROGRAMME

101 - 108

Report of Director of Strategic Finance

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

CITIZENS ATTENDING MEETINGS ARE ASKED TO ARRIVE AT LEAST 15 MINUTES BEFORE THE START OF THE MEETING TO BE ISSUED WITH VISITOR BADGES

CITIZENS ARE ADVISED THAT THIS MEETING MAY BE RECORDED BY MEMBERS OF THE PUBLIC. ANY RECORDING OR REPORTING ON THIS MEETING SHOULD TAKE PLACE IN ACCORDANCE WITH THE COUNCIL'S POLICY ON RECORDING AND REPORTING ON PUBLIC MEETINGS, WHICH IS AVAILABLE AT WWW.NOTTINGHAMCITY.GOV.UK. INDIVIDUALS INTENDING TO RECORD THE MEETING ARE ASKED TO NOTIFY THE GOVERNANCE OFFICER SHOWN ABOVE IN ADVANCE.

NOTTINGHAM CITY COUNCIL

AUDIT COMMITTEE

MINUTES of the meeting held at LB 31 - Loxley House, Station Street, Nottingham, NG2 3NG on 28 September 2018 from 10.47 am - 12.43 pm

Membership

Present

Councillor Michael Edwards (Chair)
Councillor Steve Young (Vice Chair)
Councillor Leslie Ayoola (minutes 27-28)
Councillor Cheryl Barnard (minutes 23-27)
Councillor Anne Peach
Councillor Nick Raine
Councillor Andrew Rule
Councillor Adele Williams (minutes 23-28)

Absent

Councillor John Hartshorne

Colleagues, partners and others in attendance:

Theresa Channell - Head of Strategic Finance
David Chefneux - Director, Link Asset Services
Glyn Daykin - Senior Accountant, Treasury Management
Shail Shah - Head of Audit and Risk
John Slater - Group Auditor
Amanda Wright - Customer Experience Lead
Nancy Barnard - Governance Manager

23 CHANGE OF MEMBERSHIP

The Committee noted that Councillor Rosemary Healy had left the Committee and welcomed Councillor Nick Raine as a new member. The Committee recorded their thanks to Councillor Healey for her contribution to the work of the Committee.

24 APOLOGIES FOR ABSENCE

John Gregory, Grant Thornton

25 DECLARATIONS OF INTEREST

None.

26 MINUTES

The minutes of the meeting held on 20 July 2018 were agreed as a correct record and were signed by the Chair. The Committee noted that, subsequent to the meeting, there had been no substantial amendments to the Statement of Accounts.

27 TREASURY MANAGEMENT TRAINING SESSION

David Chefneux, Director, Link Asset Services delivered a training session on Treasury Management to the Committee during the meeting. The slides he presented are attached to these minutes and covered the following matters:

- a) The legal, regulatory and other drivers of treasury management,
- b) Risk factors to consider when examining the Council's Treasury Management, with the three most important risks being credit and counterparty risk, liquidity risk and interest rate risk,
- c) Comparison of Nottingham and other local authority clients of Link in relation to suggested treasury management metrics, and potential reasons for the variation seen in these metrics.
- d) The balance sheet, affordability, sustainability and prudence

During the discussion that followed the presentation the following points were made:

- e) Nottingham's approach has been to borrow internally which has advantages as it currently saves £6m per annum in interest charges, However because it mismatches the term of the borrowing, the authority needs to determine when to fix borrowing. So the authority must continue to identify opportunities to fix a good long-term interest rate on its underlying borrowing requirement, including future borrowing, but this must be also be assessed for affordability.
- f) Nottingham maintains a Treasury Management risk reserve that helps it to manage interest rate fluctuations.
- g) Major issues such as potential economic instability and factors such as Brexit could impact on Treasury Management and need to feature in our planning,
- h) Councils are right to look to bolster their income streams through commercialisation and selling services as these help to mitigate against cuts however these investment projects need to meet due diligence criteria and deliver the income streams sought.
- i) Nottingham's status as a large core city means it is in the top four for capital finance amongst the local authorities Link Market Services works with but is similar to other core cities. Nottingham has an acceptable gearing ratio (debt to long term assets) and needs to maintain this by converting capital programme items into assets. Nottingham has a rolling programme of revaluation of its assets, which meets its obligations under accounting standards.
- j) Nottingham's performance on treasury management investments is in the range that Link would expect the authority to achieve given the authority's risk appetite.

RESOLVED to:

- (1) Thank David Chefneux for his informative presentation,**
- (2) Request that the Head of Strategic Finance and Senior Accountant, Treasury Management develop a forward plan of items to bring back to the committee based upon some of the Treasury Management risks identified in the training,**
- (3) Include the following in the forward plan for the Committee:**
 - **The potential impacts of factors such as Brexit or an economic crash on treasury management;**
 - **A statement on internal borrowing and risks associated with it;**
 - **A statement on the capital programme.**

28 LOCAL GOVERNMENT OMBUDSMAN ANNUAL LETTER 2018

Amanda Wright, Customer Experience Lead, presented the report of the Corporate Director, Strategy and Resources to the committee covering the following points:

- a) The report outlines complaints about the City Council referred to the Local Government Ombudsman (LGO) and the decisions taken by the Ombudsman in relation to those complaints. It also outlines the Council's internal process for dealing with complaints and the changes in the culture and handling of complaints over the last two years.
- b) Colleagues are now supported in responding to complaints and in listening to and understanding the complaint and using the information to improve and innovate services through root cause analysis.
- c) The revised approach appears to have resulted in low rates of complaints being upheld by the LGO (4/15 investigated complaints) compared with an average uphold rate of 57% nationally. None of the four upheld complaints had been through Have Your Say as they related to statutory complaints processes.
- d) The numbers of Ombudsman complaints are too small to draw reliable conclusions on causation. Similarly, the core cities analysis did not enable specific conclusions because of the small numbers involved and lack of information about their internal complaints process.
- e) Next year it is planned to report on Have Your Say complaints and Ombudsman complaints together.
- f) Currently demographic information about complainants is not captured when complaints are made it is therefore not clear whether some demographic groups are more or less likely to complain than others.

RESOLVED

- (1) To request a briefing providing further understanding of comparison of Ombudsman complaints for Nottingham and other Core Cities.**
- (2) For Councillors Ayoola and Raine to meet with the Customer Experience Lead to discuss how demographic information and information from Councillor casework could be used to enhance the Council's response to complaints and service improvements.**
- (3) To note the content of the report and to welcome the changes made to the complaints process and the impact this appears to be having.**

29 AUDIT COMMITTEE TERMS OF REFERENCE

Shail Shah, Head of Audit and Risk Shail introduced the report, which outlined draft revised terms of reference for the Committee. The terms of reference had been amended to comply with best practice in the 2018 revision of CIPFA guidance on Audit Committees.

RESOLVED to

- (1) Request that the Head of Audit and Risk ensures that each of the items in the terms of reference is included in the work programme for the committee on a rolling basis.**
- (2) Endorse the revisions to the terms of reference for submission to Full Council for approval at its November meeting.**

AUDIT COMMITTEE – 30th November 2018

Title of paper:	Partnership Governance Annual Health Checks of Nottingham City Council's Significant Partnerships	
Director(s)/ Corporate Director(s):	Colin Monckton, Director of Strategy and Policy James Rhodes, Head of Analysis and Insight	Wards affected: All
Report author(s) and contact details:	Elaine Fox, Corporate Policy Team, 0115 8764540 / elaine.fox@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Steve Hales, Internal Audit	
Recommendation(s):		
1	To note the key findings from the Partnership Governance Health Checks and Register of Significant Partnerships.	
2	To note the findings and recommendations following verification of governance documentation of four of the partnerships.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 It is recommended that Audit Committee note Sections 2.6 and 2.7 detailing the key findings of the annual partnership governance Health Checks. The vast majority of partnerships scored 'good/excellent' in all areas. Two of these Health Checks, and the governance documents referenced in them, have been verified by colleagues from Corporate Policy and Performance and Internal Audit. There are only two partnerships being verified this year as one of the partnerships due to be verified has ceased to operate. The findings of all verifications can be found in Appendix 4.
- 1.2 Audit Committee is asked to note the removal of N2 Skills and Employment Board (N2 SEB) from the Register of Significant Partnerships as this partnership has ceased to operate. It should be noted that last year Audit Committee accepted the recommendation that the partnership's self-assessment score for 'Partnership Risk Management' should be changed from 2 'good', to 3 'some key areas for improvement', as no funding had been identified for the partnership to continue after March 2018. An updated register is included in Appendix 1.

2 BACKGROUND

- 2.1 The Council has a long and successful history of working in partnership across the public, private, voluntary and third sectors. 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 scores from the Health Checks undertaken in 2018 are provided in Appendix 2.
- 2.5 As requested last year by the former Chair of Audit Committee, a new section was added to the Health Check questionnaire following the introduction of the General Data Protection Regulation (GDPR) which was introduced on 25th May 2018. The scores for this are included in the table in Appendix 2.
- 2.6 As Appendix 2 shows, the majority of partnerships scored themselves 'Excellent' or 'Good' (1 or 2) in all areas. We reviewed the supporting information and agreed with the majority of scores. Where any scores were disputed for partnerships subject to verification this year, an explanation is detailed in Appendix 4. For partnerships which were not verified this year, an explanation of any disputed scores is below.
- 2.7 This report draws Audit Committee's attention to partnerships with a rating of 3 (some key areas for improvement) or 4 (many key weaknesses) in one or more areas. In 2018 the following partnerships scored themselves 3 or 4:
- 2.7.i The Nottingham City Safeguarding Children Board (NCSCB) scored itself 3 (some key areas for improvement) for 'Finance' stating that there continues to be a "significant pressure" on the proposed budget for the Safeguarding Boards for 2018/19, and that there will be again for 2019/20. The NCSCB expressed the same concerns in 2017. The majority of partnerships, alongside local authorities themselves, will be affected by pressure on budgets; this fact could therefore result in a similar score across the majority of the Council's partnerships. We are reassured that the NCSCB confirms again this year that its partners have set a budget that "enabled the Board to deliver on its Business Plan". Last year we recommended the score be amended to 2, however following publication of Working Together to Safeguard Children in 2018 the NCSCB will cease and will be replaced by a Strategic Management Board from 1st April 2019. Due to changes in working practice, including sharing of safeguarding responsibilities between a tri-partite of the local authority, the Clinical Commissioning Group (CCG) and the Police, we recommend accepting a score of 3 during the period of transition with further review in 2019 once the changes have been implemented.
- 2.8 This report draws Audit Committee's attention to partnerships where we did not have sufficient evidence to support the scores they had awarded themselves:
- 2.8.i The Green Nottingham Partnership scored itself 2 for all sections in the health check except for 'decision making and accountability', 'finance' and 'GDPR', for which it entered no scores. The lack of score for 'finance' is accepted as it receives no funding, however we would expect to see a score recorded for 'decision making and accountability' and 'GDPR'. Additionally several of the documents they referenced in their health check, including a new sustainability plan and the risk register, are still in development. Whilst there are no specific concerns about the partnership's practices, due to the documents being incomplete it is difficult to accept the assessment that

practice is 'good' as the documents have not been finalised, agreed by the board or implemented. The Green Nottingham Partnership is scheduled for re-verification in 2019, which Audit Committee accepted as a recommendation last year; we would recommend this re-verification goes ahead as planned based on the responses and lack of scores given in their health check for this year. This will also afford us the option of examining the documents which are currently being developed.

2.10 As above, comments on the self-assessment scores of those partnerships whose documents were verified this year can be found in Appendix 4.

2.11 **Verification of governance documents**

Usually the Health Checks of three of the partnerships are verified each year on a rolling programme. Officers from Corporate Policy and Performance and Internal Audit evaluate the partnerships' governance documents and other documentation noted in their Health Check. As stated in point 1.2, due to the N2 Skills and Employment Board no longer operating there are only two partnerships being verified in 2018. This is due to us not being notified about the partnership's end until this process was in progress, leaving us too little time to ask another partnership to source and collate the documents needed. The recommendations from the verification process can be found in Appendix 4. This year the partnerships which were verified were:

2.11.i Crime and Drugs Partnership (CDP)

2.11.ii Midlands Engine

2.12 Following verification and subsequent re-verification of governance documents relating to the Green Nottingham Partnership for three consecutive cycles from 2015 – 2017, Audit Committee noted improvements. The Committee agreed not to re-verify the Green Nottingham Partnership's documents in 2018 to allow further time for improvements to be embedded. The Green Nottingham Partnership will be verified again in 2019.

2.13 The previous schedule for verifying partnerships has been amended this year due to the removal of the N2 Skills and Employment Board. A new schedule for verification is included in Appendix 5.

2.14 **Register of Significant Partnerships**

No partnerships have been added to the Register of Significant Partnerships in 2018. The N2 Skills and Employment Board has been removed from the register. An updated register is included in Appendix 1.

2.15 **Additions for next year**

We have no recommendations for partnerships which should be added to the register for next year. If a partnership is found to meet the criteria for addition to the register before the process begins next year, a request will be sent to the Chair of Audit Committee.

2.16 **Looking Ahead**

With the potential changes which may occur as a result of changes to ward boundaries and parliamentary constituencies along with the UK's exit from the European Union, combined with the funding challenges facing local authorities, it is likely the partnership landscape will change significantly over the next few years. 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 on an annual basis.

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
Register of Significant Partnerships 2018**

Number	Name of Partnership	Chair's name	NCC contact name
1	One Nottingham	Jane Todd	Lorel Manders
2	Children's Partnership Board	Cllr David Mellen and Cllr Neghat Khan	Emily Humphreys
3	Derby, Derbyshire, Nottingham, Nottinghamshire Local Enterprise Partnership (D2N2 LEP)	Peter Richardson	Peter Davies-Bright
4	Green Nottingham Partnership	Richard Barlow	Ellen Cooper-Tydesman
5	Health and Wellbeing Board	Cllr Sam Webster	Jane Garrard
	N2 Skills and Employment Board – partnership ceased	Martin Rigley	Owen Harvey
6	Nottingham Crime and Drugs Partnership	Cllr Jon Collins	Laura Patterson
7	Education Improvement Board	Professor Sir David Greenaway	Isabella Kisielowska / Karen Smith (Jennifer Hardy on maternity leave)
8	Nottingham City Safeguarding Children Board	Chris Cook	John Matravers
9	Nottingham City Safeguarding Adults Board	Malcolm Dillion	Chair
10	Midlands Engine	Sir John Peace	Kamala Atwal

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Appendix 2 - Health Check scores 2018

	Partnerships	Aims and objectives	Membership and structure	Decision making and accountability	Performance management	Evaluation and review	Equalities	Finance	GDPR	Partnership Risk Management
1.	One Nottingham	1	1	1	2	1	2	2	1	2
2.	Children's Partnership Board	1-2	1-2	1-2	1-2	1-2	1-2	N/A*	2	2
3.	D2N2 Local Enterprise Partnership	2	1	2	2	2	2	2	1	2
4.	Green Nottingham Partnership	2	2	No score recorded	2	2	2	N/A*	No score recorded	2
5.	Health & Wellbeing Board	1	1	1	1-2	1-2	1-2	1-2	1-2	2
6.	Crime and Drugs Partnership	2	1	2	1	2	1	1	2	1
7.	Education Improvement Board	2	2	2	2	2	1	2	1	2
8.	Safeguarding Children Board	1	2	2	2	2	2	3	1	2
9.	Safeguarding Adults Board	1	1	1	1	1	2	2	2	1
10.	Midlands Engine	1-2	1-2	2	2	2	2	2	2	2

*partnerships which receive no funding, therefore responses of 'no score' for Finance were accepted

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Appendix 3
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 2018

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, Corporate Policy and Performance Officer, Nottingham City Council, on 0115 87 64540.

Name of Partnership:	
NCC Lead Councillor:	Does a Cllr attend partnership meetings? Yes / No
NCC Corporate Director (to identify which department is responsible):	
NCC Lead Officer:	
Partnership Chief Executive/Manager (if appropriate):	
Accountable body (if the partnership isn't a legal entity; if 'don't know' please state):	

We have identified 9 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.

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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. 4. Do the aims and objectives link with relevant parts of the Council Plan / Nottingham Plan?		•
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		•

<p>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.</p> <p>3. Key partners provide effective leadership. Their leadership roles and responsibilities are understood and fulfilled.</p> <p>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.</p> <p>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.</p>		
<p>3. Decision making and accountability</p> <p>1. Decision making is clear and transparent. Authority and delegations are set out in governing documents including</p> <ol style="list-style-type: none"> a. Who can make what decisions b. Delegated responsibilities <p>2. The partnership has a clear procedure for dealing with conflicts of interest.</p> <p>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.</p> <p>4. Decisions are:</p> <ol style="list-style-type: none"> a. properly recorded b. notified promptly to those who are affected by them <p>5. The partnership has:</p> <ol style="list-style-type: none"> a. A communication plan to inform service 		<ul style="list-style-type: none"> •

<p>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</p> <p>b. Clear lines of accountability and arrangements for the timely reporting of performance and achievements to Council officers and Councillors.</p> <p>c. Processes in place for scrutiny of decisions and activities at the appropriate level</p>		
<p>4. Performance management</p> <p>1. The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary.</p> <p>2. Delivery contracts and agreements are monitored and poor performance is tackled.</p>		•
<p>5. Evaluation and review</p> <p>1. The partnership regularly reviews its policies, strategies, membership and use of resources against its objectives and targets.</p> <p>2. The partnership reviews its progress and delivery against clear outcomes, outputs and milestones and takes prompt corrective action if necessary.</p>		•
<p>6. Equalities</p> <p>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.</p>		•
<p>7. Finance</p> <p>1. The partnership has a financial and /or procurement plan that identifies how it proposes to use these funding to achieve its objectives.</p> <p>2. The partnership has effective arrangements for</p>		•

<p>financial monitoring and reporting, uses its resources well and demonstrates how it uses them to add value and ensure value for money.</p> <p>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.</p>		
<p>8. GDPR</p> <p>1. The partnership has a clearly identified data controller.</p> <p>2. The partnership has taken action to ensure it complies with GDPR requirements.</p>		<ul style="list-style-type: none"> • This partnership’s data controller is (individual/organisation name):
<p>9. Partnership Risk Management</p> <p>1. The partnership has an agreed mechanism for identifying, assessing and managing risks.</p>		<ul style="list-style-type: none"> •
<p>10. Additional information</p> <p>1. Is there anything else relating to the partnership and its governance you wish to highlight?</p>		<ul style="list-style-type: none"> •

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Appendix 4

Recommendations for improvement from verification of partnership governance Health Checks

Crime and Drugs Partnership (CDP)

- The CDP stated that in its 2017 review of governance arrangements they would create champions for different priorities, but we saw no confirmation that this had happened and what the expectations and responsibilities of the roles would be. If this proceeds we would recommend consideration of the remit, with formal recording of this, and details of the agreement of any named champion to undertake the role.
- There was no mention in the CDP's Terms of Reference or other documentation of a whistleblowing procedure. On questioning this we have learned that the City Council's Whistleblowing Policy would be adopted, so we recommend that this is formally recorded and adopted by the Board.
- In the CDP Executive Group's Terms of Reference it says they can make decisions such as "agree a lead agency to deliver interventions on a case by case basis" but their specific decision making and voting rights are not detailed. The role of the Executive was not explicitly clear, including its interrelationship with the CDP Board. We recommend a formal decision making process, including voting rights where appropriate, and details of the relationship with the CDP Board is created for the CDP Executive.
- We were informed that when a member leaves they are expected to identify a replacement for themselves on the CDP Board. On viewing an example of notification from a former Board member that they would be leaving the Board there was no expectation conveyed to the individual that they should identify a replacement, instead they were asked "will [named individual] be attending?". If identification and confirmation of a replacement is an expectation of the departing Board member, we recommend this is formally set out in the Terms of Reference and that this is followed up when a Board member gives notice that they will be stepping down.
- Following the December 2017 review of the CDP, it was agreed that the Executive will now undertake the "tactical work". We were unable to identify exactly what "tactical" meant in practice, so we would recommend for transparency that a clear understanding of their work is communicated.
- In the section on compliance with GDPR, the questionnaire stated that "The CDP does not have a data controller and does not control any personal information". The CDP does hold information on its members and contributors, including contact details and their job roles, plus how they might have voted on certain decisions and any confidential papers. Although the organisations to which CDP Board members belong have their own GDPR processes in place, we recommend an overarching arrangement or understanding is in place for the CDP's own information which it commissions, in the form of reports, and holds. If, however, the GDPR experts at Nottingham City Council have confirmed that the data the CDP holds does not meet the threshold for personal data, we would expect to see this confirmed in formal documentation.
- We were pleased to see the CDP has a risk log with considerations on likelihood and impact. We saw that discussion of the risk log was not included in June's CDP Board minutes. We would recommend that discussion of the risk log is included as a standing item on each agenda to allow an opportunity for any urgent updates to be raised, even if it is merely to note 'nothing to report/no change'. We also recommend an annual review of the risk log is included on the meeting forward plan if it is not already the case.
- We would like to commend the volume of governance documentation shared with us by the CDP and the thorough responses given in the self-assessment questionnaire.

Midlands Engine

- We would agree with the score of 1-2 for aims and objectives, however, as a result of the evidence provided and the fact that the partnership says it is 'working towards' being more effective as part of its governance review we would suggest this score is closer to 2 than 1. We would recommend this work continues for the partnership to achieve a score of 1 in the future.
- There were some instances in which we were unable to verify the assertions made in the questionnaire as documents were not available to us, despite repeated requests. This includes minutes recording any decisions taken by the Board and evidence of performance management reporting. As Nottingham City Council is the accountable body, we would recommend officers of Nottingham City Council ensure they have immediate access to all relevant documentation relating to Midlands Engine.
- In Midlands Engine's Transparency Code, it listed documents which would be available on its website, this includes details and documents that support its Governance and Assurance Framework and meeting agendas, papers and minutes. On reviewing Midlands Engine's website we were unable to find these documents. We would recommend Midlands Engine review their website and make amendments to ensure they meet their commitments for transparency.
- Although Midlands Engine confirmed their membership has been reviewed to identify gaps in expertise, we were unable to find anything on their website relating to membership of the board. We would recommend that information is added to the website detailing membership with a short résumé about the members and their experience. If this information is already available on the website it should be made easier to find.
- Further to the above, we recommend making the 'partners' section of the Midlands Engine website more interactive. For example where it states there are 20 universities within the Midlands Engine geography it would be useful if you could click onto this statement to find information detailing which organisations they are.
- For Partnership Risk Management, Midlands Engine stated that the risk registers would continue to be discussed and monitored at Board meetings. We have been unable to confirm this as documents were not available to us. We would agree with a score of 2 for this on the assumption these registers are in place and are discussed and reviewed at Board meetings.

**Appendix 5
Schedule for Verifying Health Checks to 2024**

No.	Name of Partnership	2017	2018	2019	2020	2021	2022	2023	2024
1.	One Nottingham	Verification completed			Scheduled				Scheduled
2.	Children's Partnership Board			Scheduled			Scheduled		
3.	D2N2 LEP			Scheduled			Scheduled		
4.	Green Theme Partnership	Repeat verification completed		Scheduled				Scheduled	
5.	Health and Wellbeing Board	Verification completed				Scheduled			Scheduled
	N2 Skills and Employment Board – partnership has ceased to operate		Was scheduled				Was scheduled		
6.	Nottingham Crime and Drugs Partnership		Undertaken this year				Scheduled		
7.	Education Improvement Board				Scheduled			Scheduled	
8.	Safeguarding Children Board				Scheduled			Scheduled	
9.	Safeguarding Adults Board	Verification completed				Scheduled			Scheduled
10.	Midlands Engine	Newly added to register	Undertaken this year			Scheduled			

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AUDIT COMMITTEE – 30th November 2018

Title of paper:	ANNUAL REPORT OF HEALTH AND SAFETY WITHIN THE COUNCIL	
Director(s)/ Corporate Director(s):	Malcolm Townroe, Director of Legal and Governance	Wards affected: All
Report author(s) and contact details:	Paul Millward, Head of Resilience 0115 8792980 paul.millward@nottinghamcity.gov.uk	
Other colleagues who have provided input:	Rob McCutcheon Team leader, Corporate Safety Advice	
Recommendation(s):		
1	All Corporate Directors ensure their departmental colleagues can demonstrate up to date training in the mandatory health and safety courses, and, where appropriate, asbestos management, by Friday 25 th January 2019;	
2	All Corporate Directors ensure that all outstanding Accident/Violence/Audit recommendations are completed and recorded on the corporate system by Friday 25 th January 2019;	
3	Audit Committee notes the number of HSE intervention in the council in the past three years	
4	Update on recommendations 1 & 2 to be reported to Audit Committee in February 2019.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 There are legal, financial, colleague and citizens' benefits arising from good health and safety practices. The council is required, by various legislation, to comply with health and safety practices for its own staff and for its service users.

2 BACKGROUND

- 2.1 A Key finding of Internal Audit's 2016/17 review of the council's health and safety practice and arrangements was that there was no formal mechanism for reporting on health and safety to Councillors and/or senior management. This report is designed to be the formal mechanism recommended by Internal Audit.
- 2.2 Internal Audit's review of health and safety within the council found that, whilst the Council's corporate policies and procedures were sufficient, the implementation of these policies and procedures by managers in the departments and service areas required some improvement. It is obviously important that our own colleagues and citizens should expect a safe environment in which to deliver and receive services. Failure to achieve this leaves the council open to Health and Safety Executive intervention and prosecution (with its associated costs to the council) and increased insurance and reputational costs.

Improvements are required in:

- Being able to demonstrate that our managers are trained in health and safety issues affecting their services;

- Asbestos management by managers. This area is improving but more work is necessary;
- Completion of Corporate Safety Advice's audit recommendations for individual service areas. Clearly, if an area for improvement has been identified and no consideration or action is taken, the council's liability and reputation may be subsequently affected;
- Completion of investigations on accidents/near misses/violence. As above, if lessons are not learned the council's liability and reputation may be subsequently affected.

The Health and Safety Executive are clear in their advice that effective health and safety management in an organisation requires competent staff (defined as "the combination of training, skills, experience and knowledge that a person has and their ability to apply them to perform a task safely") and clear documentation that policies and procedures are being followed by all. Improvements in the areas above will significantly progress the council's ability to demonstrate a good level of health and safety management within the council.

A version of this report was considered by Corporate Leadership Team in August and work has been on going since then to improve Departments standards.

2.3 **Training**

Corporate Leadership Team agreed that Health and Safety training is mandatory for all 'people' and 'building managers' to ensure an understanding of the basic principles of Health & Safety law, risk assessment, document control and where appropriate, premises management. There are three main full courses, with most managers only required to take Modules 1 and 2. The Corporate Safety Advice team is introducing a new module (module 4) which has been developed for SMT and DLT level managers. This module will cover the strategic management aspects of modules 1 & 2 and is intended to replace the need for SLMG managers to attend the full, operational based, courses.

The courses are:

Legal Responsibilities of Management (Module 1)

Risk Assessment & Document Management (Module 2)

Premises Management & H&S Compliance (Module 3)

DLT and SMG Health & Safety Management Training (Module 4)

Further, it was agreed that managers would be required to refresh their knowledge at least every three years in order to maintain competency. The above courses contribute to the 'training, skills and knowledge' element of that HSE definition (above in 2.2). Colleagues are aware that the Health and Safety Executive are keen to examine training records during any investigation.

The table below is based on the latest structure chart for SLMG colleagues. Some results are skewed by vacancies/new starters/leavers.

There are many other colleagues required to take these courses who are not SLMG but these figures give an indication of progress made to ensure all relevant colleagues have received appropriate training.

Mandatory Health and Safety Training (SLMG results only)*				
Department	SLMG posts	Module 1	Module 2	'competency' within 3 years
Children & Adults	19	13	11	63%
Commercial & Operations	27	21	19	74%
Development & Growth	19	14	11	65%
Strategy & Resources	18	7	8	42%

*date check 16th October 2018 on August 2018 structure

2.4 Audits

The Corporate Safety Advice team have undertaken numerous audits of services in the Council and produce recommendations for actions. The table below shows the number of recommendations that had yet* to be enacted or updated on the CSA audit system by managers. The Council puts it self at risk if, having audited services and having made recommendations, it then fails to implement those recommendations.

The figures below are the results from 299 audits over a number of years. Unfortunately, the Corporate Safety Advice team do not have the resources to revisit services or check that managers have acted on their recommendations. A list of audit recommendations has been supplied to Corporate Directors – either for action or updating the implementation of the actions on the corporate system. Up to date figures will be available at the Committee meeting, if required.

Module 1 (Legal Responsibilities of Management)

Department	Moderate risk	High Risk	Very High Risk
Children & Adults	33	0	0
Commercial & Operations	20	0	0
Development & Growth	4	0	0
Strategy & Resources	3	0	0

Module 2 (Risk Assessment & Document Management)

Department	Moderate risk	High Risk	Very High Risk
Children & Adults	106	198	0
Commercial & Operations	117	211	0
Development & Growth	17	12	0
Strategy & Resources	7	19	0

Module 3 (Premises Management & H&S Compliance)

Department	Moderate risk	High Risk	Very High Risk
Children & Adults	92	120	88
Commercial & Operations	179	205	124
Development & Growth	8	15	11
Strategy & Resources	7	5	0

* August 2018

2.5 Health & Safety Executive (HSE)

Interventions – last 3 years

In the last 3 years, the HSE has formally intervened in 2 incidents, both within Commercial & Operations Department.

- Finger amputation whilst using mower – September 2014
- Overturning all-terrain vehicle – July 2016

HSE Fines

Finger amputation whilst using Mower – May 2017

“An investigation by the Health and Safety Executive (HSE) found the council had removed some of the manufacturer’s safety measures of the machinery, and replaced it with its own design which was not to the required safety standard.

The council failed to suitably control the risks posed by the physical equipment in use and also didn’t fully consider training needs of the employees to operate the machinery in a safe and appropriate manner. Failures were also identified in the levels of supervision provided for the lawn mowing activity by apprentices.

The body has today been fined £33,000 and ordered to pay costs of £12,000.

“This was a preventable incident which would have been avoided if suitable control measures, levels of training, supervision and monitoring were applied.”
(HSE website)

Overturning all-terrain vehicle

Although the overturning ATV did not result in continued action against the council, the council were required to pay the HSE’s ‘Fee for Intervention’.

2.6 Asbestos Issues

Asbestos related incidents

In the last three years, there have been six incidents recorded re possible asbestos exposure. All six cases involved the Commercial and Operations Department. Four incidents were recorded at Enviroenergy as a precaution for potential exposure to asbestos at the back of insulating circuit boards and the other two were incidents at Woolsthorpe and Woodthorpe Grange.

2.7 Asbestos training

It is not possible for Corporate Safety Advice to know how many colleagues should have taken these courses – each Department should ensure that those colleagues who have a role in the management of asbestos are suitably and sufficiently trained.

Number of colleagues trained in asbestos issues by department:

Department	Asbestos Management	Asbestos Inspection	What is Asbestos
Childrens & Adults	87	47	42
Commercial & Operations	364	279	306
Development & Growth	37	9	18
Strategy & Resources	3	7	10

A list of those colleagues who are deemed competent by way of attending and passing the above modules has been supplied to Corporate Directors so that they can cross check that the relevant people in their departments are suitably and sufficiently trained.

2.8 Accident & Violence Reporting

Managers must ensure that all accidents, near misses and work related ill health incidents are reported using the online accident reporting system and that they complete a suitable and sufficient investigation. Similarly, the City Council takes violent and threatening behaviour against its colleagues seriously and any such incidents need to be recorded and investigated with the aim of ensuring safe working conditions.

		Department			
		Children & Adults	Commercial & Operations	Development & Growth	Strategy & Resources
No of accidents (colleagues and 3rd parties) Data for 01/10/2017 - 30/09/2018	Total	322	608*	5	16
	Employee	151	485*	5	14
	3 rd Party	171	123	0	2
Outstanding accidents (older than 1 month) which have yet to be investigated / closed		35	20	2	2
No of violent incidents Data for 01/10/2017 - 30/09/2018		314	129	7	8
Outstanding violent incidents (older than 1 month) which have yet to be investigated / closed		86	11	3	3

*includes RTC incidents

Although the reporting parameters on accident recording has changed over the past 4 years (notably in the inclusion of road traffic collisions into the statistics) and taking into account seasonal variations, the number of accidents per 1000 FTE appears to be slightly increasing. Trends and causation will be monitored at the CHSWP meetings.

2.9 **CHSWP Attendance**

The Corporate Health, Social and Welfare Panel is the main council consultation meeting with the joint Trade Unions and is held quarterly. The Council's guidance on the attendance at these meetings says:

"The panel comprises:

- Trade Union appointed safety representatives from the recognised trades unions within Nottingham City Council;
- Management representation / responsible person from each Directorate;
- Supporting Representation from Corporate Safety Advice, Corporate HR and the Wellbeing and Health Improvement Team."

At present, I believe the Panel is working well with representation from all departments and specialist advisors where necessary. Trade Unions bring issues to the meeting that have not been resolved at Departmental meetings. There have been some issues upon which management and Unions have disagreed, but, overall, there is a unity of purpose between the two sides.

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 Competence in health and safety. Health and Safety Executive
<http://www.hse.gov.uk/competence/index.htm>

Audit Progress Report and Sector Update

Nottingham City Council
Year ending 31 March 2019

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30 November 2018



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Introduction



John Gregory

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at November 2018

Handover

We have almost completed our formal 'take-on' arrangements in which responsibility for your audit transferred from your previous auditors, KPMG, to ourselves. As part of this, we have:

- Met your Chief Executive and individually with your Corporate Directors to gain an understanding of issues in their service areas and their views of the risks and opportunities facing the Council more widely.
- Met several times with your Strategic Director of Finance to gain an understanding of the Council's financial position and financial risks.
- Met other key officers involved in the production of your annual accounts
- Met with your outgoing auditors to be briefed on issues arising from previous audits and their wider views of you.
- Reviewed key documents.

The one area of outstanding handover work at the time of writing is to review KPMG's audit files to extract relevant information which will be helpful for our audit work. This is planned to take place before the end of the month.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Events

We will be holding 'chief accountant' workshops for our clients at our Birmingham Office in January / February 2019. Our workshop has been designed and will be delivered by our highly experienced public sector assurance team and will help officers prepare for your financial statements audit by highlighting potential risk areas and giving an opportunity for discussion and questions.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your **Head of Finance** briefed members on the Council's response to the Financial Resilience Index consultation?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

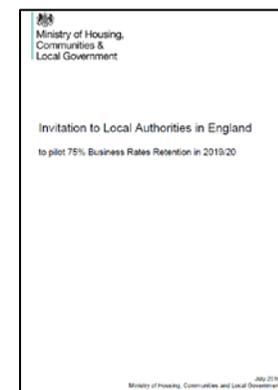
Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.

Business Rates pilots 2019/20

Challenge question:

Has your authority considered applying to be a Business Rates pilot?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface

Challenge question:

Has the **Audit Committee** considered the 16 challenges to joint working and what can be done to mitigate these?



A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Challenge question:

How is your authority engaging in the debate about the future of social care?



Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

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AUDIT COMMITTEE – 30 November 2018

Title of paper:	INTERNAL AUDIT HALF YEARLY REPORT 2018/19	
Director(s)/ Corporate Director(s):	Laura Pattman Strategic Director of Finance	Wards affected: All
Report author(s) and contact details:	Shail Shah Head of Audit and Risk 0115 8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	To note the performance of Internal Audit during the period.	

1 REASONS FOR RECOMMENDATIONS

1.1 This report outlines the work of the Internal Audit service (IA) for the 1st and 2nd quarters of 2018/19.

- Appendix 1 – Executive Summaries from all 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 2018/19

1.2 **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. In the last assessment in March 2017 the service was found to substantially comply with the principles contained in the Public Sector Internal Audit Standards (PSIAS), which is a requirement of the Account and Audit Regulations 2015, and associated regulations, in respect of the provision of an IA service.

1.3 **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%	100%	100%	On Target
2	% of high recommendations accepted.	100%	100%	100%	On Target

Table 1 : Performance v PI Targets					
Indicator		Target	Period	Actual Year	Comments
3	Average number of working days from draft agreed to the issue of the final report	8 days	2	2	Above Target
4	% of staff receiving at least three days training per year.	100%	cumulative	cumulative	On Target
5	% of customer feedback indicating good or excellent service.	85%	cumulative	100%	Above Target
6	Number of key / high risk systems reviewed	12	-	Complete in Qtr3 & Qtr4	See Below

1.4

Activity

Appendix 3 summarises the internal audit plan for 2018/19. NCC Internal Audit also provides an internal audit service for other organisations. 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, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. 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. It is also informed by consultation with stakeholders. The Plan is regularly reviewed and adapted as risks and priorities change and develop through the year.

1.5

Summary of Activity

A summary of reports issued within the last 6 months is included in Appendix 2. The following sections highlight any key issues and outcomes.

1.5.1

Key Financial Systems

Work on the 2018/19 key financial systems commenced during quarter 2 and will continue through quarter 4. Typically this work is planned to commence at a point in the year where there is sufficient data available to test.

1.5.2

Schools

This year we are planning themed audits across City schools as an alternative to individual schools audits. The themes covered will include procurement and the Schools Financial Value Standard. We perform the responsible officer role at two academies.

1.5.3

Compliance and Risk-Based Audits

We complete compliance and risk based audits across the organisation and have completed several income focussed audits and a series of grants audits during the early part of the year. During 2018-19 we have reported on Property Acquisitions –

as noted by the service in a previous meeting this year. We are pleased to report that the service has taken a constructive approach to our report resulting in progress which we will report as part of our quarter 3 report.

1.5.4 Governance and Ethics

We have undertaken a process to update the Annual Governance Statement for 2017/18. We provide advice to departmental colleagues, which supports them in making good decisions and setting up procedures, which comply with the organisation's values, policies and processes.

Over the last year we have been identifying best practice in governance of companies and supporting the Section 151 Officer in bringing forward proposals for improvements in the Council's company oversight and shareholder activities.

We have undertaken work across a number of audits in the last 2 years to ensure that appropriate assurance reporting exists, and as a result new assurance reports will be brought to Audit Committee during 2018-19.

We have completed an audit of Councillor Allowances during the first half of the financial year and have further governance audits planned during the remainder of the year.

We are currently working to update the Council's Counter Fraud Strategy to incorporate Whistleblowing and update for legislative and other changes. The updated strategy will be brought to a future meeting of this committee

1.5.5 Fraud and Investigations

The Internal Audit section established the Corporate Counter Fraud Team (CCFT) during 2015/16 with a view to identifying additional income and savings for the Council.

CCFT are the Council's key contact for the National Fraud Initiative (NFI) data match which involves organising and submitting the required datasets from numerous service areas and coordinating the review and reporting to the NFI of the matching data. NCC are the lead authority in the Midlands for the NFI business rates pilot. This is ongoing but has already identified additional rating income.

During 2018-19, CCFT have been carrying out matching between Single Persons Discounts (SPD) and Electoral Roll (ER) with a view to identifying households that should have the discount removed. The team also receives and investigates referrals from Council Tax teams regarding SPD.

Following previous successes, CCFT are also data matching NCC business rate accounts with data provided by the GIS Mapping Team. 9 properties have been brought into rating so far this year as a result of CCFT work. The team is also involved in a review of charitable rating reliefs as well as proactive observation and investigation of rateable properties.

1.5.6 We continue to assist in identifying and investigating fraud in Right To Buy applications and tenancies, and work with colleagues within Nottingham City Homes. We support the Monitoring Officer in respect of Whistleblowing reports, most of which are received by Internal Audit. We advise on or carry out investigations in relation to suspected fraud and irregularities.

1.5.7 Information and Technology

We carry out a range of information and technology audits during the year that supports management in understanding and addressing the related governance, risk and control issues. This year we have reported upon the City's Cyber Security arrangements, and will be following up several previous reports covering physical and environmental controls, asset management, business continuity and disaster recovery and application reviews. As part of audits completed last year, recommendations were put forward to bring an annual IT Governance report to this committee, which we understand will be presented at the next meeting.

1.5.8 Other / Consultancy

Following on from a previous audit of the Council's Works Perks scheme, we have produced 2 follow-up reports regarding the scheme with the aim of ensuring that all employee benefits provided via the scheme are promptly recovered from salaries, that the scheme is accounted for accurately, and that the scheme maximises its income and minimises expenses.

1.5.9 Table 2 shows that actual days achieved are significantly better than expected at this point in the year due to a vacancy being filled earlier than expected and we have updated the plan at Appendix 3 to reflect this.

TABLE 2: ACTUAL v PLANNED AUDIT DAYS		
Total Planned Days	Actual to date	Comments
2512	1359	On track

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

	TABLE 3: RECOMMENDATIONS ACCEPTED			
	To Date		Period	
	All	High	All	High
Total new recommendations made	98	53	98	53
Rejected	0	0	0	0
Total recommendations accepted	98	53	98	53
% accepted	100%	100%	100%	100%

2 BACKGROUND

2.1 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

3.1 None.

4 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

Accounts and Audit Regulations 2015

Internal Audit Plan 2018/19

Public Sector Internal Audit Standards (2017 update)

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Cyber risk

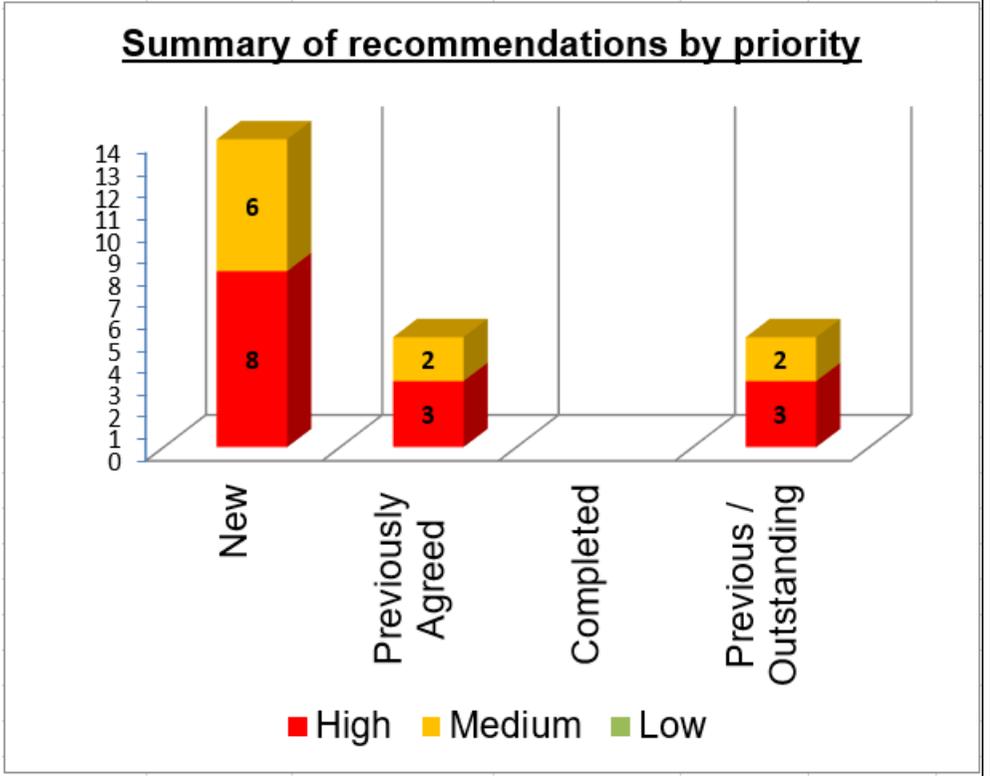
Executive Summary

Department: Strategy & Resources	Overall Opinion: Limited Assurance 	Direction of Travel: This is the first review of the cyber risk. 
Previous review: IT Security 2016-17 issued July 2017	<p><u>Scope and Approach:</u> This review considered the controls that address aspects of the Cyber risk as set out within the Strategic Risk Register in order to provide assurance that the controls are operating effectively.</p> <p>In addition, where the City Council is receiving external assurances, to confirm that these are being provided and mitigating actions taken.</p>	

High Priority Recommendations

- Page 55
- 2017-18 R3 A Cyber-Risk Strategy should be developed corporately to address the education /skills requirements as well as and the technologies and resourcing required now and in the future for City Council to combat the cyber threat
 - 2017-18 R4 As part of the strategy and in order to provide citizens, partners and suppliers with some confidence that their data is being safeguarded, the City Council should seek a nationally recognised accreditation in order to demonstrate its on-going compliance with standards, such as Cyber Essentials Plus or ISO 27000.
 - 2017-18 R5 The IMAB should establish, at its earliest opportunity, an assurance framework in order that managers may report on the performance of controls and any emerging risks which may need to be addressed by the City Council.
 - 2017-18 R8 Managers should be reminded of their responsibility to notify any change in circumstance to the ICT Service Desk.

In addition, IMAB may wish to monitor this control and any subsequent issues as a means of ensuring the security of the data.
 - 2017-18 R9 The Exceptions policy should be reviewed to ensure that it remains relevant.

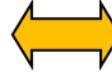
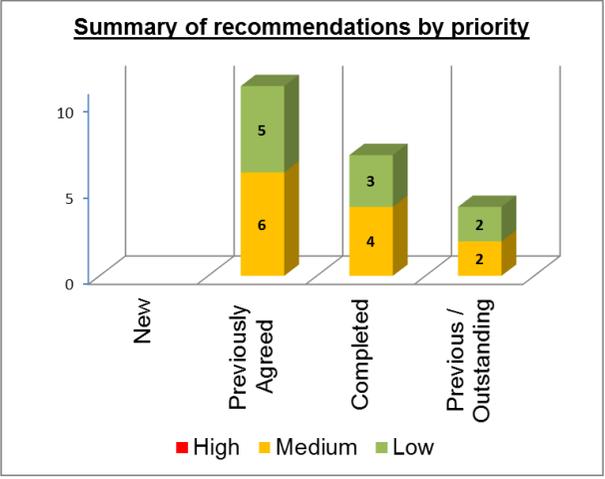
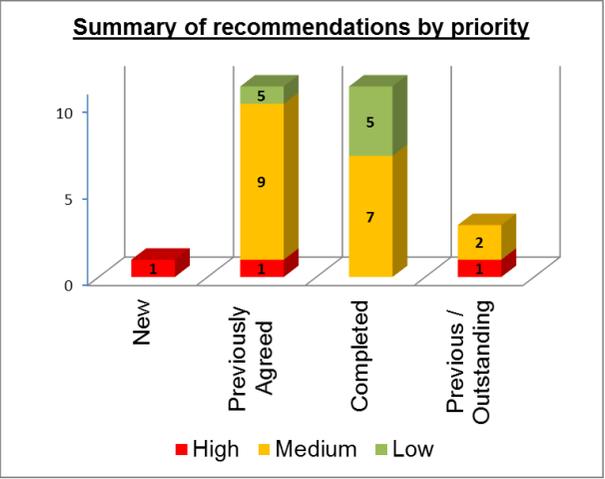


Continued

- 2017-18 R11 Patching is one of the key controls and the level of achievement should be reported, to ITLT and to the IMAB as part of the assurance framework.
- 2017-18 R12 A Social engineered assessment should be undertaken to identify risks to the City Council and the opportunities to embed good practice within the organisation.
The outcome of the initial assessment could then be used as baseline for reporting the level of assurance to the IMAB.
- 2017-18 R13 The incident management plan should be reviewed and updated.
In addition, the reporting of incidents should include categories of cyber related incidents, as set out in appendix c, to allow for monitoring and reporting by type of incident.
- 2015-16 R1 The Information Security Policy should be reviewed, in conjunction with Information Management Services and submitted to the Audit Committee as part of the City Councils Governance and Risk Management arrangements
- 2015-16 R3 All colleagues, including contractors, temporary staff and casuals, should undergo the Information Security and Data Protection training in line with the requirements of the Financial Regulations v7.24 (D2).
In addition, Corporate Directors should establish monitoring and reporting arrangements to ensure that the training is successfully completed. This information should form part of an annual report to Audit Committee on IT governance.
- 2015-16 R4 All colleagues should be required to undergo the Information Security Awareness Training and Data Protection Training prior to having formal access to the IT network.
In addition, Managers should be informed where either colleagues fail to complete the course or fail to achieve a pass in order that they may be offered additional support and training to ensure that appropriate standards may be achieved and maintained.

Council Tax and Business Rates 2017-18

Executive Summary

<p>Department: Strategy & Resources</p> <p>Previous review: March 2017</p>	<p>Overall Opinion:</p> <p>Council Tax - Significant Assurance </p> <p>Business Rates - Limited Assurance </p>	<p>Direction of Travel:</p> <p>Council Tax </p> <p>- No change</p> <p>Business Rates </p> <p>- No change</p>																																								
<p><u>Scope and Approach:</u> This review considered the following aspects:</p> <ul style="list-style-type: none"> • 2016-17 closedown process (including write-offs) • The transfer of balances between old and new year. • The timetable for reviewing discounts and exemptions • Reconciliation of CTax and NNDR to cash receipting and to the ledger • Opening debit for 2017-18 • In year write-offs • Business Rates transitional arrangements following the revaluation effective 1st April 2017. 																																										
<p>High Priority Recommendations</p> <p>2015/16 R1 (Business Rates)</p> <p>Management should install and promote a rigorous and robust regime over the inspection process to enable the Council to benefit from increased income as highlighted by the CCFT investigations.</p> <p>2017/18 R1 (Business Rates)</p> <p>All granting of relief should be supported by adequate evidence. Decisions on individual relief awarded should not be made by Councillors.</p>	<p>Council Tax</p> <p><u>Summary of recommendations by priority</u></p>  <table border="1"> <caption>Council Tax Recommendations by Priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>0</td> <td>6</td> <td>5</td> </tr> <tr> <td>Completed</td> <td>0</td> <td>4</td> <td>3</td> </tr> <tr> <td>Previous / Outstanding</td> <td>0</td> <td>2</td> <td>2</td> </tr> </tbody> </table>	Category	High	Medium	Low	New	0	0	0	Previously Agreed	0	6	5	Completed	0	4	3	Previous / Outstanding	0	2	2	<p>Business Rates</p> <p><u>Summary of recommendations by priority</u></p>  <table border="1"> <caption>Business Rates Recommendations by Priority</caption> <thead> <tr> <th>Category</th> <th>High</th> <th>Medium</th> <th>Low</th> </tr> </thead> <tbody> <tr> <td>New</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Previously Agreed</td> <td>1</td> <td>9</td> <td>5</td> </tr> <tr> <td>Completed</td> <td>0</td> <td>7</td> <td>5</td> </tr> <tr> <td>Previous / Outstanding</td> <td>1</td> <td>2</td> <td>0</td> </tr> </tbody> </table>	Category	High	Medium	Low	New	1	0	0	Previously Agreed	1	9	5	Completed	0	7	5	Previous / Outstanding	1	2	0
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Completed	0	7	5																																							
Previous / Outstanding	1	2	0																																							

Main Accounting 2017-18

Executive Summary

Directorate: Strategy and Resources Previous reviews: Main Accounting 2016-17; May 2017	Overall Opinion: Significant Assurance 	Direction of Travel: There has been no material change in the level of control since our last review 
	<u>Scope and Approach:</u> The scope for this audit review was as follows:- <ul style="list-style-type: none">• Review documentation of the systems and controls in place, ensuring that the controls are adequate to mitigate the main risks.• A review of the work carried out by the Finance Team, including the supporting processes in respect of ledger and interface integrity monitoring• The processes operated by departmental finance staff in respect of journal input.• The expectations of NCC external auditors in terms of expected key controls	
High Priority Recommendations None to report		

Budgetary Control 17-18

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Strategy and Resources</p> <p>Previous reviews: Budgetary Control 2016-17 – May 2017</p> <p>Page 59</p>	<p>Overall Opinion:</p> <p>Significant Assurance </p>	<p>Direction of Travel:</p> <p>There has been no material changes in the level of control since our last review </p>
<p>High Priority Recommendations:</p> <p>None to report</p>	<p><u>Scope and Approach:</u></p> <p>The scope for this audit review was as follows:-</p> <ul style="list-style-type: none">• Budget approval from Full Council prior to the commencement of the financial year.• Loading of the approved budget onto the Oracle financial system; to be used for monitoring against the actual spend as the financial year progresses.• Existence of budget monitoring procedures with clear timetable and responsibilities in place.• Treatment of budget virements, including authorisation and compliance with the requirements of Financial Regulations. <div data-bbox="1355 861 1998 1268"><p><u>Summary of the recommendations by priority</u></p><p>1</p><p>■ High ■ Medium ■ Low</p></div>	

Capital Strategy

Executive Summary

Department: Strategic Finance – Capital Accounting	Overall Opinion: Limited Assurance 	Direction of Travel: Improving 
Previous review: February 2014	<u>Scope and Approach:</u> This review considered the following aspects of the Capital Strategy & Fixed Assets Register: <ul style="list-style-type: none"> • Capital Programme approvals • Capital Strategy • Capital monitoring • Capital additions and disposals • Fixed Asset Register • Asset Management Plan 	

High Priority Recommendations

2017/18 R2 Project Managers should regularly review their transactions and the total spend on the projects they manage. The Capital Team should review the process for reporting on capital spend against the programme at project level financial status and scheme progress. Failure to forecast or monitor should be highlighted to the relevant Corporate Director who under Financial Regulations has a responsibility for managing the approved schemes in accordance with the Capital Strategy. Continued failure should be highlighted to Executive Board.

2017/18 R3 The Capital Team should create a risk register, where the key risks related to capital programme and asset register are captured and monitored.

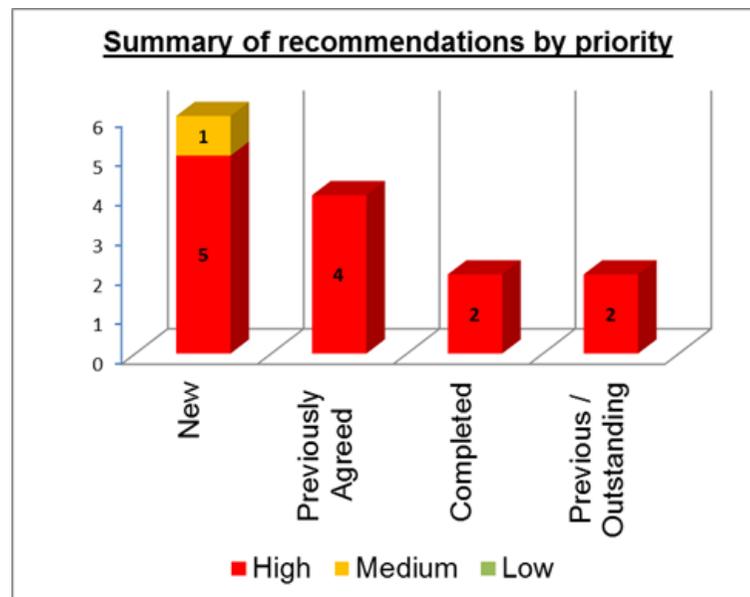
2017/18 R4 The process of disposing of Council assets should be outlined to ensure consistency and compliance.
 A Disposal Policy should be created and approved.

2017/18 R5 An Asset Management Strategy should be in place and approved.

2017/18 R6 Any valuations made should be clearly compliant with the Council's existing asset valuation guidelines. Reasons for alternative treatments should be clearly stated and supported by independent advice.

2012/13 01 In line with Financial Regulations (Paragraph A.11) a Capital Strategy should be put in place and should be linked with other key documents such as an Asset Management Plan. Along with the Strategic Choices process, this should ensure that the Council's Capital Programme is developed in line with current plans and available resources.

The new Capital Strategy should require reporting of approvals to the capital accounting team and would ensure that projects are entered onto the Programme in a timely fashion.



Continued

2010/11 01 (Property Disposal & Asset Management Audit) It is recognised that workforce reductions, reorganisations and the focus on the Workplace Strategy have all contributed to the lack of an AMP; however the need to have a strategic overview of the council's assets which is aligned with the Medium Term Financial Plan and which supports the Capital Programme should be addressed as soon as possible.

NCC Accounts Receivable 2017-18

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Resources</p>	<p>Overall Opinion: Limited Assurance</p>		<p>Direction of Travel: No evidence has been provided of progress against the agreed actions.</p>
<p>Previous reviews: Accounts Receivable (24th May 2017) – annual review</p>	<p><u>Scope:</u> The scope of this review considered the following aspects of the system:</p> <ul style="list-style-type: none"> Follow-up on outstanding recommendations from previous audit reviews 		

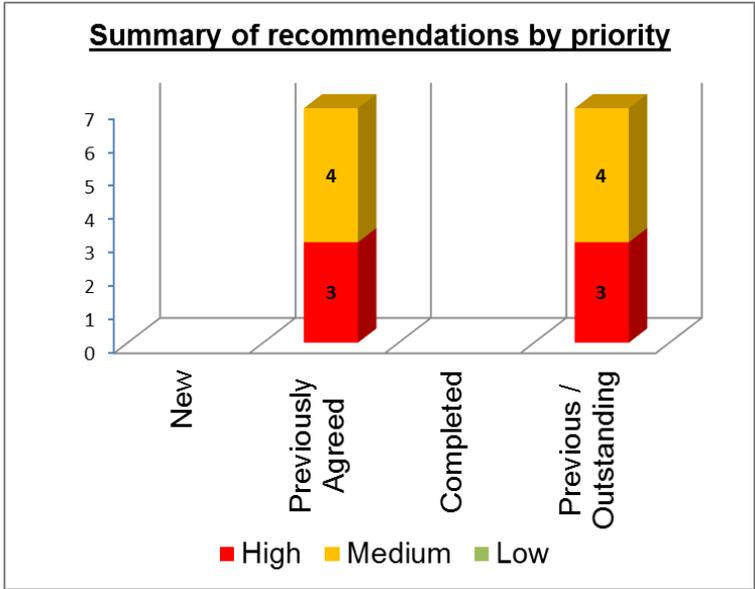
High Priority Recommendations

2016/17 R2 - Management should:

- Review the use of the existing Consolidated Debt system and ascertain if there is a need to replace it.
- Review the usage made of the existing system and if appropriate take steps to decommission the system to ensure that the City Council remains compliant with the Data Protection Act.

2014/15 R1 - Financial Regulations should be re-drafted to take account of third parties being involved within the debt collection process.

2014/15 R14 - Those areas raising bulk invoices should be reviewed in order that the process may be streamlined and become more efficient with the possibility of introducing feeder systems from source records.



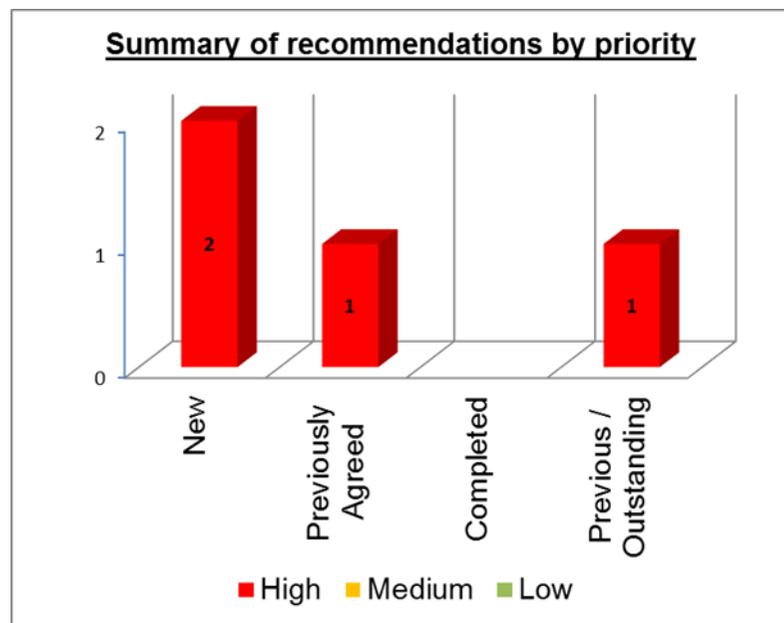
NCC Accounts Payable 2017-18

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Resources</p>	<p>Overall Opinion: Limited Assurance </p>	<p>Direction of Travel: </p>
<p>Previous reviews: May 2017</p>	<p>The scope of this review has covered the following aspects of the system:</p> <ul style="list-style-type: none"> • Authorisation of payments • Invoices paid via CHAPS / BACS • Invoices on Hold 	

High Priority Recommendations

- Page 63
- 2017-18 R1 A review should be undertaken to establish the need for making payments through the CHAPS/BASC process. From this review, a process should be developed that reflects the additional banking and administrative cost and mitigates the risk of potential duplicate payments.
 - 2017-18 R2 NCC to work with EMSS to resolve all invoices on hold over 120 days, and monitor turnover of invoices on hold to ensure appropriate actions are taken within a reasonable timescale.
 - 2014-15 R1 Colleagues should be reminded that all RFPs should be appropriately authorised before being submitted to EMSS for payment.



Development - Housing Grants – Follow-up

Executive Summary

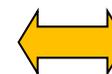
Directorate: Development and Growth

Overall Opinion:

Significant Assurance



Direction of Travel:



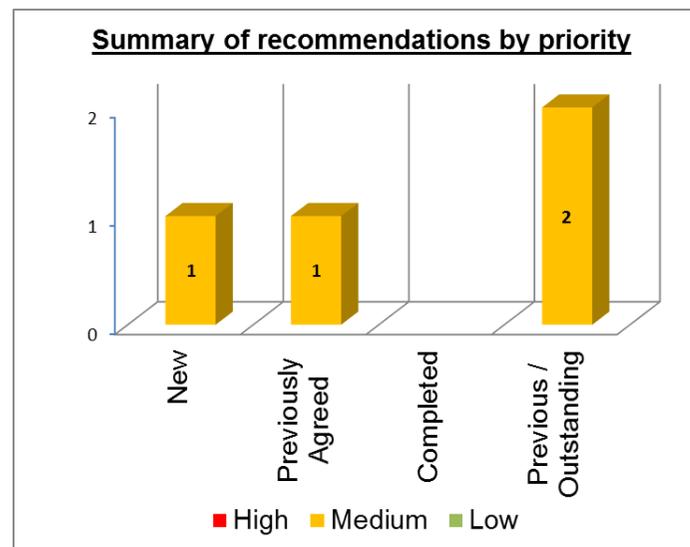
Previous reviews: Development – Grants 30 September 2016

Scope and Approach:

- ❖ Follow up of the recommendation made in the original report.

High Priority Recommendations:

No new or previous recommendations were classified as High Priority.



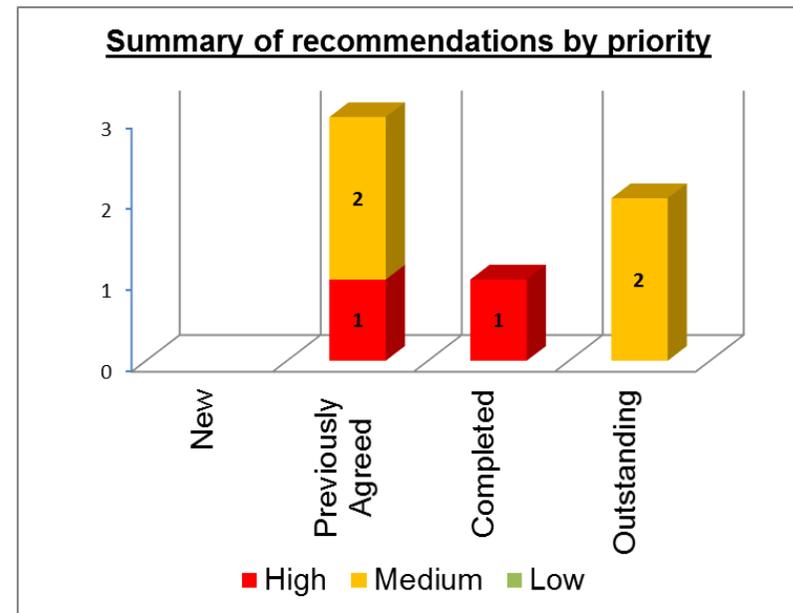
Work Perks – Consultancy – Follow-up

Executive Summary

Organisation: Nottingham City Council Directorate: HR & Transformation	Overall Opinion: Limited Assurance 	Direction of Travel: Improvements have been made 
Previous reviews: Works Perks – Consultancy July 2017 Works Perks – Salary Sacrifice 2016/17	<u>Scope and Approach:</u> The Scope was limited to a review of recommendations from the July 2017 report	

Outstanding High Priority Recommendations – None

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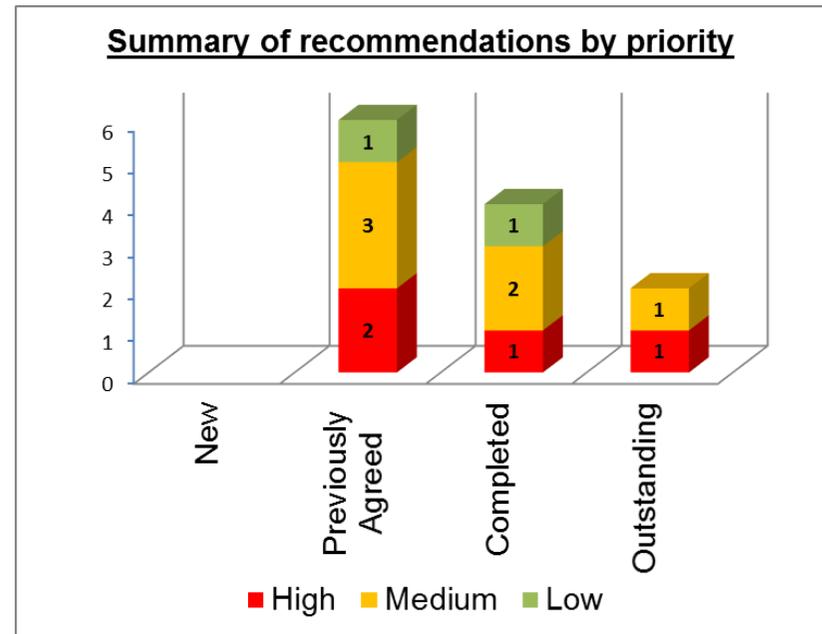
Meals at Home – Follow-up

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Neighbourhood Services</p>	<p>Overall Opinion: Significant Assurance </p>	<p>Direction of Travel: No Changes since last review </p>
<p>Previous reviews: Meals at Home, September 2017</p>	<p><u>Scope and Approach:</u> The Scope was limited to a review of recommendations from the previous report</p>	

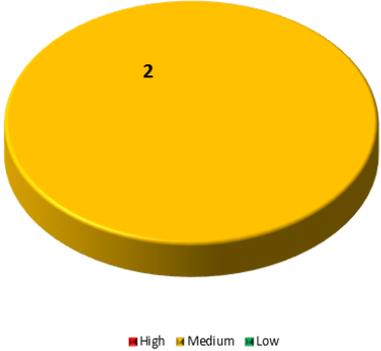
Outstanding High Priority Recommendations

2017-18 R2 Financial roles and responsibilities within the Meals at Homes service and Parking Services should be finalised as soon as possible ensuring there is overview of all financial processes by an appropriate staff member



Councillor Allowances 2017-18

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Democratic Services</p> <p>Previous reviews: Councillors Expenses 2016-17</p>	<p>Overall Opinion: Significant Assurance </p>	<p>Direction of Travel: </p>								
<p><u>Scope and Approach:</u></p> <p>The scope for this audit review was as follows:-</p> <ul style="list-style-type: none">• Evidence to ensure allowances are monitored• Allowances/expense payments are publicised• Expenses are supported by valid receipt/invoice• Payments are in accordance with policies adopted by NCC										
<p>High Priority Recommendations:</p> <p>Page 67 None to report</p>	<p><u>Summary of the recommendations by priority</u></p>  <table border="1"><caption>Summary of the recommendations by priority</caption><thead><tr><th>Priority</th><th>Count</th></tr></thead><tbody><tr><td>High</td><td>2</td></tr><tr><td>Medium</td><td>0</td></tr><tr><td>Low</td><td>0</td></tr></tbody></table>		Priority	Count	High	2	Medium	0	Low	0
Priority	Count									
High	2									
Medium	0									
Low	0									

Libraries Income – Follow-up

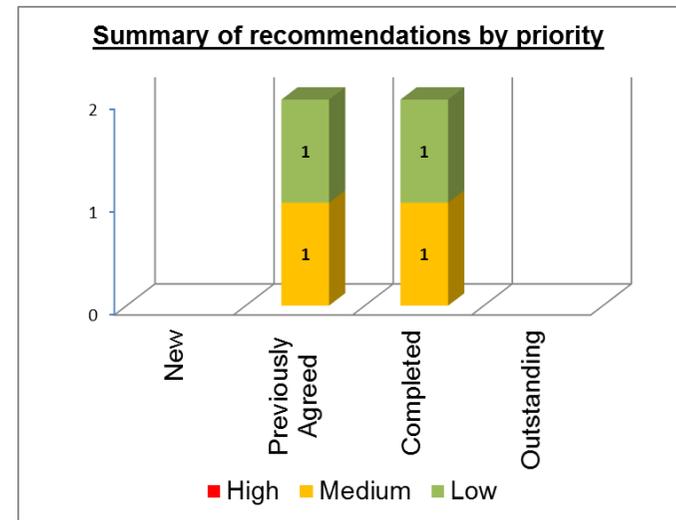
Executive Summary

<p>Organisation: Nottingham City Council Department: Commercial & Operations</p>	<p>Overall Opinion: Significant Assurance </p>	<p>Direction of Travel: No Changes since last review </p>
<p>Previous reviews: Libraries Income Collection, January 2018</p>	<p><u>Scope and Approach:</u> The Scope was limited to a review of recommendations from the January 2018 report</p>	

Outstanding High Priority Recommendations

There are none to report

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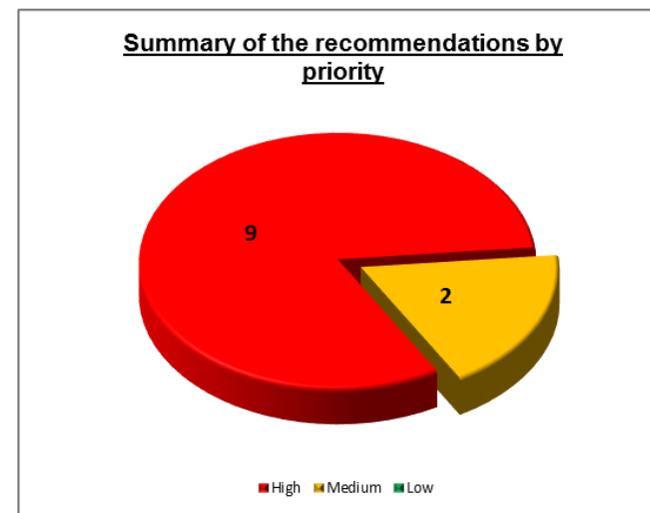
Property Acquisitions

Executive Summary

Directorate: Property Previous review: There have been no recent reviews in this area.	Opinion: Governance and Risk Management: Limited Assurance 	Direction of Travel: N/A
	Acquisition Process: Significant Assurance 	
	<u>Scope and Approach:</u> This review considered the following: <ul style="list-style-type: none"> • Review of the Investment Strategy • Review of the procedures in place for investment acquisitions • Selection of a sample of acquisitions to ensure adherence to procedures • Review of current portfolio • Review of risk management processes 	

High Priority Recommendations

2017/18 R1	The investment Strategy should be reviewed and refreshed to include specific details of risk management processes.
2017/18 R2	a)The Investment Panel and SAM Board should consider what other assurance reports can be produced to assist the Board in its governance responsibilities. b) The Head of Portfolio Investment and Development should attend the Board.
2017/18 R3	Risk Registers should be created for individual properties and the portfolio as a whole and reviewed as part of the risk management process.
2017/18 R4	A process should be agreed with Treasury Management to notify them of commercial acquisitions likely borrowing requirements over a 3 year period.
2017/18 R5	Panel minutes should be expanded to fully document discussions and decisions taken by the panel.
2017/18 R6	a) A prompt to provide the Insurance Team with required information should be included and signed off on the acquisitions checklist. b) Insurance risks should be identified and included on risk registers.
2017/18 R7	The team should investigate preparing regular post-acquisition reports covering all compliance, risks and opportunities to be received by the Head of Service as part of an assurance framework.



Community Centres – Financial Procedures

Executive Summary

Department: Commercial & Operations Previous review: Not previously reviewed.	Overall Opinion: Limited Assurance 	Direction of Travel: N/A
	<p><u>Scope and Approach:</u> This review considered the processes and controls operated by 3 Community Associations (Wollaton, Beechdale, Birchover) in the following areas:</p> <ul style="list-style-type: none"> • Income • Expenditure • Bank Accounts / Cheque and paying in books • Petty Cash • Room Hire • GDPR 	

High Priority Recommendations

Community Centres Team

2018-19 R1 - The Community Centres Team should ensure that appropriate action is taken for each of the recommendations in the action plan

Note the chart excludes the recommendation above.

Wollaton Park Community Association

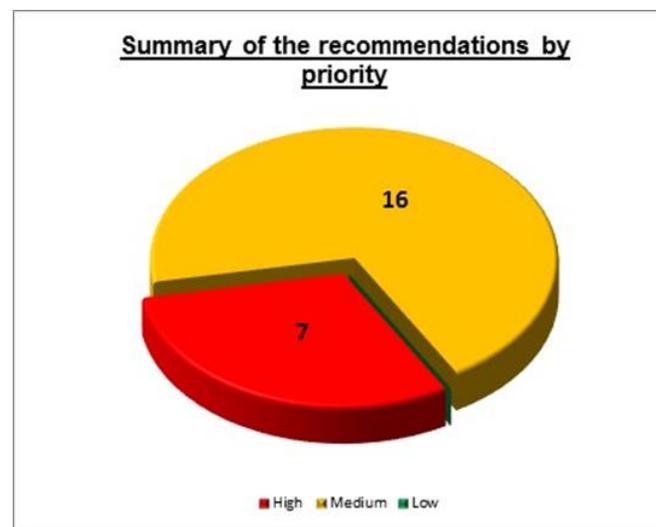
2018-19 R8 - The Association should establish a formal retention policy that complies with the requirements of the GDPR.

Beechdale Community Association

2018-19 R14 - The Association should not make personal loans.

2018-19 R15 - Cheques should not be pre-signed.

2018-19 R20 - The Association should ensure that it complies with the requirements of the GDPR. This could include access to NCC training.



Continued

Birchover Community Association

2018-19 R21 - The Association should ensure that the accounting records are brought up to date as a priority and are updated on a regular basis.

2018-19 R22 - Cheques should not be pre-signed.

2018-19 R24- The Association should ensure that it complies with the requirements of the GDPR.

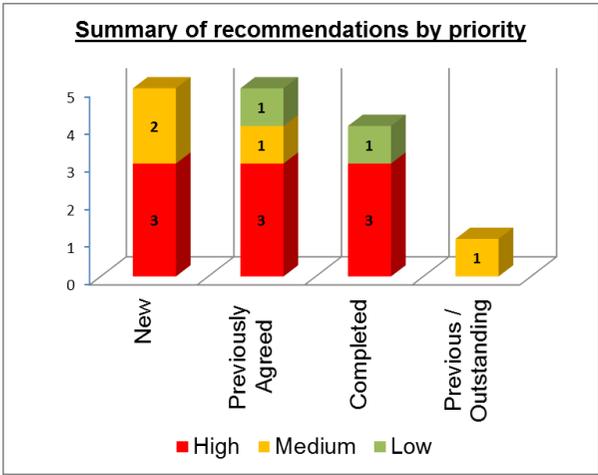
Housing Benefits

Executive Summary

<p>Department: Strategy & Resources</p> <p>Previous review: August 2016</p>	<p>Overall Opinion:</p> <p>Significant Assurance</p>	<p>Direction of Travel:</p> <p>Increased Admin Delay and delayed or missing reconciliations primarily due to resources issues. </p>
<p><u>Scope and Approach:</u> This review considered the following aspects of the Benefits service:</p> <ul style="list-style-type: none"> • Subsidy outturn, workload balance and quality control • Reconciliations and payments processes • Parameter control process • Review of Previous Recommendations 		

High Priority Recommendations

- R1 The Debtors Reconciliations should be completed for April to July 2017, and ongoing reconciliations brought up to date as soon as possible.
- R3 Ensure that an additional NCC client team member has access and training to upload ATLAS files to improve resilience for this key activity.
- R5 The Finance Team Leader – Contract Management should identify parameters which indicate cost benefit in deploying additional resources, and obtain authority to make those resources available where indicated so as not to lose subsidy (of a greater value).



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Public Transport

Executive Summary

<p>Department: Development & Growth</p>	<p>Overall Opinion:  Limited Assurance</p>	<p>Direction of Travel: N/A</p>
<p>Previous review: There have been no recent audits in this area</p>	<p><u>Scope and Approach:</u> This review considered the following aspects of Public Transport:</p> <ul style="list-style-type: none"> ❖ Concessionary Fares – application process and reimbursement of monies ❖ Tendered Operator Contracts ❖ Follow up of Travel Centre income issue ❖ Robin Hood Card 	

High Priority Recommendations 2018/19

R1 Approval to award contracts on a De Minimis basis should be obtained for all contracts. Reports should contain clear information on risk, particularly where this relates to EU tendering regulations.

R2 Link services should be reviewed and a timetable created with procurement to ensure tendering exercises take place for all routes.

R5 The team should work to improve independent reporting and routinely use this to evaluate and monitor operator information received.

R6 The team should work with operators to ensure hot listing of Robin Hood and Concessionary cards is operational across all operators as soon as possible.

R7 The team should undertake investigations from NFI biannual matching and consider purchasing the quarterly matching process.

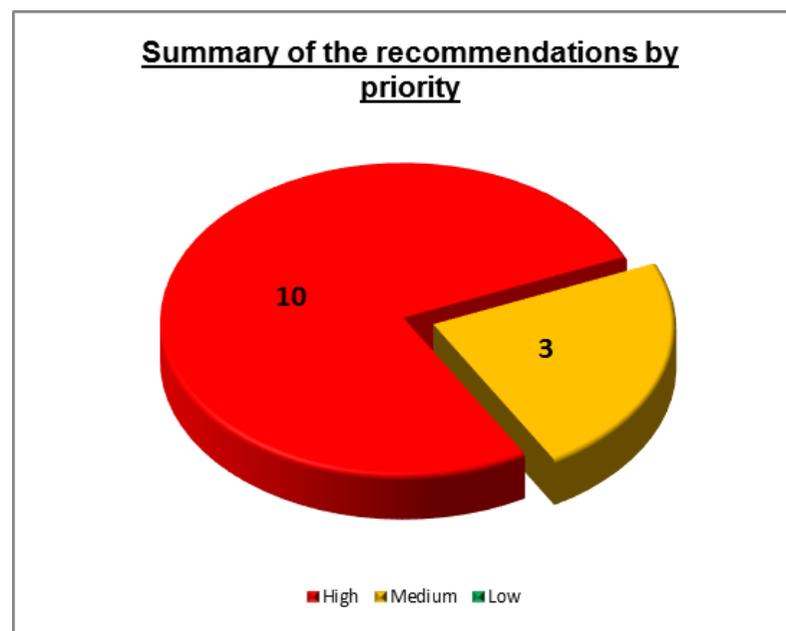
R8 The team should work with operators to finalise the Operators Agreement.

R9 The team should work with operators to ensure that the risk of uncollected income is carried by the operators.

R10 Written instructions for key tasks should be created.

R11 Additional staff should be trained to provide cover, support and review of key tasks.

R13 An NCC risk register should be created for the scheme and reviewed and reported on a regular basis to senior management.



European Funding – Follow-up

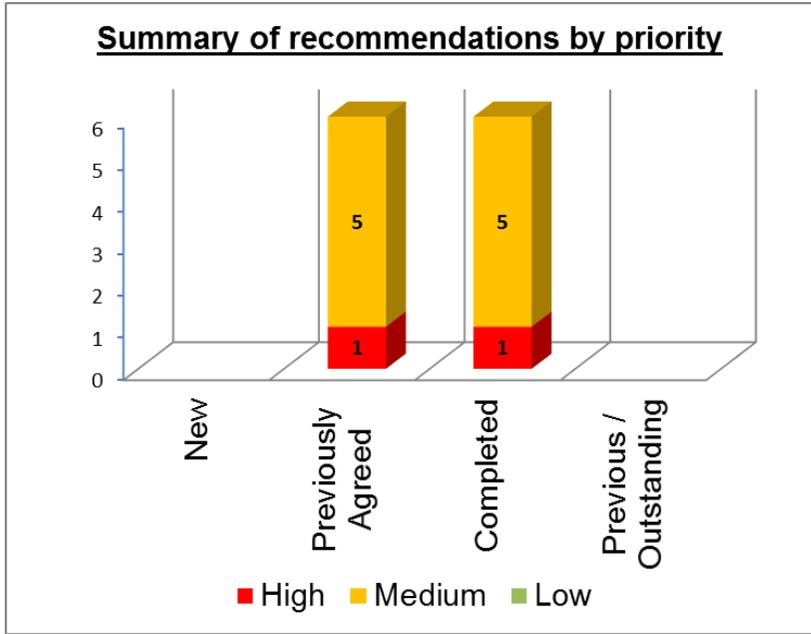
Executive Summary

Organisation: Nottingham City Council Directorate: Economic Policy & Partnerships	Overall Opinion: Significant Assurance 	Direction of Travel: Improving 
Previous reviews: European Funding 2017/18 29 September 2017	<u>Scope and Approach:</u> Follow up of the recommendations made in the 2017/18 report	

High Priority Recommendations:

All recommendations are complete and no new recommendations have been made.

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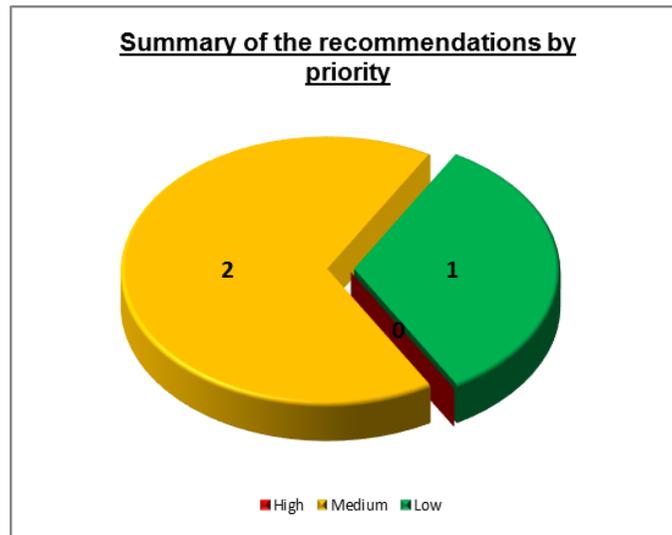
Housing Rents

Executive Summary

<p>Department: Development and Growth</p> <p>Previous review: Housing Rents 2015/16</p> <p>Page 75</p>	<p>Overall Opinion:  Significant Assurance</p>	<p>Direction of Travel:  Assurance level maintained</p>
<p><u>Scope and Approach:</u> This review considered the following aspects of the rents system:</p> <ul style="list-style-type: none">❖ Annual rents are approved as part of the financial planning process❖ Housing stock is reconciled on an annual basis❖ Rent income collected through the Radius system and posted onto the general ledger is reconciled to rent income received on the housing rents module of the Housing system.❖ Low or nil rent properties on the HRA are reviewed on at least an annual basis for appropriateness.❖ Annual rent increases have been applied to the system correctly.❖ There is adequate performance management of void properties.❖ There are appropriate access controls to the Northgate Housing System		

High Priority Recommendations

There are no high priority recommendations



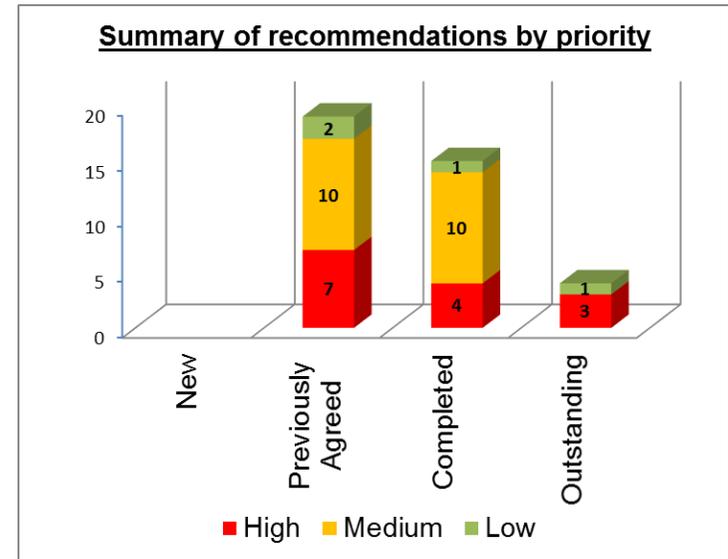
Works Perks – Salary Sacrifice – Follow-up

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Strategy & Resources</p>	<p>Overall Opinion: Limited Assurance </p>	<p>Direction of Travel:  Substantial improvements have been made</p>
<p>Previous reviews: Works Perks – Salary Sacrifice 2016/17</p>	<p><u>Scope and Approach:</u> The Scope was limited to a review of recommendations from the 2016/17 report</p>	

Outstanding High Priority Recommendations

- Page 76
- R1** – Oracle should be adjusted to show one deduction from the gross pay. Monies incorrectly paid over to HMRC should be recovered
 - R2** – A system should be implemented that ensures employees paid through an external payroll provider have the correct deductions set up. There should be continual monitoring to ensure the payroll provider pay the deductions over to NCC
 - R12** – NCC should ensure that OMP is being paid at the correct rate



Catering School Meals – Follow-up

Executive Summary

<p>Organisation: Nottingham City Council Directorate: Commercial and Operations</p>	<p>Overall Opinion: Limited Assurance </p>	<p>Direction of Travel: Improving </p>
<p>Previous review: Catering – School Meals 2016/17.</p>	<p><u>Scope and Approach:</u> The scope was limited to a review of outstanding recommendations from the 2016/17 report.</p>	

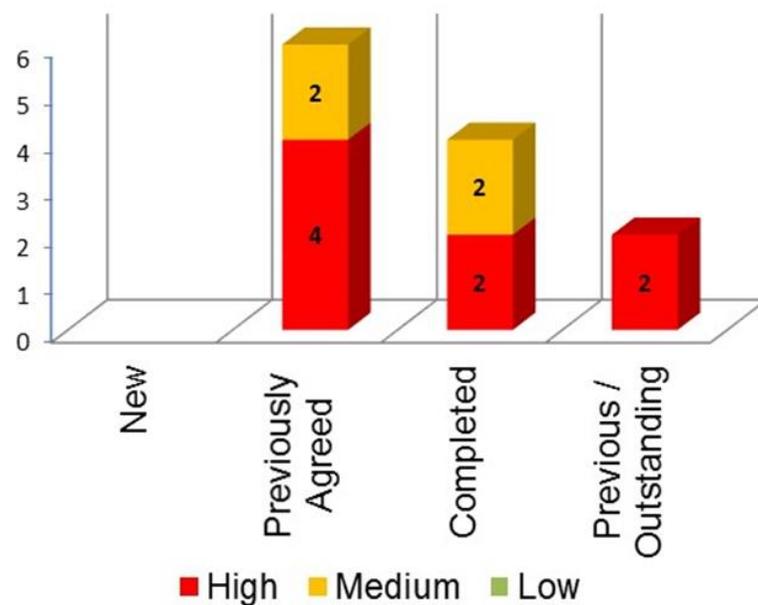
High Priority Recommendations Outstanding

R2 A periodic reconciliation should be carried out to ensure that all income due to the service is being received.

R3b Work should be undertaken to calculate the exact value of the undercharges and make appropriate charges to the schools concerned.

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Summary of recommendations by priority



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Department	Division	Activity	Level of Assurance	High	Medium	Low	
Commercial and Operations	Community Protection	Community Centres Review	Limited Assurance	7	16	0	
	Neighbourhood Services	Meals at Home - Follow-up	Significant Assurance	1	1	0	
		Catering School Meals - Follow-up	Limited Assurance	2	0	0	
	Sports, Culture & Parks	Libraries Income - Follow-up	Significant Assurance	0	0	0	
Commercial and Operations Total				10	17	0	
Page 9 Development & Growth	Economic Development	DFG Capital Grant 2018-19	Grant	0	0	0	
		EU Projects Follow Up	Significant Assurance	0	0	0	
	Planning and Regeneration	Development - Housing Grants	Significant Assurance	0	2	0	
		Housing Rents	High Assurance	0	2	1	
		Growth Point Grant 2017-18	Grant	0	0	0	
	Strategic Asset & Property Management	Property Acquisitions	Acquisition Process	Significant Assurance	9	2	0
			Governance and Risk Management	Limited Assurance			
	Traffic & Transport	Public Transport	Limited Assurance	10	3	0	
Development & Growth Total				19	9	1	
Strategy and Resources	HR & Customer (Formerly Organisational Transformation)	Works Perks – Consultancy – Follow Up	Limited Assurance	0	2	0	
		Works Perks Salary Sacrifice - Follow Up	Limited Assurance	3	0	1	
	Information Technology	IT Audit - Cyber Security	Limited Assurance	11	8	0	
	Legal & Governance	Councillor Allowances	Significant Assurance	0	2	0	
	Strategic Finance	NCC Accounts Receivable	Limited Assurance	3	4	0	

Department	Division	Activity	Level of Assurance	High	Medium	Low
		NCC Accounts Payable	Limited Assurance	3	0	0
		Housing Benefits	Significant Assurance	3	3	0
		Council Tax	Significant Assurance	0	2	2
		NNDR	Limited Assurance	2	2	0
		Main Accounting	Significant Assurance	0	0	0
		Budgeting	Significant Assurance	0	1	0
		Capital Strategy & Fixed Assets Register	Limited Assurance	7	1	0
Strategy and Resources Total				32	25	3
Grand Total				61	51	4

Summary of performance against updated Internal Audit Plan 2018/19 – Quarter 2

Audit Category	Planned Days	Actual Days
Governance	200	98
Organisation	65	7
Key Financial Systems	141	85
Procurement & Projects Programme Management	290	43
Big Ticket / Risk Based Service Reviews	205	167
Compliance / Challenge	250	118
ICT and Information Governance	86	37
Counter Fraud	500	304
Corporate Fraud Strategy	100	55
Companies / Other Bodies	275	232
Consultancy, Advice and Support	280	173
Development , Redesign & Quality	120	40
Total Days	2512	1359

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AUDIT COMMITTEE - 30 NOVEMBER 2018

Title of paper:	Treasury Management 2018/19 Half Yearly Update	
Director(s)/ Corporate Director(s):	Laura Pattman, Strategic Director of Finance	Wards affected: All
Report author(s) and contact details:	Glyn Daykin, Senior Accountant - Treasury Management Tel: 0115 8763724	
Other colleagues who have provided input:	Members of Treasury Management Panel: Laura Pattman, Strategic Director of Finance Theresa Channell, Head of Corporate Finance Susan Risdall, Technical Team Leader Jo Worster, Strategic Finance Team Leader	
Recommendation(s):		
1	To note the treasury management actions taken in 2018/19 to date.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 To ensure that Councillors are kept informed of the actions taken by the Chief Finance Officer (CFO) under delegated authority. The currently adopted Treasury Management Code of Practice requires the CFO to submit at least three reports on treasury management each year; a policy and strategy statement for the ensuing financial year, a 6-monthly progress report and an outturn report after the end of the financial year.
- 1.2 The CIPFA Prudential Code requires local 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.

2 BACKGROUND

2.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare a Capital Strategy which is intended to provide the following: -

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

A report setting out our Capital Strategy will be taken to the full council, before 31st March 2019.

2.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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

Accordingly, treasury management is defined as:

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

- 2.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead. Full council or delegated body (Executive Board) to receive a Mid-year Review Report and an Annual Report, covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

- 2.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2018/19 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, and prudential indicators;
- A review of the Council's investment portfolio for 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19

- 2.5 The Treasury Management 2018/19 Half Yearly Update report is scheduled to be considered by Executive Board on 20 December 2018.

- 2.6 In respect of external investments, the Council is also required to ensure that the Ministry for Housing, Communities and Local Government (MHCLG) guidance is followed, with the priorities being, in order:
- security of the invested capital;
 - liquidity of the invested capital; and
 - commensurate with security and liquidity, an optimum return on those investments.
- 2.7 The successful identification, monitoring and control of risk are the prime criteria by which the effectiveness of the Council's treasury management activities is measured. Treasury management risks are identified in the Treasury Management Practices document. The main risks to the Council's treasury activities are:
- liquidity risk (inadequate cash resources);
 - market or interest rate risk (fluctuations in interest rate levels and, thereby, in the revenue impacts of loans and investments);
 - inflation risks (exposure to inflation);
 - credit and counterparty risk (security of investments);
 - refinancing risks (impact of debt maturing in future years);
 - legal and regulatory risk (i.e. non-compliance with statutory and regulatory requirements, risk of fraud).
- 2.8 The treasury management reports written during the financial year of 2018/19 will take account of the following updates to guidance: -
- CIPFA Code of Practice on Treasury Management 2017
 - CIPFA Prudential Code 2017
 - CIPFA Treasury Management in the Public Services Guidance Notes 2018
 - Statutory investment guidance where it has been updated in 2018 (MHCLG)
 - Statutory MRP guidance where it has been updated in 2018 (MHCLG)

The council is awaiting further guidance to be issued from CIPFA (expected by end of 2018) to clarify how the revised Prudential Code is to be applied alongside the updated investment guidance from MHCLG.

3 TREASURY MANAGEMENT ACTIVITY TO 30 SEPTEMBER 2018

- 3.1 Summary. This report sets out the 2018/19 performance in the 6 months to 30 September 2018 in respect of the management of the Council's external debt and investments. The key points are:
- 3.1.1 the balance of external debt increased by £46.9m and the average rate of interest payable on the debt portfolio decreased from 3.4% at 31 March 2018 to 3.3% at 30 September 2018 (see section 3.4.2);
- 3.1.2 the average rate of interest earned on short-term investments was 0.59%. This is benchmarked against the 7 day London Inter-bank (LIBID) rate provided by the Bank of England, which averaged 0.54% for the same period (see section 3.9.3);
- 3.1.3 the 2018/19 budget for General Fund Treasury Management was £51.747m (see section 3.12);
- 3.1.4 there were no breaches of the Prudential Indicators set for 2018/19 (see section 3.10).

3.2 The Economy and Interest rates during 2018/19

3.2.1 Growth and Inflation:

The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate.

3.2.2 Forecast Interest rates:

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June lead to the decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast.

3.2.3 Appendix B shows the money market interest rates, the PWLB borrowing rates for the half-year to 30 September 2018 and a forward view for PWLB rates.

3.3 Local Context

3.3.1 The Treasury Management Strategy Statement, (TMSS), for 2018/19 was approved by Full Council on 5 March 2018.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3.3.2 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

3.3.3 At 31/03/2018 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £1,369.8m. The revised forecast CFR at 31/03/2019 is now £1,534.2m due to the inclusion of 'planned' capital schemes yet to be approved including further commercial property acquisitions and the proposed program of works on the southern entrance to the city. Recognising schemes under development allows the council to understand the financial position if the schemes are subsequently approved and to set appropriate prudential indicators including the limit for external debt.

Table 1 below shows the original and expected financing arrangements of the capital programme. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

TABLE 1: CAPITAL EXPENDITURE	2018/19 Original Estimate £m	2018/19 Revised Estimate £m
Total capital expenditure	172.287	332.741
Financed by:		
Capital Receipts	16.244	22.680
Capital Grants & Contributions	53.725	77.812
Internal Funds / Revenue (inc. Major Repairs Reserve)	39.740	36.497
Total financing	109.709	136.989
Borrowing requirement	62.578	195.752

3.3.4 The council is evaluating further 'proposed capital schemes' that would increase the council's borrowing requirement, but as the financial implications of these schemes are yet to be fully quantified they have not been included in the above estimates.

3.4 Borrowing strategy

3.4.1 To finance the CFR the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

3.4.2 At 30/9/2018 the Council has increased the balance of external loans by £46.9m on the 31/3/2018 balance, as part of its strategy for funding previous years' capital programmes. The Council expects to borrow up to a further £99.5m in 2018/19 based on the revised capital program and forecast cash flow requirements.

3.4.3 **Table 2** summarises the Council's outstanding external debt at 30 September 2018 showing the value of debt and the average interest rate payable on the debt:

TABLE 2: DEBT PORTFOLIO				
	01-Apr-18		30-Sep-18	
DEBT	£m	Average Interest %	£m	Average Interest %
PWLB borrowing	787.3	3.448	799.2	3.487
Market loans inc LOBO	49.0	4.348	49.0	4.348
Local bonds & Stock	0.6	3.001	0.6	3.001
Temporary borrowing	28.7	0.43	63.7	0.682
TOTAL LOANS DEBT	865.6	3.398	912.5	3.316
Other inc PFI	208.0		206.5	
TOTAL DEBT	1073.6		1119.0	

At 30/09/2018, the Council had £1,119.0m of external borrowing including £206.5m of Private Finance Initiative (PFI) and lease liabilities. The Council has continued to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, subject to holding a minimum investment balance of around £30m. As at 31 March 2018 the Council had c.£296m of internal borrowing and expects to maintain this position as this is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

3.4.4 The chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the long-term plans change being a secondary objective.

Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. To date short-term interest rates have remained, and are likely to remain for a significant period, lower than long-term rates. The Council determined it to be more cost effective in the short-term to maintain the use internal resources and borrow short-term loans for some of its borrowing requirement.

3.4.5 The expected path for the interest rates on new fixed rate long term loans is a gradual increase over the coming years, but within this time frame there will be some volatility and therefore opportunities to fix new loans at low rates in periods where the UK Gilt yields fall.

3.4.6 In 2018/19 the Council has borrowed £20m from the Public Works Loans Board (PWLB) at a fixed rate of 2.31%, on a 50 year maturity loan basis to fund capital expenditure and maturing loans. The PWLB was the Authority's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, has also remained affordable and attractive. In the 6 months to 30 September a total of £224m of such loans were borrowed at an average rate of 0.542% and an average life of 41 days which includes the replacement of maturing loans.

3.5 Debt rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

3.6 PWLB Certainty Rate Update

The Council qualifies for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a 12 month period from 01/11/2017. The Council submitted its application to the MHCLG to access this reduced rate for a further 12 month period from 01/11/2018.

3.7 Lender's Option Borrower's Options (LOBO) Loans

The Council holds £34.000m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £14.000m of these LOBO loans have options during the year, none have been exercised by the lender. The Council acknowledges there is an element of refinancing risk even though in the current interest rate environment lenders are unlikely to exercise their options.

3.8 Housing Revenue Account (HRA) Treasury Management Strategy

From 1 April 2002, the Council's HRA was allocated a separate debt portfolio based on the appropriate proportion of the Councils existing debt at that time. As a result of existing debt maturing, and not being replaced, the HRA accumulates an internal borrowing position. The interest payable in 2018/19 is expected to be £12.593m at an average rate of 4.10%. This includes £37.161m of fixed rate internal borrowing maturing 01 October 2044.

3.9 Investments

3.9.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

3.9.2 As shown by forecasts in section 3.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.75% Bank Rate.

The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

- 3.9.3 The Council held £57.0m of investments as at 30 September 2018 (£31.3m at 31 March 2018) and the investment portfolio yield for the first 6 months of the year is 0.59% against a benchmark (Average 7-day LIBID) of 0.54%.
- 3.9.4 **Appendix A** provides details of the Council's external investments at 30 September 2018, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.
- 3.9.5 As the Council has maintained a reduced level of investments it remains insulated from the low interest rates on short-dated money market instruments. The relatively low investment balance is a reflection of the overall strategy to reduce credit risk exposure by reducing investment balances to fund the capital programme and the repaying of maturing debt.

Table 3 below summarises investment activity in 2018/19.

TABLE 3 - Investment Activity in 2018/19	Balance on 01/04/2018 £m	Balance on 30/09/2018 £m	Avg Rate/Yield (%) Avg days to maturity
Short term Investments (call accounts, deposits)			
- Banks and Building Societies with ratings of A- or higher	0	10.0	0.95% / 95
- Local Authorities	10.0	15.0	0.75% / 9
Long term Investments	0.0	0.0	N/A
Money Market Funds	21.3	32.2	0.70% / 1
TOTAL INVESTMENTS	31.3	57.0	0.75% / 20
- Increase/ (Decrease) in Investments £m		25.7	

- 3.9.6 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy have not been breached during the first 6 months of 2018/19.
- 3.9.7 The Council's budgeted investment return for 2018/19 is £0.120m, and performance for the year to date is £0.074m above budget for treasury investment income. This variance has been offset against the increases in variable/short term borrowing costs.
- 3.9.8 Counterparty credit quality was assessed and monitored with reference to credit ratings (the Council's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 3.10 Compliance with Prudential Indicators
The Council confirms compliance with its Prudential Indicators for 2018/19 set on 5 March 2018 as part of the Council's Treasury Management Strategy Statement.
- 3.10.1 The Council measures and manages its exposures to treasury management risks using the following additional indicators.

3.10.2 Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The limits on variable rate interest rate exposures are:

	2018/19 £m	2019/20 £m	2020/21 £m
Upper limit on variable interest rate exposure	300	300	300
Actual	141		

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

	Lower	Upper	Actual
Under 12 months	0%	25%	10%
12 months and within 24 months	0%	25%	3%
24 months and within 5 years	0%	25%	10%
5 years and within 10 years	0%	25%	14%
10 years and within 25 years	0%	50%	18%
25 years and within 40 years	0%	50%	19%
40 years and above	0%	50%	26%

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

	2018/19 £m	2019/20 £m	2020/21 £m
Limit on principal invested beyond year end	100	50	20
Actual	0		

3.10.5 Operational Boundary and Authorised Limit for External Debt: The operational boundary is based on the Council's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The table below shows the expected debt position during 2018/19.

	2018/19		2018/19
	Original Estimate	Current Position	Revised Estimate
	£m	£m	£m
Borrowing	952.8	912.5	1,012.6
Other long term liabilities*	201.0	206.5	201.0
Total debt (year end position)	1,153.8	1,119.0	1,213.6
Operational Boundary for external debt	1,313.8	1,313.8	1,313.8
Authorised limit for external debt	1,353.8	1,353.8	1,353.8

* *On balance sheet PFI schemes and finance leases etc.*

The increase in estimated borrowing in 2018/19 since the original estimate is due to the inclusion of 'planned' schemes within the capital program. No revision to this indicator is necessary as provision for planned schemes was included in the original approved limit. The additional capital expenditure will be subject to an affordability assessment as part of the business case approval from the Section 151 Officer.

3.11 Other

3.11.1 **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

3.11.2 **IFRS 9 accounting standard**

This accounting standard came into effect from 1st April 2018. It means that the category of investments valued under the available for sale category will be removed and any potential fluctuations in market valuations may impact onto the Surplus or Deficit on the Provision of Services, rather than being held on the balance sheet. This change is unlikely to materially affect the commonly used types of treasury management investments but more specialist types of investments, (e.g. pooled funds and third party loans), are likely to be impacted.

The Ministry of Housing, Communities and Local Government (MHCLG), are currently conducting a consultation for a temporary override to allow English local authorities

time to adjust their portfolio of investments. Councilors will be updated when the result of this consultation is known.

3.12 General Fund Revenue Implications

Treasury management payments comprise interest charges and receipts and provision for repayment of debt. A proportion of the City Council's debt relates to capital expenditure on council housing and this is charged to the HRA. The remaining costs are included within the treasury management section of the General Fund budget. The General Fund Treasury Management budget is £51.747m for 2018/19.

An estimated outturn for 2018/19 is included in the Quarter 2 Budget Monitoring report on the 18 December 2018 Executive Board agenda. The budget for 2019/20 will be submitted with the 2019/20 Treasury Management Strategy in February 2019.

3.13 Risk Management

Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is prepared for the treasury function.

The treasury management risk register's overall risk rating at 30 September 2018 was Likelihood = unlikely, Impact = minor. However there are a number of risks which are above target for which the Treasury Management working group continue to manage and take appropriate actions as required.

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

4.1 None

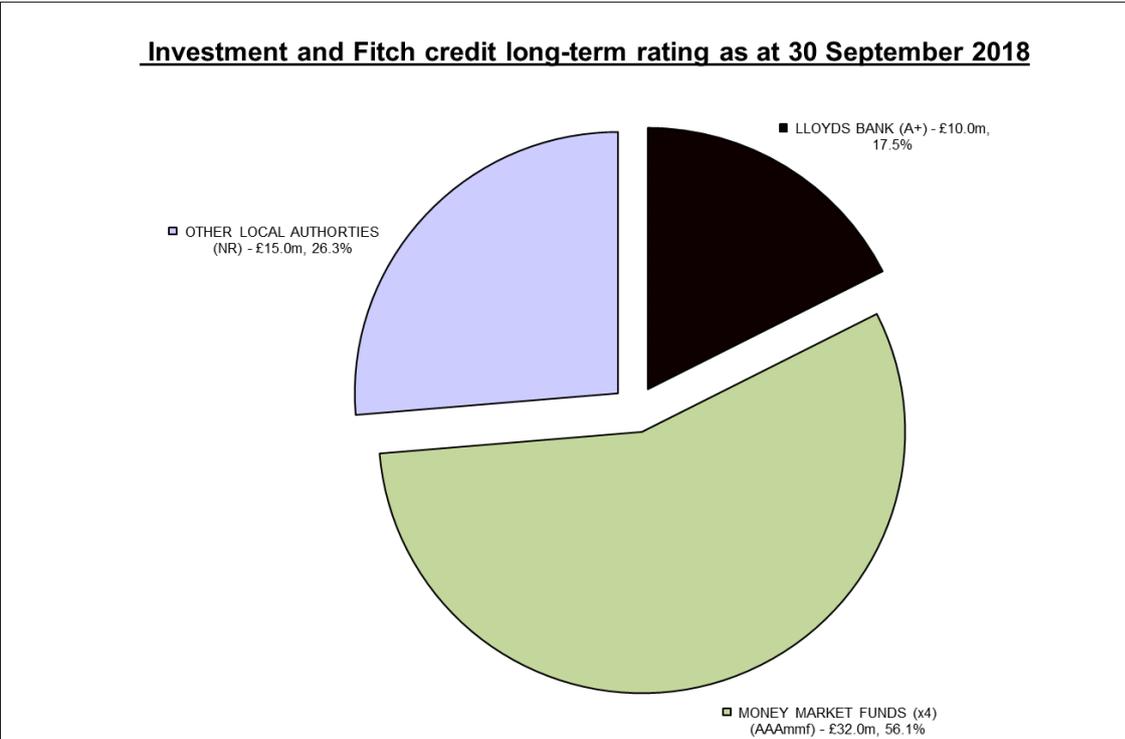
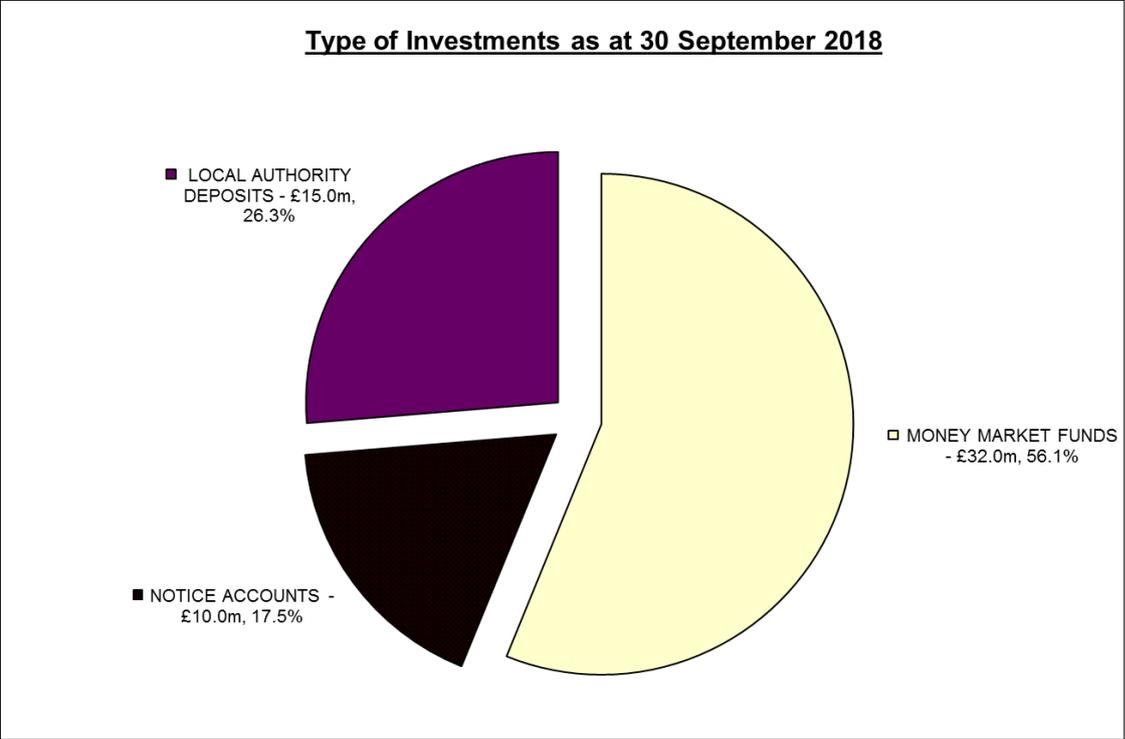
5 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- 5.1 Money Market and PWLB loan rates
- 5.2 Treasury Management in the Public Services Code of Practice 2017–CIPFA
- 5.3 Prudential Code 2017-CIPFA
- 5.4 Treasury Management in the Public Services Guidance Notes 2018 - CIPFA
- 5.5 Statutory guidance on local government investments 3rd Edition 2018
- 5.6 Statutory guidance on Minimum Revenue Provision (MRP) 2018

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APPENDIX A

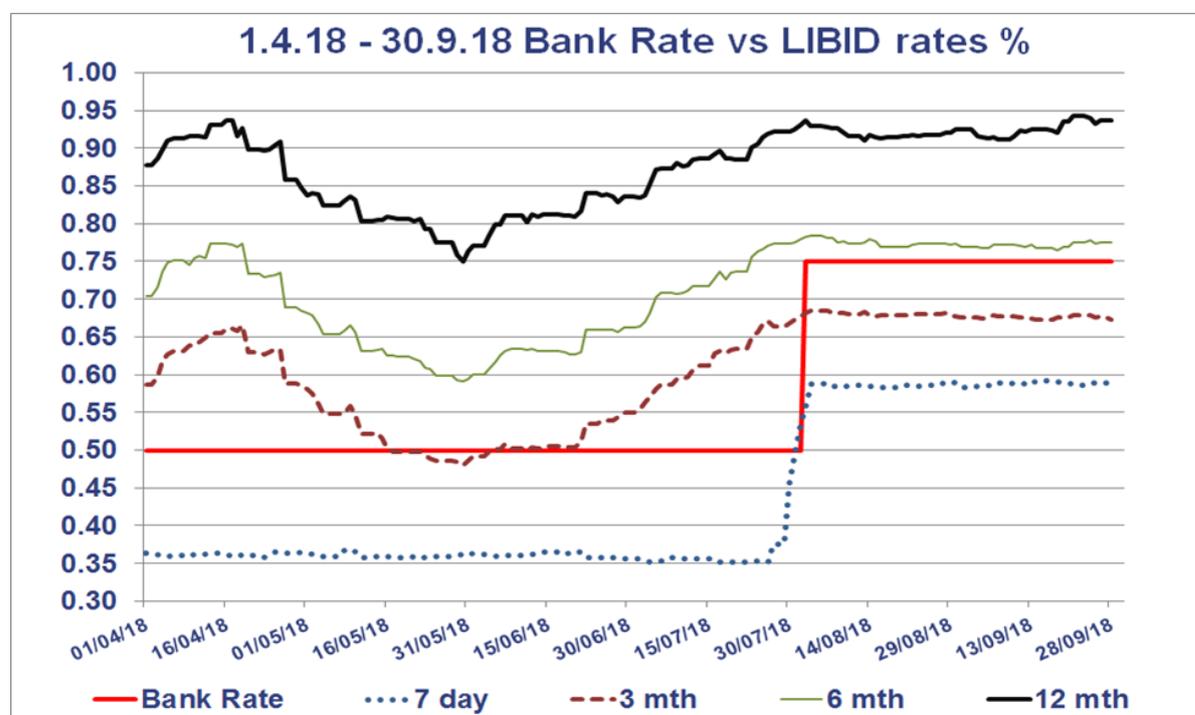
The charts below provide details of the Council’s external investments at 30 September 2018, analysed between investment type and individual counterparties showing the current Fitch long-term credit rating.



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Money Market Data, PWLB Rates and Forecast Rates

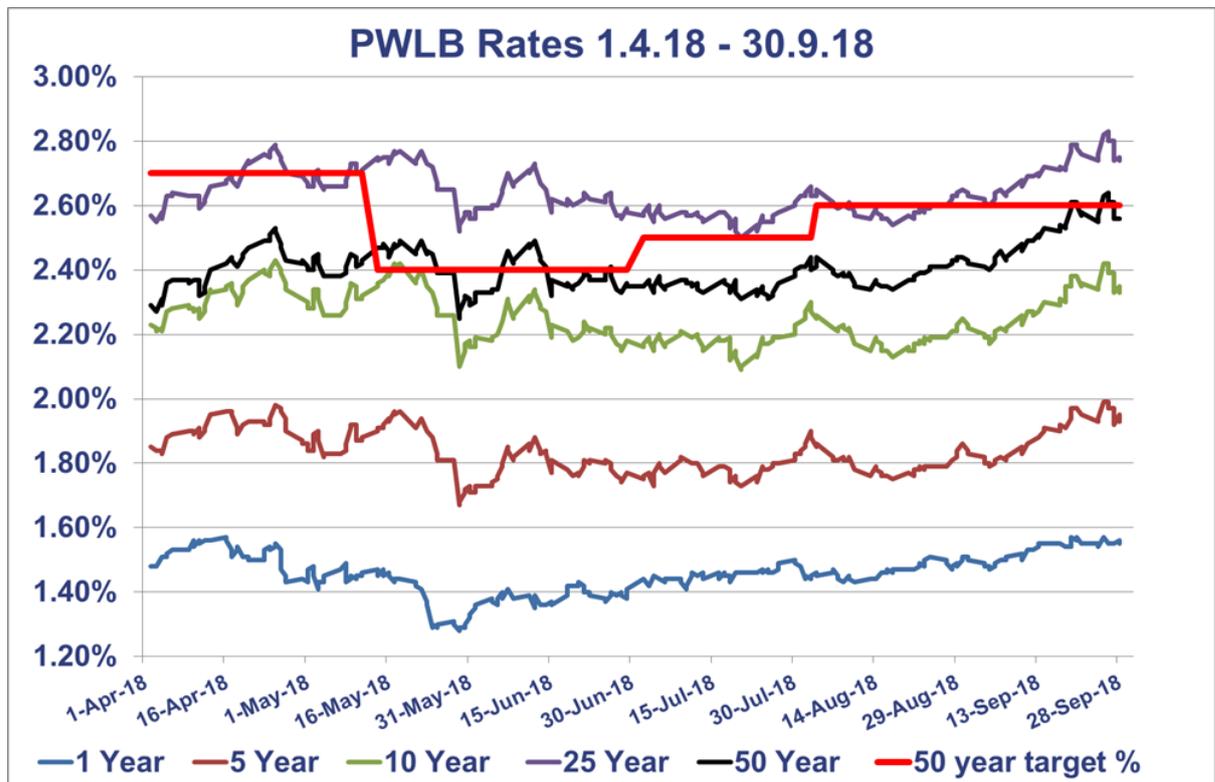
The table and graph below shows the UK Bank of England Bank Rate and benchmark rates within the short term money markets for the last 6 months.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.59	0.60	0.68	0.78	0.94
High Date	02/08/2018	14/09/2018	18/09/2018	06/08/2018	03/08/2018	21/09/2018
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.58	0.43	0.47	0.61	0.71	0.87
Spread	0.25	0.24	0.23	0.21	0.19	0.19

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2018 to 30 September 2018



	1 Year	5 Year	10 Year	25 Year	50 Year
3.4.18	1.48%	1.84%	2.22%	2.55%	2.27%
30.9.18	1.55%	1.93%	2.33%	2.74%	2.56%
Low	1.28%	1.67%	2.09%	2.50%	2.25%
Date	01/06/2018	29/05/2018	20/07/2018	20/07/2018	29/05/2018
High	1.57%	1.99%	2.43%	2.83%	2.64%
Date	17/04/2018	25/09/2018	25/04/2018	25/09/2018	25/09/2018
Average	1.46%	1.84%	2.25%	2.64%	2.41%

Forecast Interest rates

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. We do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. We also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably neutral.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March of a government which has made a lot of anti-austerity noise. This is likely to lead to friction with the EU when setting the target for the fiscal deficit in the national budget. Unsurprisingly, investors have taken a dim view of this and so Italian bond yields have been rising.
- Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU while Italy, this year, has also elected a strongly anti-immigration government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position as a result of the rise of the anti-immigration AfD party. To compound this, the result of the Swedish general election in September 2018 has left an anti-immigration party potentially holding the balance of power in forming a coalition government. The challenges from these political developments could put considerable pressure on the cohesion of the EU and could spill over into impacting the euro, EU financial policy and financial markets.
- The imposition of trade tariffs by President Trump could negatively impact world growth. President Trump's specific actions against Turkey pose a particular risk to its economy which could, in turn, negatively impact Spanish and French banks which have significant exposures to loans to Turkey.
- Weak capitalisation of some European banks.

- Rising interest rates in the US could negatively impact emerging countries which have borrowed heavily in dollar denominated debt, so causing an investor flight to safe havens e.g. UK gilts.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- President Trump's fiscal plans to stimulate economic expansion causing a significant increase in inflation in the US and causing further sell offs of government bonds in major western countries.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of QE, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.
- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.
- UK inflation, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

AUDIT COMMITTEE – 30 November 2018

Title of paper:	AUDIT COMMITTEE ANNUAL WORK PROGRAMME	
Director(s)/ Corporate Director(s):	Director of Strategic Finance	Wards affected: All
Report author(s) and contact details:	Head of Audit and Risk 0115-8764245 shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Recommendation(s):		
1	Endorse the outline work programme at Appendix 1 including the terms of reference.	

1 REASONS FOR RECOMMENDATIONS

- 1.1 Although an Audit Committee is not a legal requirement it is necessary for a sound management and has a role in satisfying section 151 of the Local Government Act 1972 which requires every local authority to 'make arrangements for the proper administration of its financial affairs', and the Accounts & Audit Regulations 2015 which require that the authority ensures that it has a sound system of internal control which:
- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - ensures that the financial and operational management of the authority is effective; and
 - includes effective arrangements for the management of risk.
- 1.2 An Audit Committee also 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.
- 1.3 **Role of the Audit Committee**
The overarching purpose of an Audit Committee is to provide independent assurance on the adequacy and integrity of the governance and control environment, the Risk Management Framework, and the annual financial reporting process. As part of this role the proposed work programme this year includes agreeing the council's Assurance Framework.
- 1.4 **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 effective 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.

1.5 **Constitutional 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

1.6 **Functions of the Committee**

The Audit Committee fulfils the functions listed in Appendix 1

- under delegations from Executive Board as noted in the Constitution – Responsibilities for Functions and Terms of Reference
- under PSIAS as a consequence of the Accounts and Audit Regulations 2015.

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 helps to deliver improved services and maintains and increases public confidence in the objectivity and fairness of financial and other reporting. It is important that local authorities have independent assurance about the mechanisms underpinning 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 and includes:

- the Terms of Reference for the Committee approved by the City Council and
- the requirements of PSIAS.

The work programme supports the Council's aim to improve its efficiency and effectiveness.

2.4 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 Ministry of Housing Communities & Local Government (MHCLG).

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

Appendix 1 - Audit Committee Work Programme

Description	Meeting	Report
(a) Main Purposes:		
1. The audit committee is a key component of Nottingham City Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.	Annual Jun	Annual Audit Committee Report
2. Provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment.	Annual Jun	ISA 260 response (of Chair)
3. Provide independent review of the Council's governance, risk management and control frameworks.	Annual Jul	Annual Governance Statement (AGS) reports
4. Oversee the financial reporting and annual governance processes.	Annual Jul	Statement of Accounts & AGS reports
5. Oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.	Annual Jun	Annual IA Plan and updates & EA Updates
6. 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.	Annual Jun	PMF & Corporate Risk reports and presentations
7. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.	Annual Feb	Interim AGS & Governance Framework Updates
(B) Main Functions:		
Governance, Risk & Control		
1. Review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.	Feb Jun July	AGS reports

Description	Meeting	Report
2. Review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.	Jun	AGS
3. Consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	Annual Jul	Annual Audit Letter
4. Consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	Sep Nov Feb	Assurance Reports (H&S ITG Complaints Partnerships)
5. Receive and consider the results of reports from external inspectors, ombudsman and similar bodies and from statutory officers.	Feb Sep	Annual summary of External Inspections / Complaints & LG Ombudsman)
6. Monitor the effective development and operation of risk management in the council.	Quarterly	Risk Management Updates & Strategic Risk Presentations
7. Monitor progress in addressing risk-related issues reported to the committee.	Quarterly	Risk Management Updates & Strategic Risk Presentations
8. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.	Quarterly	IA updates & Service presentations as required
9. Review the assessment of fraud risks and potential harm to the council from fraud and corruption.	Annual Jun Jul	Annual IA Report & Annual Audit Letter
10. Monitor the counter-fraud strategy, actions and resources.	Feb	Counter Fraud & Whistleblowing
11. Review the governance and assurance arrangements for significant partnerships or collaborations, including the Partnership Governance Framework, annual health checks and the Register of Significant Partnerships.	Nov	Partnership Governance
12. Commission work from internal and external audit.	As required	[Audit Committee will commission any additional work it has determined that it requires to meet its Terms of Reference]
13. Consider arrangements for and the merits of operating quality assurance and performance management processes.	Sep Nov	Performance Management

Description	Meeting	Report
14. Consider the exercise of officers' statutory responsibilities and of functions delegated to officers.	As required	e.g. S114A & S5A reports
15. Effectively scrutinise, review and monitor treasury management strategies and policies in accordance with guidance issued to local authorities, and make appropriate recommendations to the responsible body.	Nov Feb Jun	Treasury Management Strategy and TM Performance
16. Consider any appeals made by an employee against decisions made by the Appointments and Conditions of Service Committee relating to a grievance made against the Chief Executive. Members involved in considering these will not be able to participate in any further consideration of the matter at other committees.	As required	[Audit Committee will be advised by officers if/when it is required to carry out this role]
Financial Reporting		
17. Review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.	Jun Jul	Statement of Accounts
18. Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	Jul	ISA 260 report (with Statement of Accounts)
19. Approve the Council's Statement of Accounts and associated governance and accounting policy documents	Feb Jun Jul	Accounting Policies, Statement of Accounts, ISA260 & Annual Governance reports
External Audit		
20. Support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.	Jul & as required	Annual Audit Letter
21. Consider the external auditor's annual letter, relevant reports and the report to those charged with governance.	Jul	Annual Audit Letter
22. Consider specific reports as agreed with the external auditor.	As required	e.g. public interest reports

Description	Meeting	Report
23. Comment on the scope and depth of external audit work and to ensure it gives value for money.	Feb Jul	EA reports
24. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	As required	Annual Audit Committee Report
Internal Audit		
25. Undertake the duties of the Board mandated by PSIAS as identified in Appendix 2.	See PSIAS duties	PSIAS duties are listed below
26. Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services.	Quarterly	IA updates
27. Consider the head of internal audit's annual report.	June	Annual IA Report
28. Consider summaries of specific internal audit reports as requested.	Quarterly	IA updates
Accountability Arrangements		
29. Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.	Annually June	Annual Audit Committee Report
30. Report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.	Annually June	Annual Audit Committee Report
31. Publish an annual report on the work of the committee.	Annually June	Annual Audit Committee Report
PSIAS Duty of the Board		
1. Approve the Internal Audit charter	Annually July	IA Charter
2. Approve the risk-based internal audit plan, including internal audit's resource requirements, including any significant changes, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	Annually June	Annual IA Report

Description	Meeting	Report
3. Approve decisions relating to the appointment and removal of the Chief Audit Executive	As required	[If required the S151 Officer will provide a report]
4. Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Annually June	Annual IA Report
5. Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Annually June	Annual IA Report
6. The chair to provide feedback for the Chief Audit Executive's performance appraisal	As required	[Chair to include confirmation in Annual Audit Committee Report]
7. Provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.	As required	[Chair to include confirmation in Annual Audit Committee Report]
8. Consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.	Annually July	Audit Charter
9. Approve significant additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted	Quarterly	IA updates
10. Contribute to the QAIP and in particular, to oversee the external quality assessment of internal audit that takes place at least once every five years.	Annually June	Annual IA Report
11. Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive	Annually June	Annual IA Report
12. Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Annually June	Annual IA Report
13. Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Annually June	Annual IA Report

Description	Meeting	Report
14. Receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.	Annually June	Annual IA Report