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TRAFFORD COUNCIL

AGENDA PAPERS FOR ACCOUNTS AND AUDIT COMMITTEE

Date: Wednesday, 7 February 2018

Time: 6.30 p.m.

Place: Committee Rooms 2 and 3, Trafford Town Hall,
Talbot Road, Stretford, M32 0TH

A G E N D A	PART I	Pages
1.	ATTENDANCES To note attendances, including Officers and any apologies for absence.	
2.	MINUTES To receive and if so determined, to approve as a correct record the Minutes of the meeting held on 6 December 2017.	1 - 4
3.	ANNUAL GOVERNANCE STATEMENT 2017/18 – APPROACH / TIMETABLE To receive a report of the Head of Governance.	5 - 12
4.	TREASURY MANAGEMENT STRATEGY 2018/19 – 2020/21 To consider a joint report of The Executive Member for Corporate Resources and the Chief Finance Officer.	13 - 40
5.	AUDIT PROGRESS REPORT (JANUARY 2018) AND CERTIFICATION LETTER To receive a report from the Council's External Auditor.	41 - 54
6.	EXTERNAL ASSESSMENT OF INTERNAL AUDIT BY CIPFA To receive a report of the Audit and Assurance Manager.	55 - 68

7. **AUDIT AND ASSURANCE REPORT FOR THE PERIOD OCTOBER TO DECEMBER 2017**
- To receive a report of the Audit and Assurance Manager. 69 - 84
8. **BUDGET MONITORING 2017/18 - PERIOD 8 (APRIL TO NOVEMBER 2017)**
- To receive a joint report of The Executive Member for Corporate Resources and the Chief Finance Officer. 85 - 100
9. **ACCOUNTS AND AUDIT COMMITTEE - WORK PROGRAMME - 2017/18**
- To receive a report of the Audit and Assurance Manager. 101 - 104
10. **URGENT BUSINESS (IF ANY)**
- Any other item or items which by reason of special circumstances (to be specified) the Chairman of the meeting is of the opinion should be considered at this meeting as a matter of urgency.

THERESA GRANT
Chief Executive

Membership of the Committee

Councillors N. Evans (Chairman), C. Boyes (Vice-Chairman), J. Baugh, B. Brotherton, P. Lally, A. Mitchell and J.A. Wright.

Further Information

For help, advice and information about this meeting please contact:

Chris Gaffey, Democratic and Scrutiny Officer
Tel: 0161 912 2019
Email: chris.gaffey@trafford.gov.uk

This agenda was issued on **Tuesday, 30 January 2018** by the Legal and Democratic Services Section, Trafford Council, Trafford Town Hall, Talbot Road, Stretford M32 0TH

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ACCOUNTS AND AUDIT COMMITTEE

6 DECEMBER 2017

PRESENT

Councillor N. Evans (in the Chair).

Councillors C. Boyes (Vice-Chairman), J. Baugh, B. Brotherton, P. Lally and A. Mitchell

Also Present

Councillor M. Cordingley

In attendance

Head of Financial Management

(G. Bentley)

Audit and Assurance Manager

(M. Foster)

Democratic & Scrutiny Officer

(C. Gaffey)

APOLOGIES

Apologies for absence were received from Councillor J.A. Wright.

24. ATTENDANCES

The Committee welcomed Tommy Rooney to his first Trafford Council Accounts and Audit Committee meeting as a representative of the Council's External Auditor, Grant Thornton UK LLP.

25. MINUTES

RESOLVED: That the Minutes of the meeting held on 6 September 2017, be approved as a correct record and signed by the Chairman.

26. ANNUAL AUDIT LETTER 2017/18

The Committee received the Council's Annual Audit Letter for the year ending 31 March 2017, summarising the key findings arising from the work of the External Auditor, Grant Thornton. The report highlighted the summary of reports issued and fees charged.

RESOLVED: That the report be noted.

27. PROGRESS AND UPDATE REPORT FOR TRAFFORD COUNCIL

The Committee received a report of Grant Thornton UK LLP on the progress at December 2017 in delivering its responsibilities as the Authority's external auditor. The report also highlighted key emerging national issues and developments and a number of challenge questions in respect of the emerging issues.

RESOLVED: That the report be noted.

28. TREASURY MANAGEMENT 2017-18 MID-YEAR PERFORMANCE REPORT

The Committee received a report of the Executive Member for Corporate Resources and the Chief Finance Officer providing a summarised account of the Treasury Management activities and outturn for the first half of the 2017/18 financial year together with an update of the world economic situation.

Members were given the opportunity to ask questions, and discussions took place around the Council's debt position in comparison to other Local Authorities. The Head of Financial Management agreed to provide a written response providing more information on the Council's variable debts and how they work as requested by a Member of the Committee. Members also requested that an additional column be included in the table in section 5.6 of the report to show the direction of travel for the value of the Council's UK and non-UK investments. It was noted that the Council's previous investments in the Qatar National Bank had now been repaid.

RESOLVED: That the report be noted.

29. STRATEGIC RISK REGISTER 2017/18 (NOVEMBER 2017 UPDATE)

The Committee received a report of the Audit and Assurance manager providing an update on the strategic risk environment and setting out developments relating to the management of each of the Council's strategic risks.

Members were advised of the two new risks added to the register; the integration of Trafford Council and the Trafford Clinical Commissioning Group, and University Academy 92 (UA92). Both were considered high level risks, with specific risk scores to be confirmed in subsequent risk updates. It was also noted that the risk regarding the MTFP now included information on the Investment Strategy, however due to the scale of this strategy, Members suggested that it also be considered separately.

It was noted that some Members requested further information in respect of the proposed integration of Trafford Council and the Trafford Clinical Commissioning Group (CCG). As the process was currently in the consultation phase, it was suggested that an update would be more appropriate following the consultation's completion.

The Committee discussed school funding, as well as discussing the possible financial implications of the UA92 project. Members also discussed the proposals for the new leisure facility on the UA92 campus, and how this would be funded.

Referring to the statement relating to the upgrade of Council IT systems to the Windows 10 operating system on page 59 of the agenda, it was noted that this would not take place until 2018, and the register would need to be updated to reflect this.

RESOLVED: That the report be noted.

30. BUDGET MONITORING 2017/18 - PERIOD 6 (APRIL TO SEPTEMBER 2017)

The Committee received a joint report of the Executive Member for Corporate Resources and the Chief Finance Officer informing Members of the current 2017/18 forecast outturn figures relating to both Revenue and Capital budgets. The report also summarised the latest forecast position for Council Tax and Business Rates within the Collection Fund.

Members were advised of the forecasted revenue budget underspend of £941k, however pressures on the Children's and Adult Social Care Services remained. The impact of this on the 2018/19 budget would need consideration particularly given the planned budget savings in both the Economic Growth, Environment and Infrastructure and Transformation and Resources Directorates. Therefore the levels of saving seen in these two areas in previous years, which have been used to mitigate the costs pressures in social care, would be unlikely to occur again.

The Committee were advised of the business rate retention benefit expected by the Council, which had been agreed at Greater Manchester level following the business rate 100% growth pilot.

RESOLVED:

- a) That the forecast revenue budget underspend of £941k be noted;
- b) That the one-off receipt relating to the 2016/17 Business Rate Growth Pilot of £1.3m, which will be transferred to a new earmarked reserve to mitigate future business rates related risks, be noted;
- c) That the changes to the Capital Programme as detailed in paragraph 17 be noted.

31. AUDIT AND ASSURANCE REPORT FOR THE PERIOD JULY TO SEPTEMBER 2017.

The Committee received a report of the Audit and Assurance Manager providing a summary of the work of Audit and Assurance during the period July to September 2017. The report also provided ongoing assurance to the Council on the adequacy of its control environment.

Members were advised of the main areas of focus, and provided with a summary of assurances for the second quarter for 2017/18, and it was noted that the majority of the recommendations made by the Audit Team had been accepted.

As per the requirement for Local Authorities to have their internal audit function independently assessed, Members were advised that CIPFA had undertaken this assessment in November 2017. In terms of CIPFA's findings, Members would be updated at the February 2018 meeting and it was hoped the final report would be shared at that meeting.

RESOLVED: That the report be noted.

32. ACCOUNTS AND AUDIT COMMITTEE - WORK PROGRAMME - 2017/18

The Committee received a report of the Audit and Assurance Manager setting out the updated work plan for the Committee for the 2017/18 municipal year.

Members thanked all Officers who'd supported the Accounts and Audit Committee for the work undertaken during the municipal year thus far.

RESOLVED: That the report be noted.

The meeting commenced at 6.33 pm and finished at 7.20 pm

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2018
Report for: Information / Approval
Report of: Head of Governance

Report Title

Annual Governance Statement 2017/18 – Approach / Timetable

Summary

The preparation and publication of an Annual Governance Statement is necessary to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015. This report sets out the action plan / timetable to ensure compliance with the production of an Annual Governance Statement for 2017/18.

In facilitating the production of the Annual Governance Statement, the guidance issued by CIPFA/SOLACE in April 2016 will be used as a reference point during the process.

Recommendation

The Accounts and Audit Committee is asked to

- (a) Note the timetable / action plan;
- (b) Note that the Committee will have input to reviewing a draft version of the Annual Governance Statement prior to it being finalised and signed off by the Chief Executive and Leader.

Contact person for access to background papers and further information:

Name: Peter Forrester – Head of Governance
Extension: 1815

Background Papers:

None

1. Introduction

- 1.1 The Accounts and Audit Regulations 2015 set out requirements related to the Council's systems of internal control, and the annual review and reporting of those systems.

- 1.2 The Regulations require Councils to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which include the arrangements for the management of risk.
- 1.3 In addition, the Regulations require the Council to conduct a review at least once in a year of the effectiveness of its systems of internal control. Following the review the Council must approve an **Annual Governance Statement** which then accompanies its Statement of Accounts. This assurance statement is made by the Chief Executive and Leader of the Council.
- 1.4 The Annual Governance Statement (AGS) should be prepared in accordance with "proper practices". Proper practices relate to guidance set out in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" and supporting guidance associated with this. (referred to in section 2 of this report).
- 1.5 The deadline for completing the AGS is 31 July in line with the deadline for approval of the accounts. In addition, in accordance with best practice, a full draft version of the AGS will be shared with the Accounts and Audit Committee in advance of this.
- 1.6 This report sets out further detail regarding the Council's approach and timetable for producing its AGS for 2017/18.

2. Governance

- 2.1 As defined by the International Framework: Good Governance in the Public Sector (CIPFA/IFAC – 2014):

"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.

Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders."

- 2.2 The CIPFA/SOLACE framework provides a structure to assist authorities with their approach to governance and the production of the AGS. The framework and supporting guidance was updated for in 2016 and in producing the 2017/18 AGS, the guidance will be taken into account through the process.
- 2.3 Authorities are required to review their governance arrangements against the principles contained in the Framework. The Framework, as to be applied for

the 2017/18 AGS, adopts seven core principles that must be considered when defining good governance:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the Entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

2.4 In order to meet the expectations of the Corporate Governance framework, local authorities are expected to do the following:

- Review their existing governance arrangements against the Framework.
- Maintain a local code of governance, including arrangements for ensuring its ongoing application and effectiveness.
- Prepare an **Annual Governance Statement** (As required in the Accounts and Audit Regulations 2015) in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.

2.5 Trafford Council's Corporate Governance Code (last updated in June 2017) reflects the core principles outlined in the CIPFA Framework and states the arrangements in place to ensure governance arrangements are reviewed annually and reported on through the AGS. The Code will be updated to reflect the updated CIPFA/SOLACE guidance comprising the principles set out in 2.3.

3. The Process to Support the Annual Governance Statement

- 3.1 As reported last year, the Legal and Democratic Service has now assumed responsibility for facilitating the production of the AGS which is the Authority's statement on its governance processes and will prepare the 2017/18 AGS.
- 3.2 The proposed timetable for producing the AGS reflects input from Members and Officers to the process.

3.3 The following arrangements are in place to enable the production of the AGS in 2017/18:

a) Annual Review of Corporate Governance (Assurance Gathering process)

The Legal and Democratic Service is responsible for undertaking an annual assessment to evaluate the position against the Council's Corporate Governance Code.

This will include an assurance mapping exercise to identify potential sources of assurance available with the aim of:

- Mapping systems / processes in relation to which assurance is required in accordance with the existing CIPFA framework.
- Identifying existing sources of assurance to confirm that key controls / risks are operating / managed effectively. Sources include:
 - **Management Controls** including legal compliance, performance management, and risk and financial reporting functions operating at corporate and directorate level;
 - **Internal assurance** including Internal Audit, other compliance functions and internal review work;
 - **External assurance** e.g. External auditor and other inspectorates, partner's compliance functions etc.

The Legal and Democratic Service will facilitate the coordination and reporting of available assurance evidence, both internal and external. This will require support from managers in providing the appropriate information required.

Significant governance issues will be raised with the Corporate Leadership Team as part of the process for agreeing the content of the AGS.

In addition, as part of this process, the Council's Corporate Governance Code will be updated where applicable to ensure it reflects changes including the updated CIPFA/SOLACE guidance.

b) Production and Approval of the Annual Governance Statement

- Input from Members and Officers to produce and approve the 2017/18 AGS. This includes:
 - Directors and senior managers, with co-ordination from the Legal and Democratic Service to contribute to the content of the Statement.
 - CLT, Directors and senior managers to review the adequacy/robustness of the Statement.

- Chief Executive and Leader to agree the draft AGS.
- Draft Annual Governance Statement to accompany the draft accounts to be provided to the External Auditor.
- Draft Annual Governance Statement to be shared with the Accounts and Audit Committee.
- Accounts and Audit Committee to approve the final version of the AGS, which is signed by the Chief Executive and Leader, and accompanies the Council's final accounts.

3.4 The planned timetable for the process of producing the AGS is in the Appendix. This may be subject to change following any further guidance from CIPFA.

4. Benefits of the Process

4.1 It is noted that whilst there is a legislative requirement to complete the AGS, the information provided by the exercise is of benefit to the Council as it enables an assessment of governance arrangements across the Council, and identifies where strengths and areas for development exist in those arrangements. Where significant governance issues are identified, progress can be monitored as required through the year (and reflected within the following year's AGS).

Action Plan to enable the production of the Annual Governance Statement for 2017/18

Actions Required	Completion date
<ul style="list-style-type: none"> CLT / Accounts and Audit Committee to receive report outlining the Authority's approach to the Annual Governance Statement for 2017/18. 	7 February 2018
<ul style="list-style-type: none"> Obtain assurance on risk management processes / management of strategic risks – final update of Strategic Risk Register for 2017/18 to be agreed by CLT and reported to the Accounts and Audit Committee. 	March 2018
<ul style="list-style-type: none"> Production of the Annual Head of Internal Audit Report and opinion – based on work completed by the Audit and Assurance Service during 2017/18 providing assurance relating to key systems, procedures and controls in place across the Council. 	May 2018
<ul style="list-style-type: none"> Review and evaluation of the Authority's actual position in relation to its Corporate Governance Code. Complete collation of evidence to support the production of the draft Statement. 	April/May 2018
<ul style="list-style-type: none"> Production of a first draft of the Annual Governance Statement and updated Corporate Governance Code for review by / comment from senior officers (co-ordinated by the Legal and Democratic Service in consultation with CLT). 	May 2018
<ul style="list-style-type: none"> Updated Corporate Governance Code and completed Draft Annual Governance Statement for 2017/18 to be agreed by the Chief Executive and Leader and shared with the External Auditor (end of May) and Accounts and Audit Committee (June). 	May/June 2018
<ul style="list-style-type: none"> Final Annual Governance Statement 2017/18, signed by the Chief Executive and Leader, to be submitted to accompany the final accounts and approved by the Accounts and Audit Committee. 	July 2018

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TRAFFORD COUNCIL

Report to: Accounts & Audit Committee

Date: 7 February 2018

Report for: Decision

Report of: The Executive Member for Corporate Resources and the Chief Finance Officer

Report Title

TREASURY MANAGEMENT STRATEGY 2018/19 – 2020/21

Summary

This report outlines the:-

- strategy to be followed during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That the Accounts & Audit Committee recommend to the Executive and Council the key elements of this report for approval which are as follows:

- policy on debt strategy as set out in section 3;
- investment strategy as set out in section 5;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.

Contact person for access to background papers and further information:

Name: Graham Perkins

Extension: 4017

Background papers: None

Relationship to Policy Framework / Corporate Priorities	Value for Money
Financial	The treasury management strategy will aim to maximise investment interest whilst minimising risk to the Council. The Council's debt position will be administered effectively and any new loans taken will be in-line with the Medium Term Financial Plan provision.
Legal Implications:	Actions being taken are in accordance with legislation, Ministry of Housing, Communities & Local Government (MHCLG) guidance, Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice.
Equality/Diversity Implications	Any equality and diversity implications are as set out in this report
Sustainability Implications	Not applicable
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the treasury management systems and procedures which are independently tested on a regular basis. The Council's in-house treasury management team continually monitor risks to ensure that the main risks associated with this function of adverse or unforeseen fluctuations in interest rates are avoided and security of capital sums are maintained at all times.
Health and Safety Implications	Not applicable

Summary

The purpose of this report, which has been prepared in accordance with the Council's Financial Procedure Rules number 8, outlines the forecasted treasury management activities for the forthcoming three years. Further reports are produced during the course of the year informing Members of the preceding financial year's actual activities together with a current mid-year update.

Economic position (Appendix 2)

Brexit negotiations between the UK Government and the European Union are set to continue to dominate the headlines during the forthcoming year and the impact these will have on both economies remains uncertain at this time. The general world economic situation is currently projecting a positive outlook with good performance and falling unemployment being reported. Appendix 2 highlights the main economic events of 2017 and projections for 2018 for reference.

Debt (Section 3)

Borrowing interest rates whilst forecasted to rise marginally from their current position are still forecast to be at historically low levels during the next 12 months. Any new external borrowing will be taken in order to assist finance the Council's capital borrowing requirement as outlined in the 2018/21 Capital Programme report with all associated costs being contained within the the Council's Medium Term Financial Plan.

Debt restructuring exercises will only be undertaken in order to produce revenue savings or lower overall treasury risk.

Investments (See Section 5 and Appendix 3)

The main objective surrounding the Council's investment criteria remains unchanged from that previously adopted of security of capital first, liquidity of its cash flows and finally yields.

The Council is required to agree the lending criteria, which is primarily determined by credit ratings issued by the 3 major credit rating agencies as detailed at Appendix 3.

Prudential Indicators and limits (Section 7 and Appendix 3)

The Council is required to approve a set of Prudential Indicators and limits which ensure the Council's capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 3 for Member approval.

Medium Term Financial Plan (See Appendix 7)

Appendix 7 reflects the current forecasted financial requirements of the Council's treasury management functions during this reporting period.

Background

- 1.1 Treasury management as defined by the Chartered Institute of Public Finance Accountancy (CIPFA) is:

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

- 1.2 The main function associated with this process is to ensure that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and its approved capital strategy. This will involve both the management of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. This strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

- 1.3 Members are required to receive and approve, as a minimum, 3 reports annually which incorporate a variety of policies, forecasts and actuals as follows;

- **Annual treasury strategy** (issued February and includes);
 - A Minimum Revenue Provision (MRP) policy (this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time),
 - The treasury management strategies (how the investments and borrowings are to be organised) including treasury indicators and
 - An investment strategy (the parameters on how investments are to be managed).
- **Mid-year update** – (issued November / December and provides an);
 - update for members with the progress of the treasury management activities undertaken for the period April to September and
 - opportunity for amending prudential indicators and any policies if necessary.
- **Annual outturn** – (June and contains);
 - details of actual treasury operations undertaken in the previous financial year.

- 1.4 Each of the above 3 reports are required to be adequately scrutinised before being recommended to Council for final approval and this role is undertaken by the Accounts & Audit Committee.

- 1.5 All treasury management transactions undertaken will comply with the statutory requirements together with MHCLG Guidance and CIPFA Treasury Management Code of Practice which the Council has previously adopted. A brief outline of these frameworks is provided at Appendix 1.

- 1.6 In December 2017, CIPFA issued a revised Treasury Management Code of Practice which primarily focused on non-treasury investments, particularly the purchase of property with a view to generating income. This update has clarified CIPFA’s position in that it has now drawn a cleaner separation between treasury and non-treasury investments, the latter being included in the Capital Programme report.

- 1.7 Further consultations were also carried out by the MHCLG on both investments and MRP guidance and focused primarily on non-financial asset investments. These consultations closed on 22 December 2017 and the outcomes of which are currently awaited. Once these outcomes have been received they will be

examined and where appropriate any significant amendments will be implemented and reported to Members in due course.

- 1.8 This report which has been prepared in accordance with the required statutory regulations and guidance includes;
- Economic & Interest Rate forecast (section 2)
 - Debt Strategy (section 3)
 - Minimum Revenue Provision (section 4)
 - Investment Strategy (section 5)
 - Investment Risk Benchmarking (section 6)
 - Prudential Indicators (section 7)
 - Related Treasury Issues (section 8)
 - Recommendations (section 9).
- 1.9 The Council uses Link Asset Services (formerly Capita Asset Services) as its treasury management advisors who provide a range of services on all treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in employing external providers for this service in order to acquire access to specialist skills and resources and the provision of this service is subject to regular review.
- 1.10 Whilst the advisors provide support to the in-house treasury management team, the Council recognises that the final decision on all treasury management matters remains with it at all times.
- 1.11 The Council further acknowledges the importance of ensuring that all Members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them.
- 1.12 In order to assist with this undertaking, a Member training event was provided on 30 January 2017 and similar events will be provided when required. Officers will continue to attend courses / seminars presented by CIPFA and other suitable professional organisations.

2. Economic & Interest Rate forecast

- 2.1 Economic and interest rate forecasting continues to be very difficult as a result of so many external influences impacting on the UK economy however it is predicted that;
- Investment returns are likely to remain low during 2018/19 rising gently over the next few years and
 - Borrowing rates will continue at their current low levels with minor movements upwards expected.
- 2.2 The general overall world economic position looks to be on an encouraging trend of stronger performance with falling levels of unemployment and further details on the major economic events which occurred during 2017 and forecasts for 2018 are outlined at Appendix 2 for reference.
- 2.3 Link Asset Services produces interest rate projections periodically throughout the year and the latest forecasts (November 2017), covering the period up to March 2021, are highlighted in the table below;

Average rates	2017-18 Forecast %	2018-19 Forecast %	2019-20 Forecast %	2020-21 Forecast %
Bank Rate	0.35	0.58	0.88	1.10
Investment Rates (LIBID)				
3 month	0.35	0.50	0.75	0.70
1 Year	0.65	0.90	1.15	1.15
PWLB Loan Rates				
5 Year	1.50	1.50	1.95	2.20
25 Year	2.80	3.00	3.25	3.50

2.4 Over the next few years, the Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both its external advisors Link Asset Services and other sources which may become available during this time.

3. Debt Strategy

3.1 In order to assist short term cash flow or finance longer term capital investment, the Council has the powers to borrow new funds from a variety of sources comprising of;

- Other local authorities,
- The Government via the Public Works Loan Board, (PWLB),
- Dedicated publicly funded companies e.g. Salix,
- Municipal Bond Agency, which is currently still in the process of being set up or
- Financial institutions within the money market.

3.2 The table below shows the level of external debt which the Council may undertake;

	2017/18	2018/19	2019/20	2020/21
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Debt at 1 April	105,233	406,822	430,288	438,360
External Debt maturing	(3,875)	(4,020)	(4,662)	(4,662)
Potential level of External Debt*	305,464	27,486	12,734	9,683
Debt at 31 March	406,822	430,288	438,360	443,381

*This reflects the phasing in the Capital Programme and predominately relates to the Council's Capital Investment Property programme.

3.3 Whilst the above table reflects the Council's expected loan position, the table below details the position of its other long term liabilities in respect to the Private Finance Initiative (PFI) funding.

	2017/18	2018/19	2019/20	2020/21
	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Other long-term liabilities – (1 April)	5,778	5,556	5,319	5,067
Expected repayment	(222)	(237)	(252)	(268)
Other long-term liabilities – (31 March)	5,556	5,319	5,067	4,799

- 3.4 The Council is currently maintaining an under-borrowed position and previously this was reported to be £38.8m and this is currently forecasted to be £44m by 31 March 2018. This position has arisen from decisions taken previously not to finance capital spending from new external loans but instead cash supporting the Council's reserves, balances and cash flow has been temporarily used. This strategy is prudent as investment returns are low and counterparty risk, whilst this has significantly reduced over the recent few years, remains an issue that needs to be considered.
- 3.5 The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years due to debt interest rates being consistently higher than investment returns available and this situation is forecasted to continue for the foreseeable future. Whilst the Council has no budgetary provision to cover interest costs for taking on new debt, the amount applied to finance the capital spend incurred, principal, is being reinstated via the Council's annual MRP charge.
- 3.6 The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances within the 2018/19 treasury operations. Any new borrowing undertaken which will be undertaken to assist finance the Council's self-financing Commercial Investment Property programme will be subject to favourable interest rates.
- 3.7 Appendix 6 shows the level of the Council's loans totalling £139.2m together with the average interest rate, as at 31 December 2017, and this is split between PWLB £77.4m & Market (banks & publically funded companies) £61.8m.
- 3.8 The Council holds, as at 31 March 2018, £61.8m of Market loans and of these £40.0m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. On this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. Although the Chief Finance Officer understands that lenders are unlikely to exercise their option in the current low interest rate environment, there remains a possibility that this could occur. In accordance with the Chief Finance Officer's delegated authority, should an opportunity present itself to repay a LOBO loan without incurring any penalty costs, then this option will be taken and a further decision will also be made at the same time as to whether it is prudent to take a replacement loan from the PWLB. The remainder of the Market loans, £21.8m are held at fixed rates of interest.
- 3.9 In addition to the borrowing undertaken directly, the Council is also responsible for a further £0.7m of loan debt administered by Tameside Borough Council. This follows the conversion in February 2010 of loans previously held on behalf of Manchester International Airport into an equity rated instrument.
- 3.10 As short term borrowing rates are cheaper than longer term fixed interest rates, there may be potential opportunities in the future to generate revenue savings by switching from long to short term debt or due to low investment returns running down investment balances to repay debt prematurely. The cost of premiums incurred however due to early repayment, will also need to be taken into account before any restructuring is undertaken.
- 3.11 The Council retains the flexibility to borrow funds in advance of requirement should market conditions unexpectedly change i.e. a sharp rise in interest rates is suddenly expected, and any decision to borrow in advance will ensure that funds are taken within the forward approved Capital Financing Requirement estimates. The Capital Financing Requirement (CFR) is simply the historic level of

outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure essentially of the Council's underlying borrowing need and is reduced from the level of Minimum Revenue Provision (MRP) provided for annually.

3.12 The Council will not borrow any funds ahead of schedule purely to profit from the investment of the extra sums borrowed and any borrowing taken by the Chief Finance Officer in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be obtained in this manner and
- the Council would not look to borrow more than 12 months in advance of need.

3.13 The Council's debt maturity profile is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for their respective market loans.

3.14 *The Council is required to approve;*

- *the above debt strategy and*
- *as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 3 for Council approval.*

4. Minimum Revenue Provision Strategy

4.1 The Council is required to set aside an amount each year for the repayment of debt (by reducing the CFR), through a revenue charge called the Minimum Revenue Provision (MRP). In addition, the Council is also allowed to undertake Voluntary Revenue Payments (VRP) if required.

4.2 *The Council is requested, in accordance with MHCLG regulations, to approve an MRP Statement in advance of each year and this is detailed at Appendix 3.*

5. Investment Strategy

5.1 The Council undertakes investments, from temporary surplus income which has been received in advance of spend requirement and from its balances and reserves which it holds. The primary principle governing the Council's investment criteria is the **S**ecurity of its investments, followed by **L**iquidity whilst ensuring that a reasonable level of **Y**ield is also achieved

5.2 All of the Council's investments are undertaken in accordance with guidance issued by both the MHCLG and CIPFA. In order to minimise the risk to its investments, the Council creates and maintains a list of high creditworthy institutions which enables diversification and avoidance of concentration risk. A minimum acceptable credit criteria is applied and the key ratings used to monitor counterparties are the Short Term "F1" or equivalent and Long Term "A-" or equivalent ratings as issued by the three independent rating agencies (Fitch, Moody's and Standard and Poor's).

5.3 This approach uses real time credit rating information provided by the Council's advisors and enables an institution should they meet or no longer meet the minimum credit criteria required to be immediately included on or removed off the approved list.

5.4 Whilst investment risk will never completely be eliminated, it can be minimised and in order to reduce the risk of an institution defaulting, the Chief Finance Officer recommends that the Council continues with the current practice of institutions only

being included on the Council's lending list which meet the minimum credit rating detailed in 5.2 above.

- 5.5 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.
- 5.6 The Council's in-house treasury management team recognises ratings should not be the sole basis of determining the quality of an institution and continual assessment and monitoring of the financial sector in relation to the economic and political environments in which institutions operate will also be carried out. To achieve this, the Council will with its advisors, monitor market pricing on additional factors such as "credit default swaps" and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 5.
- 5.7 Further information will also be used to assess the credit worthiness of an institution including the financial press, share price and other such information pertaining to the financial sector in order to establish a robust scrutiny process concerning the suitability of potential investment counterparties.
- 5.8 Investment instruments identified for use in the financial year and counterparty limits are detailed in Appendix 3.
- 5.9 Members are asked to approve this base criteria, however the Chief Finance Officer may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.
- 5.10 Investments will continue to be placed into three categories as follows;
 - Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank call accounts, money market funds and certificates of deposits being the main methods used for this purpose.
 - Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and enhanced money market funds.
 - Long-term – cash not required to meet any forthcoming cash flow requirements which can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund, after taking into consideration the forecasted interest rate yield curve.
- 5.11 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator detailed at Appendix 3.
- 5.12 The level of the Council's investments together with the average interest rate, as at 31 December 2017, is provided for reference at Appendix 6.
- 5.13 In the continuing environment of low interest rates, the Council is not able to generate a significant return from its investments. Against this backdrop it is easy to forget recent history and search for that extra return to ease revenue budget pressures an issue recently highlighted by the Financial Conduct Authority who has stated that;
 - “The main risks in the industry for the coming year are firms designing products that:

- aren't in the long-term interest of consumers,
- contain a lack of transparency on what's being sold,
- lead to a poor understanding by consumers of risk,
- shift toward more complex structured products that lack oversight".

5.14 With respect to this, the Council's in-house treasury management team will not actively seek to place funds with institutions paying considerably over and above market levels and will continue to carry out proper and full risk assessments of any new product which may come onto the market before committing funds into it.

5.15 *The Council is requested to approve;*

- *the adoption of the above Investment strategy and*
- *the minimum criteria for providing a list of high quality investment institutions, instruments and limits to be applied as set out at Appendix 3.*

6. Investment Risk Benchmarking

6.1 The CIPFA Code of Practice and MHCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members with details of these being provided in Appendix 5.

6.2 Benchmarks are simple guides to maximum risk (not limits) for use with cash deposits and so may be breached from time to time, depending on movements in interest rates and institution criteria. The purpose of the benchmark is to assist officers to monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported to Members, with supporting reasons in the Mid-Year or Annual Report. For reference the benchmarks proposed are;

- Security - each individual year the security benchmark is:

1 year investments	2 year investments	3 year investments
0.07%	0.02%	0.08%

Note - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

- Liquidity – Weighted Average Life (WAL) - benchmark for 2018/19 is set at 6 months, with a maximum of 3 years for cash time deposits;
 - Liquid short term deposits - at least £15m is available within a week notice;
- Yield - Internal returns are required to achieve above the 7 day London Interbank Deposit (LIBID) rate.

7. Prudential Indicators

7.1 A number of prudential indicators have been devised for the treasury management operation and these are designed to assist managing risk and reducing the impact of an adverse movement in interest rate. These indicators have been set at levels which do not restrict day to day activities being undertaken and at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

7.2 *Members are requested to approve the Prudential Indicators for Council's treasury management activities as detailed at Appendix 3.*

8. Related Treasury Issues

- 8.1 Local Authority Mortgage Scheme. Under this scheme 112 first time buyers were able to purchase a property in Trafford, with the Council placing funds totalling £3m (£2m in 2012/13 & £1m 2013/14) with Lloyds bank for a period of 5 years to match the life of the indemnity. During 2017/18, £2m of the amount originally advanced was repaid back to the Council with the balance, £1m due to be repaid during 2018/19.
- 8.2 Greater Manchester Pension fund. During 2017/18, the Council along with several other local Councils took advantage of GMPF wider investment powers and paid over 3 years employer pension contributions at a discounted rate.
- 8.3 Investment Properties. During 2017/18 the Council introduced a programme to acquire suitable assets which will deliver significant economic development and regeneration benefits for the area and/or increase the Council's income generating capacity enabling it to maintain the provision of services in future years. Of the properties completed to date all spend has been financed from new external loans.
- 8.4 Whilst the above 3 projects are policy related activities and therefore not deemed to be treasury management, their implementation will have an impact on the Council's cash flow as well as the investing and borrowing activities which Members need to be aware of.

9. Recommendations

That the Accounts & Audit Committee recommend to the Executive and Council the key elements of this report for approval which are as follows;-

- *policy on debt strategy as set out in section 3;*
- *investment strategy as set out in section 5;*
- *Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), The Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 3.*

Other Options

This report has been produced in order to comply with Financial Procedure Rules and relevant legislation. It provides a plan of action for the period 2018/19 to 2020/21, which is flexible enough to take account of changes in financial markets. There are an almost infinite number of other options that the Council could consider as part of its treasury management activities. However, this report outlines a coherent and prudent approach which is recommended by the Chief Finance Officer to the Council.

Consultation

Advice has been obtained from Link Asset Services, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and MHCLG Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2018

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance ...GB...

Legal Officer Clearance ...DA....

Director's Signature



STATUTORY FRAMEWORK**Local Government Act 2003**

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 3);
- The investment strategy in accordance with the MHCLG investment guidance (section 5);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). This Council adopted the Code of Practice on Treasury Management on 24 April 2002 and followed recommended practices by considering an annual Treasury Management Strategy before the commencement of each financial year. These Codes are revised from time to time and the Council complies with any revisions.

Investment Guidance

MHCLG issued Investment Guidance in March 2010 and this forms the structure of the Council's policy below:

- The strategic guidelines for decision making on investments, particularly non-specified investments;
- Specified investments that the Council will use. These are high security (no guidelines are given defining what this should consist of and each individual Council is required to state what this should be i.e. high credit ratings), high liquidity investments in sterling and with a maturity of no more than a year;
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time;
- The principles to be used to determine the maximum periods for which funds can be committed.

MAIN ECONOMIC HEADLINES DURING 2017

GLOBAL OUTLOOK-

- World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment. In October, the IMF upgraded its forecast for world growth from 3.2% to 3.6% for 2017 and 3.7% for 2018.
- In addition, inflation prospects are generally muted and it is particularly notable that wage inflation has been subdued despite unemployment falling to historically very low levels in the UK and US.

UK-

- After strong economic growth in 2016 of (1.8%), 2017 looks to be weaker with growth coming in at quarter 1 +0.2% (+2.0% y/y), quarter 2 +0.3% (+1.7% y/y) and quarter 3 +0.4% (+1.6% y/y);
- Consumer Price Index (CPI) opened the year at 1.8% in January 2017 rising to 3.1% in November 2017;
- The Bank of England Inflation Reports during 2017 highlighted that CPI was to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years' time;
- At the Monetary Policy Committee, (MPC), meeting of 14 September 2017 it was announced that Bank Rate will need to rise soon. This was borne out on 2 November when the MPC announced its first rate rise in 10 years increasing the Bank Rate from 0.25% to 0.50%;
- The rate of unemployment continues to fall from 4.7% in January 2017 to 4.3% in September the lowest level since 1975;
- Due to the uncertainty around the Brexit negotiations, both consumer and business confidence to spend on investing, remains subdued and below is the proposed Brexit timetable for reference;
 - March 2017: UK government notifies the European Council of its intention to leave under the Treaty on European Union Article 50
 - March 2019: initial two-year negotiation period on the terms of exit
 - UK continues as a full EU member until March 2019 with access to the single market and tariff free trade between the EU and UK. Different sectors of the UK economy will leave the single market and tariff free trade at different times during the two year transitional period.
 - The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
 - The UK would aim for a negotiated agreed withdrawal from the EU, although the UK could also exit without any such agreements in the event of a breakdown of negotiations.
 - If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU - but this is not certain.

- On full exit from the EU: the UK parliament would repeal the 1972 European Communities Act.
- The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.

Eurozone –

- GDP in 2016 was (1.9%) and this positive momentum continues in 2017 with growth being reported as 0.5% in quarter 1 (2.0% y/y), 0.6% in quarter 2 (2.3% y/y) and 0.6% in quarter 3 (2.5% y/y);
- European Central Bank is still struggling to get inflation up to its 2% target and in October inflation (CPI) was 1.4%;
- Unemployment rate fell from 9.6% in January 2017 to 8.8% in October 2017;
- European Central Bank continues to hold its central policy rate at 0.00% where it has been since March 2016.

US –

- Growth in the American economy since 2015 has been inconsistent and it appears 2017 is following that path again with quarter 1 coming in at only 1.2% (2.0% y/y) with quarter 2 rebounding to 3.1% (2.2% y/y) and quarter 3 coming in at 3.0% (2.3%y/y);
- The Federal Reserve increased its interest rate from 0.75% at the beginning of the year to its current level of 1.25% in May 2017;
- Unemployment continues to fall starting at 4.8% in January 2017 falling to its lowest levels for many years, reaching 4.1% in October 2017,
- CPI fell from its starting position at 2.3% in January, to 1.8% in October 2017.

Other –

- China's economic growth appears to have slowed down from that reported in previous years with the annual growth reported in October 2017 of 6.8%.
- Japan continues to struggle to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus.

MAIN ECONOMIC FORECASTS FOR 2018

Producing accurate economic forecasts is difficult to do as a result of many external factors having an impact on them however forecasters are currently predicting the following levels of activity for the year ahead;

Indicator	UK	Eurozone	US	China
Growth Domestic Product	1.4%	2.3%	2.7%	6.5%
Consumer Price Index	2.4%	1.8%	2.4%	2.0%
Unemployment Rate	4.3%	8.5%	4.5%	4.3%
Bank Rate	0.75%	0.25%	1.75%	4.10%

Source - Trading Economics & Office for Budget Responsibility

ELEMENTS FOR COUNCIL APPROVAL
(including Prudential and Treasury Indicators, Minimum Revenue Provision & Investment Criteria)

In accordance with the current MHCLG Guidance, CIPFA Treasury Management Code of Practice, each council is required to set before the commencement of each financial year Treasury Management Prudential Indicators and limits, a Minimum Revenue Provision Statement and Investment criteria.

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2018/19 – 2020/21 as detailed below.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the expected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and Council is required to approve the prudential indicators and limits affecting treasury management performance as shown below;

	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Authorised Limit for External debt				
- External loan debt (01.04)	440.0	460.0	470.0	470.0
- Other long term Liabilities (PFI)	6.0	5.5	5.5	5.0
Total	446.0	465.5	475.5	475.0
Authorised external debt limit - maximum level of external debt that the authority will require for all known potential requirements and includes headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003.				
	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Operational Boundary for External debt				
- External loan debt (01.04)	420.0	440.0	450.0	450.0
- Other long term Liabilities (PFI)	6.0	5.5	5.5	5.0
Total	426.0	445.5	455.5	455.0
Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year excluding any temporary borrowing and is not a limit.				

	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Upper limit for Principal sums invested over 364 & 365 days	90	90	90	90
Upper Limit for sums invested for over 364 & 365 days – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. Included within this limit are the Manchester Airport Shares which at 31 March 2017 were independently valued at £43.7m and the Church Commissioners Local Authorities Property Investment Fund investment of £5m. This limit also takes account of the proposed change in the CIPFA Treasury Code from a 364 day limit to 365 days.				
	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m	2020/21 estimate £m
Upper limits on fixed interest rate exposure based on net debt	6.1	13.7	14.2	14.7
Upper limits on variable interest rate exposure based on net debt	2.8	3.6	3.7	3.9
Upper Interest Limits – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments.				
Maturity structure of all external loan debt – 2018/19 to 2020/21	Lower limit %		Upper limit %	
Under 12 months	0		20	
12 months to 2 years	0		20	
2 years to 5 years	0		20	
5 years to 10 years	0		20	
10 years to 20 years	0		20	
20 years to 30 years	0		20	
30 years to 40 years	0		20	
40 years and above	0		90	
Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and this indicator reflects the next date on which the lending bank can amend the interest rate for the Lender Option Borrower Option loans.				

Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be for capital purposes. The Chief Finance Officer will ensure that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council.

All the treasury prudential indicators and limits are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

MINIMUM REVENUE PROVISION - (no change)

In accordance with the current MHCLG Guidance, the Council shall determine for the current financial year, an amount of minimum revenue provision that it considers to be prudent and submit an MRP Statement setting out its policy for its annual MRP to Council for approval. The following MRP Statement has been prepared in accordance with the Council's accounting procedures and is recommended for approval:

- Capital expenditure financed by Supported Borrowing: MRP will be calculated on a straight line basis over the expected average useful life of the assets (50yrs);
- Capital expenditure financed by Prudential Borrowing: MRP will be based on the estimated life of the assets and in accordance with MHCLG guidance;
- Expenditure incurred on the Capital Investment programme financed by Prudential Borrowing will be based on those periods outlined above stipulated within the MHCLG Guidance with annual reviews undertaken to ensure that this policy remains prudent;
- PFI schemes and leases shown on the balance sheet: MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure this final bullet payment can still be made in 2028/29
- For expenditure that does not create an asset, or following the use of a Capitalisation Direction: provision will be made over a period not exceeding 20 years, in accordance with the 2010 Guidance.
- In instances where the Council incurs borrowing and a third party is obliged to repay the principal (serviced debt arrangements): the Council will not charge MRP to the revenue account. An example of such an instance can be demonstrated when the Council participated in the national Local Authority Mortgage Scheme using the cash backed option with Lloyds bank. This involved the Council placing a five year deposit totalling £1m, in 2013/14, with the bank matching the five year life of the indemnities. This deposit provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The CFR will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity in 2018/19 and once received will be classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (five years) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application.

INVESTMENT CRITERIA – (no change – Category 5)

Counterparty Selection

The Council will only use institutions which are located in a country with a minimum Sovereign Long term credit rating of AA-. The individual credit criteria, is highlighted below and for categories 1 to 4 this will be applied to both Specified and Non-specified investments. Category 5 applies only to The Church Commissioners Local Authorities Property Investment fund.

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
<p>Category 1 –</p> <ul style="list-style-type: none"> •UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), •UK Building Societies <p>Institutions must have an individual credit rating issued by Fitch, Moody's and Standard and Poor's of: Short Term – Fitch F1 or equivalent Long Term – Fitch A- or equivalent</p>	<p>AA to AAA</p> <p>A+ to AA-</p> <p>A- to A</p>	<p>£75m</p> <p>£25m</p> <p>£10m</p>	<p>3yrs</p> <p>1yr</p> <p>1yr</p>
<p>Category 2 –</p> <p>UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.</p>	-	£20m	1yr
<p>Category 3 –</p> <p>The Council's own banker for transactional purposes if the bank falls below the above criteria.</p>	-	n/a	1day
<p>Category 4 –</p> <ul style="list-style-type: none"> •Pooled Investment Vehicles –e.g. Money Market Funds & Ultra Short Dated Bond Funds (formerly known as Enhanced Money Market Funds) - (AAA rated); •UK Government (including treasury bills, gilts and the DMO) •Local Authorities •Supranational Institutions 	-	£100m	3yrs
<p>Category 5 –</p> <ul style="list-style-type: none"> •Local Authority Property Investment fund 	-	£30m	10yrs

Specified and Non Specified Investments – (no change)

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- Specified investments are high security and high liquidity investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. All investments can be held under this definition,
- Non specified investments are any other type of investment not defined as specified above. A maximum of £90m is permitted to be held in this classification as detailed in Appendix 3, Prudential Indicator (5) Upper limit for sums invested over 364 and 365 days.

Instruments & Maximum period

All Investments will be undertaken in Sterling in the form of Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments

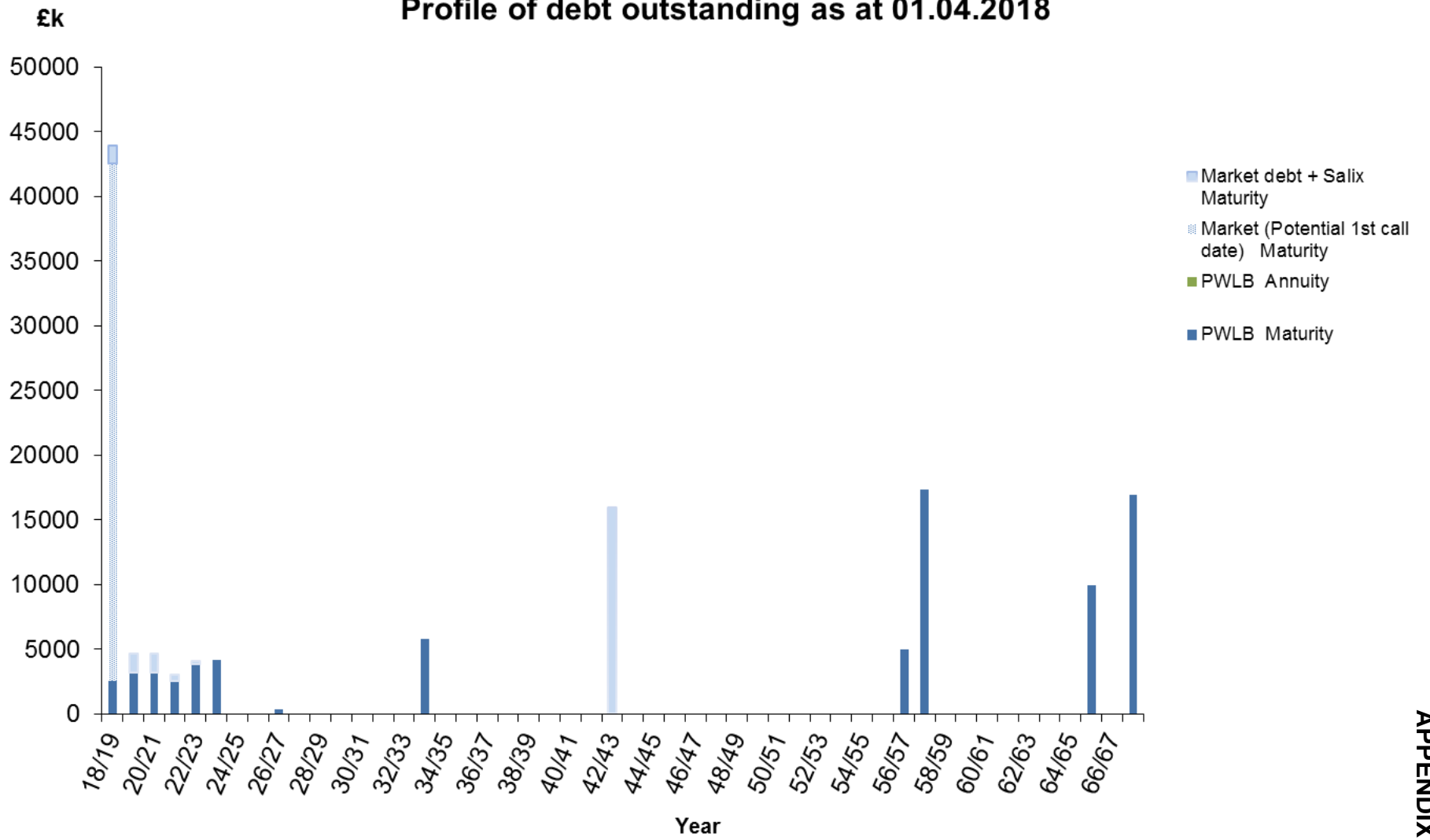
Investment	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. European Investment Bank)	1 Year
Pooled investment vehicles that have been awarded a AAA credit rating by Fitch, a credit rating agency, such as money market funds and low volatility bond funds.	1 Year
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year

Non-Specified Investments

Investment	Maximum Maturity
Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years

The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria detailed in Appendix 3, for deposits with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
The UK Government including Local Authorities and Debt Management Office.	3 Years
Any non-rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to being guaranteed from the parent company and is included for clarity and transparency purposes.	3 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £43.7m as reported in the 2016/17 Statement of Accounts. It is not envisaged that this type of investment will be undertaken in the future.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years

Profile of debt outstanding as at 01.04.2018



INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

The Council receives credit rating advice from its treasury management advisers, as and when ratings change and institutions are checked promptly to ensure it complies with the Council's criteria. The criteria used are such that any minor downgrading should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately, and if required new institutions which meet the criteria will be added to the list.

Classification	Description	Credit Rating Agency		
		Fitch (Minimum)	Moody's (Minimum)	Standard & Poors (Minimum)
Short Term	Ensures that an institution is able to meet its financial obligations within 12 months	F1 (Range F1+ , F2 A to D)	P1 (Range P1 to P3)	A1 (Range A-1 , to C)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 12 months	A- (Range AAA to D)	A3 (Range AAA to C)	A- (Range AAA to CC)

Investment Institution information.

Whilst the Council's Investment institutions list is prepared primarily using credit rating information, full regard will also be given to other available information on the credit quality of each institution in which it invests. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the position would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

Investment Limits

In order to safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security and liquidity benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

Security - A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows average defaults for differing periods of investment grade products for each Fitch/Moody's and Standard and Poors long term rating category over the period 1981 to 2015.

Long term rating	Average 1 yr default	Average 2 yr default	Average 3 yr default	Average 4 yr default	Average 5 yr default
AAA	0.04%	0.10%	0.18%	0.27%	0.37%
AA	0.01%	0.02%	0.08%	0.16%	0.23%
A	0.07%	0.19%	0.36%	0.55%	0.77%
BBB	0.15%	0.46%	0.82%	1.26%	1.73%
BB	0.70%	2.04%	3.48%	5.21%	6.71%
B	3.04%	7.14%	11.06%	14.40%	17.24%
C	19.73%	28.03%	33.43%	37.39%	40.41%

The Council's minimum long term rating criteria is currently "A", meaning the average expectation of default for a one year investment in an institution with a "A" long term rating would be 0.07% of the total investment (e.g. for a £1m investment the average loss would be £700). This is only an average as any specific institution loss is likely to be higher.

Liquidity – The current CIPFA Treasury Management Code of Practice defines this as *"having adequate, though not excessive cash resources, borrowing arrangements, overdrafts or standby facilities to enable at all times to have the level of funds available which are necessary for the achievement of its business/service objectives"*.

The availability of liquidity and the period of risk in the portfolio can be benchmarked by the monitoring of the Weighted Average Life (WAL) of the portfolio (shorter WAL would generally represent less risk).

INVESTMENT & EXTERNAL DEBT POSITION AS AT 31.12.2017

	Principal £m	Average Rate %
DEBT		
Fixed rate:		
- PWLB	77.4	4.38
- Market	21.8	3.60
Sub-total	99.2	4.21
Variable rate:		
- PWLB	0.0	0.0
- Market	40.0	5.88
Sub-total	40.0	5.88
Total debt	139.2	4.69
INVESTMENTS		
- Fixed rate	(60.2)	0.54
- Variable rate	(15.3)	1.82
Total Investments	(75.5)	0.80
NET ACTUAL DEBT / (INVESTMENTS)	63.7	

SUMMARY MEDIUM FINACIAL PLAN 2018/19-2020/21

	2018/19 £000	2019/20 £000	2020/21 £000
DEBT			
Interest & Premium	6,986	6,689	6,400
MRP	3,022	3,164	5,721*
Sub-total	10,008	9,853	12,121
INVESTMENTS			
Interest	(876)	(986)	(1,666)
MAG	(5,281)	(5,495)	(5,495)
Sub-total	(6,157)	(6,481)	(7,161)
RESERVES			
Contribution to Interest Smoothing Reserve **	158	200	100
Sub-total	158	200	100
TOTAL	4,009	3,572	5,060

The above figures exclude associated debt costs from any additional borrowing undertaken to fund the Councils Commercial Investment Programme as these will be self-financing.

*The increase in MRP reflects the completion of the 4 year realignment period whereby funds previously over provided are being placed into an Investment Fund.

**The estimated value of the reserve at 31 March 2018 is £492k and this is required to cover:-

- In year interest variations on the council's variable rate debt,
- Any adverse changes in investment interest rates and
- Any defaults on specific loan advances to third parties or adverse changes in value of other non-financial investments.

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Audit Progress Report and Sector Update

Trafford Council
Year ending 31 March 2018
Page 41
30 January 2018



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Introduction



Mark Heap

Engagement Lead

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This paper provides the Accounts and 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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Tommy Rooney

Engagement Manager

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Members of the Accounts and 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. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.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 30 January 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our interim audit in January 2018. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any findings from the interim audit to you in our Progress Report at the March Accounts and Audit committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin after the draft accounts at the beginning of June with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will make our initial risk assessment to determine our approach and report this to you in our audit plan at the March Audit committee

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We meet with Finance Officers on a regular basis and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in December to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	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 2017-18 financial statements.	March 2018	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 2018	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	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.

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 by clicking on the logos below:

Public Sector

Local
government

Combined Authorities: Signs of Success



In her foreword to 'Building our Industrial Strategy' the Prime Minister states that the initiative "will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East."

Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

[Click on the report cover to download and read more.](#)



Grant Thornton Publication

Challenge question:

Is your Authority considering how the combined authority model may evolve?



Overview of General Data Protection Regulation (GDPR)

What is it?

GDPR is the most significant regulatory data protection development in 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

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Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify relevant incidents to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights

GDPR

Challenge question:

Can your authority effectively erase Personally Identifiable Data?

Have you appointed a Data Protection Officer?

How will your authority ensure citizens' data isn't duplicated across different information siloes without their knowledge?

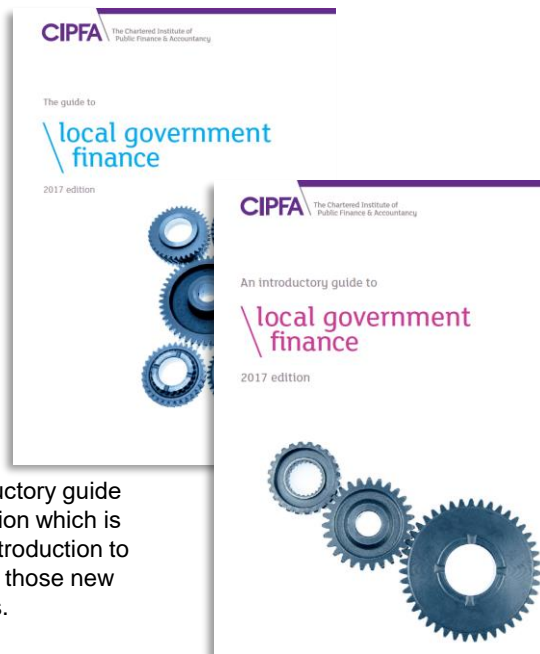
CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.



CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

CIPFA Publication

Challenge question:

Are these publications of use to you?



DCLG Consultation

DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The Government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed [here](#).

Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

DCLG consultation

Challenge question:

- Did your Chief Financial Officer respond to the consultation?



Links

Grant Thornton website links

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

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

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

<http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

<http://www.cfoinsights.co.uk/>

CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>

Nicola Bishop
Chief Finance Officer
Trafford Town Hall
Talbot Road
Stretford, M32 0YT.

January 2018

Dear Nicola

Certification work for Trafford Council for year ended 31 March 2017

We are required to certify certain claims and returns submitted by Trafford Council (the Council). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

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

We have certified one claim (housing benefits subsidy) for the financial year 2016/17 relating to subsidy of £61 million. We issued a qualification letter to the DWP reporting on a couple of issues. The main issue related to the misclassification of Rent Allowance eligible overpayments, which has been a recurring issue, reported on in recent years.

The detail of the claim certified is set out in Appendix A.

The indicative fee for 2016/17 for the Council was based on the final 2014/15 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year.

The fee set by PSAA for the Council for the certification of 2016/17 claims is £14,312.

Yours sincerely

For Grant Thornton UK LLP

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

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£61,375,825	No	Nil	Yes	<p>We issued a Qualification Letter to the DWP reporting on misclassification of Rent Allowance overpayments.</p> <p>We also reported an error which resulted in Non-HRA Rent Rebate subsidy being overstated by £6,588.</p>

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2018
Report for: Information
Report of: Audit and Assurance Manager

Report Title

External Assessment of Internal Audit by CIPFA – Final Report January 2018.

Summary

It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that Internal Audit Services within the public sector measure how well they are conforming to the Standards. This includes the requirement to have an external assessment undertaken at least once in a five-year period.

In 2017/18, the Chartered Institute of Public Finance and Accountancy (CIPFA) was commissioned by Trafford Council to undertake an external assessment of the Internal Audit function (provided by the Audit and Assurance Service).

The report by CIPFA sets out the findings and opinion from the assessment undertaken. CIPFA has 3 possible opinion levels (Generally conforms; Partially conforms and Does not conform). Within the Overall Opinion and Conclusion (Section 4 of the report), the report concludes that the Audit and Assurance Service generally conforms to PSIAS. It states, “The Audit and Assurance Service is a competent, professional and well-respected Service that is efficient and effective, follows best practice, and is willing to adapt to the changing needs of the Council.”

As part of the review, CIPFA made some recommendations and suggestions. All these have been accepted and responses are included in the Action Plan (Section 7). An update on the Action Plan will be reflected in the 2017/18 Annual Head of Internal Audit Report in May 2018.

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Extension: 1323

Background Papers: None

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External Quality Assessment - Validation of Client's Self-Assessment of Conformance to the Public Sector Internal Audit Standards

Trafford Council's Internal Audit Service

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Policy and Technical Unit, CIPFA.

13 January 2018

Self-Assessment Validation for the Internal Audit Service of Trafford Council – 14th and 15th November 2017

1. Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). Public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five year period.

2. Background

The Audit and Assurance Service (AAS) provides the internal audit service to Trafford Council (TC) and currently contributes some audit time to the internal audit of the Stockport, Trafford and Rochdale (STAR) Shared Procurement Service. The Council has entered in to a partnership with Greater Manchester Police for shared payroll and HR Services and AAS has included time in the 2017/18 Internal Audit Plan to contribute to the auditing of these services in the current year. The service consists of 6.83 FTEs made up of an Audit and Assurance Manager, 2 FTE Principal Auditor Team Leaders, 0.83 FTE Principal Auditor, 2 FTE Senior Auditors and 1 FTE Auditor. The service is based in Trafford Town Hall in Trafford, Greater Manchester.

The team is experienced and well qualified. The Audit and Assurance Manager holds the CIPFA qualification, and four other members of the team are also qualified accountants (2 x CIPFA, 1 x ACCA and 1 x ICAEW). Another member of the team holds an internal audit qualification (PIIA) while the final team member has over 25 years internal audit experience.

The Audit and Assurance Service reports to the Chief Finance Officer (Section 151 Officer). The Service reports to the Council's Accounts and Audit Committee (AAC), which is the body that fulfils the role of 'the board' as required by PSIAS.

The Service has been operating under PSIAS for over four years and have undergone a number of changes in staff and operational practices during this period, particularly in the last twelve months. The Service has carried out a self-assessment to see how they compare to the requirements of both the PSIAS and the CIPFA local government application note (LAGN), and then commissioned CIPFA to undertake a validation of their self-assessment.

3. Validation Process

The self-assessment validation comprises a combination of desktop and on-site review and cannot reasonably consider all elements of the PSIAS and LGAN self-assessment in the time available. The desktop period of the review focussed on determining the strengths and weaknesses of the Audit and Assurance Service, and formed the key lines of enquiry used during the on-site stage, in order that the validation review is timely and adds real value to the organisation. The key lines of enquiry assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.

The Service provided a comprehensive range of documents that they used as evidence to support their self-assessment and these were available for examination prior to and during this validation review. These documents included the:-

- self-assessment against the standards and the LGAN;
- quality assurance and improvement plan (QAIP);

- audit charter;
- Audit and Assurance Manager’s annual report and opinion;
- audit plan and strategy;
- audit manual; and
- progress and other reports to the Accounts and Audit Committee.

The on-site stage of the validation process involved face to face interviews with the Audit and Assurance Manager, the members of the Audit and Assurance Team, the Chief Finance Officer (S151 Officer), the Chair of the AAC, the Monitoring Officer and a Head of Service. A questionnaire was sent to the other key stakeholders not interviewed in advance of the on-site visit and the results analysed during the review. A sample of audit reports and working papers were also examined during the on-site stage of the review.

4. Conclusion and Opinion

The Audit and Assurance Service is a competent, professional and well-respected Service that is efficient and effective, follows best practice, and is willing to adapt to the changing needs of the Council. They make good use of technology and are keen to further develop computer assisted audit techniques to enhance the services that they deliver to the Council. Over a number of years they have gradually transferred responsibility for non-audit functions that are often aligned with audit services; the most recent example being the production of the Annual Governance Statement for the current year. This enables the Service to provide an independent review role. The Service continues to facilitate the update of the corporate strategic risk register.

The validation process has not revealed any areas of non-compliance with the standards, or any significant areas of partial compliance, that the Service has not already identified during their self-assessment and included in their quality assurance and improvement plan (QAIP).

Some minor observations have been identified and are set out in section five of the report, together with some recommendations (R) and suggestions (S) to address these issues and these are included in the action plans at section seven of this report. The process also identified some opportunities (O) for the Service to enhance its operations although they do not have an effect on compliance with the standards. These have been discussed with management and are included for information in section six of the report.

On this basis it is our opinion that the self-assessment is a good reflection of Trafford Council’s Audit and Assurance Service’s practices and its contribution to the organisation. It is also our opinion that the Service GENERALLY CONFORMS to the requirements of the Public Sector Internal Audit Standards and to the CIPFA Local Government Application Note.

The co-operation of the Audit and Assurance Manager in providing all of the information asked for during the review, the Audit and Assurance Team, and those stakeholders that made themselves available for interview and completed questionnaires, is much appreciated. A schedule of these officers and members is shown in section eight of this report.

Conformance with the standards fall into one of three categories below, with further details set out in section nine of this report

Generally Conforms	Partially Conforms	Does Not Conform
---------------------------	---------------------------	-------------------------

5. Summary of observations, recommendations and suggestions

Standard	Compliance	Observations	Recommendations and Suggestions	No
Mission of Internal Audit	Generally Conforms			
Core principles of internal audit	Generally Conforms			
Code of Ethics	Generally Conforms	<p>Minor Observation</p> <p>Each member of the Audit and Assurance Service is required to sign an annual declaration form to acknowledge that they conform to the Code of Ethics for Internal Auditors. In the public sector, this also includes the <i>Seven Principles of Public Life</i>. Although the members of the team are fully aware of these, and the need to comply with them is set out in the audit manual, (within the Audit and Assurance Service Code of Ethics, Conduct and Values), the current declaration form used by the Service does not make specific reference to them.</p>	<p>A section should be added to the declaration form at the next revision regarding team members having due regard to the <i>Seven Principles of Public Life</i>.</p>	S1
Attribute Standards				
1000 Purpose, authority and responsibility	Generally Conforms			
1100	Generally			

Standard	Compliance	Observations	Recommendations and Suggestions	No
Independence and objectivity	Conforms			
1200 Proficiency and due professional care	Generally Conforms			
1300 Quality assurance and improvement programme	Generally Conforms			
Performance Standards				
2000 Managing the internal audit activity	Generally Conforms			
2100 Nature of work	Generally Conforms	<p>Minor Observations</p> <p>These minor observation relates to the audit of the Council's governance and risk management arrangements. Although governance and risk management arrangements are covered in the scope of the individual audits, a specific review of the process for compiling the annual governance statement has not been undertaken for some time.</p> <p>The same applies to the overarching risk management processes. Given the planned</p>	<p>Include audits of the annual governance statement processes and risk management in future audit plans. It would be appropriate to consider risk management audit reviews after new management and reporting structures are established following the planned integration with the CCG.</p>	R1

Standard	Compliance	Observations	Recommendations and Suggestions	No
		merger with the CCG, the scope and timing of such review work could be considered once revised management arrangements are in place.		
2200 Engagement planning	Generally Conforms			
2300 Performing the engagement	Generally Conforms	Minor Observation The supervision of audits and review of working papers is set out in the audit manual and is undertaken within the Team Mate audit management system. However, not all reviewers are using the Team Mate functionality but are instead recording the reviews on a separate word document and then attaching this as an additional working paper to the audit record within Team Mate. The Service should adopt a consistent approach to file reviews and use the functionality within Team Mate for all review notes.	The Service should adopt a consistent approach to the review of audit working papers and documents by using the functionality that is embedded within the Team Mate application.	R2
2400 Communicating the results	Generally Conforms	Minor Observations There are two minor observations. For this standard. The first relates to the Audit and Assurance Manager's annual opinion. The narrative leading up to the opinion in the report clearly refers to the Service giving an opinion on the effectiveness of the internal control, risk management and governance arrangements of the Council. However, the actual opinion within the report only refers to the internal controls and not the effectiveness of the latter	Expand the audit opinion in the annual report to include the effectiveness of the Council's risk management and governance arrangements. To ensure that the client is aware from the outset of who will receive the audit report when the audit is concluded, an initial report distribution list should be added to the audit brief.	R3 S2

Standard	Compliance	Observations	Recommendations and Suggestions	No
		<p>two elements. As there may be occasions where the audit opinion is used outside of the context of the annual report, it is important that risk management and governance arrangements are added to it.</p> <p>The second relates to the distribution of audit reports. A distribution list is included in each draft and final audit report, however the LGAN also expects auditors to include an initial distribution list for the audit reports in the audit brief that is issued at the commencement of the audit.</p>		
<p>2500 Monitoring progress</p>	<p>Generally Conforms</p>			
<p>2600 Communicating the acceptance of risks</p>	<p>Generally Conforms</p>			

6. Opportunities to Enhance Services

The service is keen to develop the way it operates and with this in mind the following opportunities have been identified.

NO.	Observation	Action
O1	<p>The service has recently started to use computer assisted audit techniques (CAATs) to perform some of its internal audits. The service is using the IDEA application, which is widely used amongst local authority internal audit services. However, there is scope to expand the use of IDEA. The main distributor for IDEA also markets a suite of additional pre-defined test scripts for IDEA, called SmartAnalyzer, which cover the main financial and HR systems that most local authorities use. This product removes the need to develop the test scripts needed to audit these systems. In addition, there are other local authorities in the North West that are using IDEA to effectively audit other key council systems, such as council tax and business rates, who maybe willing to share their test scripts with the team.</p>	<p>Explore the viability of obtaining and using pre-written test scripts for IDEA, such as the SmartAnalyzer add on product, which cover the core business financial and HR systems, or by obtaining test scripts produced by other Internal Audit services in the North West.</p>
O2	<p>The planned merger with the Trafford CCG will bring new challenges for Internal Audit and the Service will need to provide adequate audit support to the organisation, in liaison with respective partners as appropriate. One suggestion for developing a sound understanding of NHS finance and governance arrangements is for the Service to become an associate member of the Healthcare Financial Management Association (HFMA) which will give them access to the numerous technical briefing papers, guide books and training courses produced by them.</p>	<p>Consider becoming an associate member of the Healthcare Financial Management Association (HFMA).</p>

7. Action Plans

Recommendations

No	Recommendation	Response	Responsible Person	Action date
R1	Include audits of the annual governance statement processes and risk management in future audit plans. It would be appropriate to consider risk management audit reviews after new management and reporting structures are established following the planned integration with the CCG.	Agreed. To initially be reflected in the 2018/19 Internal Audit Plan to be approved by the Accounts and Audit Committee in March 2018 and subsequent plans as arrangements develop.	Audit and Assurance Manager	March 2018
R2	The Service should adopt a consistent approach to the review of audit working papers and documents by using the functionality that is embedded within the Team Mate application.	Agreed. To be implemented for future audit reviews	Audit and Assurance Manager	With immediate effect
R3	Expand the audit opinion in the annual report to include the effectiveness of the Council's risk management and governance arrangements.	Agreed. For the 2017/18 Annual Head of Internal Audit Report, the wording used in the overall opinion to also reflect wording currently set out in the narrative leading up to the opinion.	Audit and Assurance Manager	May 2018

Suggestions

No	Suggestion	Response	Responsible Person	Action date
S1	A section should be added to the declaration form at the next revision regarding team members having due regard to the <i>Seven Principles of Public Life</i> .	Agreed. The form has been updated and this version will be used for all declarations going forward.	Audit and Assurance Manager	With immediate effect
S2	To ensure that the client is aware from the outset of who will receive the audit report when the audit is concluded, an initial report distribution list should be added to the audit brief.	Agreed. Distribution list for initial draft report to be included on the Terms of Reference for future audit reviews.	Audit and Assurance Manager	With immediate effect

8. : Interviewees and Questionnaires

Person	Position	Organisation
Interviewees		
Mark Foster	Audit and Assurance Manager	Trafford Council
Nikki Bishop	Chief Finance Officer (S151 Officer)	Trafford Council
Janet Kealey	Director of Legal and Democratic Services (Monitoring Officer)	Trafford Council
Alison Milne	Head of Service – Access and Inclusion	Trafford Council
Clr Nathan Evans	Chair of the Accounts and Audit Committee	Trafford Council
Mat Tanner	Principal Auditor and Assurance Team Leader	Trafford Council
John Miller	Principal Audit and Assurance Team Leader	Trafford Council
Paula Liew	Principal Audit and Assurance Officer	Trafford Council
Peter Morris	Senior Audit and Assurance Officer	Trafford Council
Mike Sullivan	Senior Audit and Assurance Officer	Trafford Council
Michael Barker	Audit and Assurance Officer	Trafford Council
Questionnaires		
Deborah Lucas	Acting Director of HR	Trafford Council
Rob Byrne	Assessments and Payments Manager	Trafford Council
Mark Pearson	Business Improvement Manager – STAR Procurement Partnership	Trafford Council
Theresa Grant	Chief Executive	Trafford Council
Richard Roe	Director of Growth & Regulatory Services	Trafford Council
Lorraine Cox	Director – STAR Procurement Partnership	Trafford Council
Sarah Curran	Head of Customer Services	Trafford Council
Louise Shaw	Head of Exchequer Services	Trafford Council
Graeme Bentley	Head of Financial Management	Trafford Council
Peter Forrester	Head of Governance	Trafford Council
Iain Veitch	Head of Regulatory Services	Trafford Council
Alison Milnes	Head of Access & Inclusion	Trafford Council
Richard Fontana	Health and safety Manager	Trafford Council
Karen Samples	Interim Director of Education	Trafford Council

Person	Position	Organisation
Edward Czok	Interim ICT Manager	Trafford Council
Karen Duckenfield	Revenues Manager (1)	Trafford Council
Simon Lewis	Revenues Manager (2)	Trafford Council
Joanne Boyle	Licensing Team Leader	Trafford Council

9. Definitions of Conformance with the Standards

Generally Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Ray Gard, CPFA, FCCA, FCIIA, DMS

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2018
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period October to December 2017.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period October to December 2017.**
- **To provide ongoing assurance to the Council on the adequacy of its control environment.**

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Extension: 1323

Background Papers: None

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TRAFFORD
COUNCIL

Audit and Assurance Service Report October to December 2017

Date: February 2018

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between October and December 2017 and highlights progress against the 2017/18 Internal Audit Plan to date. At the end of the year, these quarterly reports will be brought together in the Annual Head of Internal Audit Report which will give the opinion on the overall effectiveness of the Council's control environment during 2017/18.

2. Planned Assurance Work

Key elements of the 2017/18 Work Plan include:

- Fundamental Financial Systems reviews.
- Facilitating the completion of the Annual Governance Statement for 2016/17.
- Continued input to risk management arrangements and provision of guidance.
- Review of corporate procurement and value for money arrangements.
- ICT audit reviews.
- Anti fraud and corruption work.
- Ongoing advice to services and input / advice in respect of key projects across the Council.
- School audits and other establishment audit reviews.
- Grant claim certification work
- Audit reviews of other areas of business risk.

3. Main areas of focus – Q3 2017/18

Work in this quarter included a particular focus on the following :

- Audit review work in respect of fundamental financial systems including the issue of a number of audit opinion reports.
- Progression of a number of IT Audit reviews.
- Progression of audit reviews in relation to the STAR Shared Procurement Service.
- Issue of reports and ongoing work in relation to a number of other audit reviews from the Internal Audit Plan.
- Continued progression of work supporting the National Fraud Initiative.
- Receiving an external assessment from CIPFA to assess conformance with the Public Sector Internal Audit Standards.

4. Summary of Assurances for 3rd Quarter 2017/18

There were 11 internal audit opinion reports issued in the quarter, 9 final reports and 2 at draft stage. A number of other audit reports were in progress, to be formally issued in quarter four. A listing of audit report opinions issued including overall findings is shown in Section 5.

In respect of the 9 final reports issued, at least "Adequate" Opinions (Medium or above) were given in relation to all the reports. For all final reports issued, where applicable, agreed action plans are in place to implement the recommendations made.

5. Summary of Audit & Assurance Opinions Issued – Q3: 2017/18

(See Appendix 4 for definitions of opinion levels, report levels and report status)

REPORT NAME (DIRECTORATE) / (PORTFOLIO) by Coverage Level (1-4)	-OPINION -R/A/G -Date Issued	COMMENTS
FINAL REPORTS		
Level 4 Reports :		
Accounts Receivable / Debt Recovery (T&R) / (Corporate Resources)	High (GREEN) (2/10/17)	Key controls relating to central processes for Accounts Receivable and Debt Recovery continued to be maintained effectively. Although no recommendations have been made it is acknowledged that there are a number of developments planned by Exchequer Services, particularly in relation to the development of management information reporting to services.
Non Domestic Rates (NDR) (T&R) / (Corporate Resources)	High (GREEN) (9/10/17)	Based on the controls reviewed, a high level of assurance has been maintained with a good level of control found to be in place, with no recommendations made in this review.
Financial System IT Access Controls – follow up (T&R) / (Corporate Resources)	High* (GREEN) (17/10/17)	The original audit was undertaken by the External Auditor, Grant Thornton. The follow up audit found that a number of controls have either been introduced or enhanced by the Council to reduce the key business risks relating to the applications under review, with further work in progress. This further follow up review in relation to SAP financial system access controls confirmed that in relation to the 3 previous recommendations reviewed, satisfactory controls were in place.
STAR Shared Procurement Service – The Chest Procurement Portal (T&R) / (Corporate Resources)	Adequate** (GREEN) (21/10/17)	The audit was completed by Rochdale Council on behalf of Stockport, Trafford and Rochdale Councils. There is satisfactory control over the e-tendering process within The Chest procurement portal. The system meets the principal objectives of providing an externally hosted and secure e-sourcing portal, enabling a range of procurement routes, advertising of procurement opportunities and providing bidders with relevant information with which to submit bids and to receive those bids. Areas for improvement identified included issues in relation to IT access controls.
Level 2 Reports:		
Aids and Adaptations (CFW) / (Adult Social Care)	Medium (GREEN) (8/12/17)	It is acknowledged that as part of a Transformation project, a number of key service improvements have been delivered including the implementation of a number of contracts. A number of areas for improvement were identified relating to financial / performance monitoring in relation to current delivery arrangements and further streamlining of systems and processes.
Payments to Care Leavers (CFW) / (Children and Families)	Medium (GREEN) (20/12/17)	Controls in place relating to financial payments made to care leavers have improved following the introduction of the ContrOCC system in 2017. A number of areas for improvement were identified in relation to some aspects of the monitoring and authorisation of payments and audit trails within the system. Work has been carried out by Exchequer Services in conjunction with the CFW Transitions Team to assist with assessments so that relevant state benefits and other sources of finance can be identified and administered to Care Leavers in the first instance. A formal procedure is being developed to support this.

<u>Level 1 Reports:</u>		
Broadheath Primary School (CFW) / (Children and Families)	Medium/High (GREEN) (13/10/17)	Overall, a good standard of internal control and governance was found to be in place across most areas covered by the audit. Some recommendations were made including in relation to lettings, inventory maintenance and the school fund.
Wellfield Infant and Nursery School (CFW) / (Children and Families)	Medium (GREEN) (22/11/17)	Systems and controls were found to be adequate across most areas covered. A number of recommendations have been made including in relation to income collection; ordering and payments and inventory maintenance.
Partington Children's Centre (CFW) / (Children and Families)	Medium/High (GREEN) (28/11/17)	Overall, a good standard of internal control and governance was found to be in place across most areas covered by the audit. ... As part of forming this opinion account has been taken of the good progress made in implementing previous recommendations made at Stretford Children's Centre audit, which have also been implemented at Partington.
<u>DRAFT REPORTS</u>		
<u>Level 4 Reports:</u>		
Housing Benefits/Council Tax Reduction (T&R) / (Corporate Resources)		Draft report issued in December 2017 with report to be finalised for issue in January 2018.
IT Software Licensing (T&R) / (Corporate Resources)		Draft report issued in December 2017 with report to be finalised for issue in January 2018.
<u>OTHER REPORTS IN PROGRESS</u>		
<u>Level 4 Reports:</u>		
IT Service Desk (T&R) / (Corporate Resources)		Draft findings shared with management and report to be issued in Quarter 4.
STAR Procurement – Financial Vetting of Suppliers (T&R) / (Corporate Resources)		Draft findings shared with management and report to be issued in Quarter 4.
<u>Level 2 Reports:</u>		
Schools Catering - follow up (T&R) / (Corporate Resources)		* Draft findings shared with management and report to be issued in Quarter 4.
<u>Level 1 Reports:</u>		
English Martyrs' RC Primary School (CFW) / (Children and Families)		Draft findings shared with school and report to be issued in Quarter 4.
<p><i>*Denotes this is a follow up audit – i.e. the main focus of the review was a follow up of recommendations made as part of a previous internal audit review</i></p> <p><i>** An "Adequate Opinion" was provided which is considered equivalent to an opinion of "Medium" per the Trafford Council framework and the opinion is therefore shown as "Green".</i></p>		

6. Other Assurance Work

There is a significant amount of work undertaken by the Service that does not result in an audit opinion report being issued. Work in the quarter has included the following:

- Working with CLT to refresh the strategic risk register and report an updated version to the Accounts and Audit Committee in December 2017.
- Ongoing work in liaison with other services to follow up data matches provided by the Cabinet Office following submission of data as part of the National Fraud Initiative. Outcomes from work undertaken during 2017/18 are shown in Appendix 3 with a final update to be included in the 2017/18 Annual Head of Internal Audit Report.
- Working to assist management by contributing to an ongoing contract monitoring review of the One Trafford Partnership.
- Presentation provided to school governors at the Trafford Governors' Forum meeting in November 2017. This covered guidance to schools on internal control in terms of the recommended use of a recently updated Control Risk Self-Assessment form and associated guidance.

7. Impact of Audit Work – Improvements to the Control Environment

Key indicators of the impact of Audit and Assurance are: (a) Acceptance of Recommendations (b) Implementation of them.

Acceptance of Recommendations

From the final audit opinion reports issued during the quarter, 99% of recommendations have been accepted (87 out of 88 recommendations made). In the year to date 98% have been accepted (244 out of 249 recommendations) against a service target of 95%.

Implementation of Audit Recommendations

Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means.

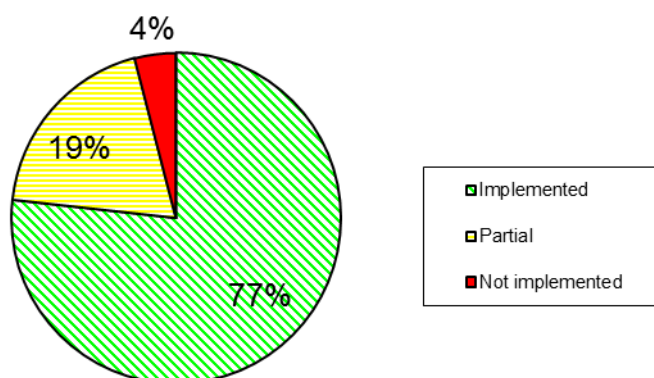
As listed under final reports in Section 5, a follow up audit was completed in relation to SAP Financial System IT Access Controls.

In respect of a number of audits previously completed, managers were requested to provide an update on progress in implementing recommendations made. Outcomes are as follows:

- Parking Enforcement Contract Monitoring (EGEI) - Of the 7 recommendations previously made, 6 have been implemented with the implementation of the remaining recommendation in progress.
- Section 106 Planning Agreements / Community Infrastructure Levy (EGEI) - Of the 4 recommendations previously made, 3 have been implemented with the remaining recommendation in progress.
- Stretford Children's Centre (CFW) - Of the 13 recommendations previously made, 11 have been implemented with the 2 remaining recommendations in progress.
- Brentwood School (CFW) - Of the 8 recommendations previously made, 7 have been implemented with the remaining recommendation in progress.
- Brooklands Primary School (CFW) - All 13 recommendations previously made have been implemented.
- St. Joseph's RC Primary School (CFW) - All 13 recommendations previously made have been implemented.
- Blessed Thomas Holford College (CFW) – All 10 recommendations previously made have been implemented.

An overall analysis of audit recommendations followed up in 2017/18 (up to 31 December 2017) is shown below.

Implementation of audit recommendations - 2017/18 follow ups



8. Performance against Audit & Assurance Annual Work Plan

Appendix 1 shows an analysis of time spent to date against planned time for the 2017/18 Operational Internal Audit Plan

As at the end of quarter three, 773 audit days were spent against 728 planned allocated days.

As part of the Internal Audit Plan, a target of 40 audit opinion reports was set to be issued during 2017/18. As at 31 December 2017, 23 opinion reports were issued to final or draft stage; a further 4 reports have been shared with management for initial comments; and a further 8 reviews had commenced where reports are due to be issued in Q4. A number of other reviews are due to commence in Q4 with further reports to be issued during the period. The number of actual reports issued by the end of March 2018 and work in progress will be set out in the Annual Head of Internal Audit Report 2017/18.

9. Planned Work for Quarter 4, 2017/18

Areas of focus include :

- Issue of final audit reports (to include agreed action plans) in relation to the reviews listed in Section 5 where reports have been issued as draft or are in progress.
- Progression of other audit reviews as listed in Appendix 2.
- Continue to work as part of the Information Security Governance Board (ISGB) to progress assigned actions in relation to the General Data Protection Regulations (GDPR) Action Plan.
- Completion and approval of the 2018/19 Internal Audit Plan.
- Supporting CLT in the further update of the Strategic Risk Register with a report due to be shared with the Accounts and Audit Committee in March 2018.
- Following the external assessment of Internal Audit by CIPFA against the Public Sector Internal Audit Standards, receive the final report and share with CLT and the Accounts and Audit Committee.

2017/18 Operational Plan: Planned against Actual Work (as at 31 December 2017)

<u>Category</u>	<u>Details</u>	<u>Planned Allocated Days 2017/18</u>	<u>Planned Days (up to 31/12/17)</u>	<u>Actual Days (as at 31/12/17)</u>
Fundamental Systems	Completion of fundamental financial systems reviews: (See Appendix 2 for opinion reports issued and planned to be issued during 2017/18).	230	170	162
Governance	<p>Corporate Governance Review / Collation of supporting evidence and production of the 2016/17 Annual Governance Statement (AGS). Corporate Governance Code updated and 2017/18 AGS approved by the Accounts and Audit Committee in September 2017.</p> <p>Further work planned for the rest of 2017/18 includes:</p> <p>Ethical governance – ongoing work with Legal and Democratic Services to review procedures and guidance in respect of declaring interests, gifts and hospitality.</p> <p>Ongoing advice / assurance in respect of governance issues.</p>	40	33	29
Corporate Risk Management	<p>Facilitating the updating of the Council's strategic risk register and other actions to support the Council's Risk Management Strategy including provision of guidance.</p> <ul style="list-style-type: none"> - Strategic Risk update report completed in June 2017 and reviewed by CLT in July 2017. Refresh of the strategic risk register commenced in October 2017 with report agreed by CLT in November 2017 and shared with Accounts and Audit Committee in December 2017/. Further update planned for March 2018. - Risk management guidance on the intranet has been updated to reflect updated Policy, Strategy and guidance. 	25	17	18
Anti-Fraud and Corruption	<p>Investigation of referred cases: (Summary of work completed during the year to be set out in Annual Head of Internal Audit Report and reflected where applicable in quarterly updates).</p> <p>Co-ordinate the Council's activity in respect of the National Fraud Initiative: (See update in Appendix 3).</p> <p>Other work to support the Ant-Fraud and Corruption Strategy, including where applicable working with other relevant services to review</p>	100	75	98

	existing policies and guidance supporting the overarching strategy. (Audit is currently liaising with Legal Services to consider further).			
Procurement / Contracts/ Value for money	Review of procurement / contract management arrangements including systems in place and associated arrangements to secure value for money (Work will include liaison with the STAR Procurement Service and partner authority auditors). See Appendix 2 for reports completed and planned.	80	50	57
ICT Audit	Audit reviews to be completed in line with the ICT audit plan. See Appendix 2 for work undertaken/planned.	70	48	41
Schools	Providing assurance on the control environment within schools, supporting schools in ensuring awareness of requirements within the DfE Schools' Financial Value Standard (SFVS). Undertake School Audit reviews (Issue of at least 15 Audit Opinion Reports). See Appendix 2 for audit opinion reports issued and planned. (As at 31/2/17, 9 final reports issued; 1 review where draft findings have been shared; 1 review where audit visit completed and 4 other reviews have commenced).	170	125	147
Assurance – Other Key Business Risks	Audits selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews include authority wide issues and areas relating to individual services, establishments and functions. Includes: - Audit reviews - Follow up reviews including further audits and gaining assurance from service updates. See Appendix 2 for audit opinion reports issued and other work completed / planned.	230	140	107
Grant claims checks / Data Quality	Internal audit checks of grant claims / statutory returns as required. Checks completed to date have covered: - Public Health - Local Growth Fund. - Integrated Transport and Highways Maintenance Grant - Disabled Facilities Grant. Also work ongoing in liaison with other GM Local Authorities in relation to changes in the future approach for reviewing funding claims in relation to the Stronger Families programme. (Review work to be undertaken in Quarter 4).	35	25	30
Service Advice / Projects	General advice, both corporately and across individual service areas.	60	45	84

	<p>Support and advice to the organisation in contributing to working groups and projects in relation to governance, risk and control issues.</p> <p>To date this has Included:</p> <ul style="list-style-type: none"> - contributing to work of the Information Security Governance Board; - contributing to the development of the Digital Strategy. 			
TOTAL		1040	728	773

Audit Opinion Reports Issued and Planned 2017/18 (as at 31 December 2017)

<u>Category</u>	<u>Audit Opinion Reports</u>	<u>Status (where progressed by Q3)</u>	<u>2017/18 IA Plan</u>
Fundamental Systems	<ul style="list-style-type: none"> -Accounts Receivable & Debt Recovery (T&R) - Treasury Management (T&R) - Council Tax (T&R) - Payroll (T&R) - Income Control (T&R) - NDR (T&R) - Benefits/Council Tax reduction (T&R) - Accounts Payable (T&R) - Liquid Logic/ContrOCC system (CFW/T&R) - Direct Payments (CFW) 	<p>Final report issued 2/10/17</p> <p>Final report issued 18/9/17</p> <p>Final report issued 10/7/17</p> <p>-</p> <p>Planning commenced</p> <p>Final report issued 9/10/17</p> <p>Draft report issued</p> <p>-</p> <p>Review re Adult Services in progress</p> <p>Planning commenced</p>	<p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Timing to be agreed.</p> <p>Draft report to be issued Q4</p> <p>Completed.</p> <p>Final report to be issued Q4</p> <p>Commence planning Q4.</p> <p>Draft report to be issued Q4</p> <p>Draft initial findings by Q4</p>
Procurement /Contracts /Value for money	<ul style="list-style-type: none"> - Contracts Register (STAR Authorities – Rochdale lead) (T&R) - Financial vetting of firms (STAR Authorities – Trafford lead) (T&R) - STAR Quality Management System (STAR Authorities – Stockport lead) (T&R) - Social Value in Procurement (STAR authorities – Trafford lead) (T&R/Authority Wide) - Contract Procedure Rules (STAR Authorities – Stockport lead) (T&R/Authority-Wide) - The Chest Procurement Portal (STAR Authorities – Rochdale Lead) - One Trafford Partnership (EGEI) 	<p>-</p> <p>Initial findings shared with management.</p> <p>Planning commenced</p> <p>-</p> <p>In progress</p> <p>Final report issued 21/12/17</p> <p>Ongoing contribution to a Council review.</p>	<p>Timing to be agreed (Rochdale).</p> <p>Final report to be issued Q4</p> <p>Draft report to be issued by Q4 (Stockport).</p> <p>Commence in Q4.</p> <p>Final report to be issued Q4 (Stockport)</p> <p>Completed.</p>
ICT Audit	<ul style="list-style-type: none"> - SAP financial system access controls (T&R) - IT Change Management follow-up audit (T&R) - Software Licensing (T&R) - Cyber Security (T&R) - ITrent System IT Application Controls (T&R) - IT Service Desk (T&R) 	<p>Final report issued 17/10/17</p> <p>-</p> <p>Draft report issued.</p> <p>-</p> <p>-</p> <p>Initial findings shared with management</p>	<p>Completed.</p> <p>Commence in Q4.</p> <p>Final report to be issued Q4</p> <p>Commence in Q4.</p> <p>Commence in Q4.</p> <p>Final report to be issued Q4.</p>
Schools	<ul style="list-style-type: none"> - Barton Clough Primary School - Well Green Primary School - Our Lady of the Rosary RC Primary School - Wellfield Junior School - Moss Park Infant School - Bollin Primary School - Wellfield Infant and Nursery School - St. Hugh's RC Primary School - Broadheath Primary School 	<p>Final report issued 24/4/17</p> <p>Final report issued 23/5/17</p> <p>Final report issued 23/5/17</p> <p>Final report issued 27/6/17</p> <p>Final report issued 28/6/17</p> <p>Final report issued 27/7/17</p> <p>Final report issued 22/11/17</p> <p>Final report issued 27/9/17</p> <p>Final report issued 13/10/17</p>	<p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p> <p>Completed.</p>

	<ul style="list-style-type: none"> - English Martyrs' RC Primary School - Stamford Park Infants School - The Firs Primary School - St. Margaret Ward RC Primary School - Bowdon Church School - Trafford High School <p>(Note all school reports relate to CFW Directorate)</p>	<p>Initial findings shared with school</p> <p>Audit visit completed</p> <p>Planning commenced</p> <p>Planning commenced</p> <p>Planning commenced</p> <p>Planning commenced</p>	<p>Final report to be issued Q4.</p> <p>Final report to be issued Q4.</p> <p>Draft report to be issued Q4.</p> <p>Draft report to be issued Q4.</p> <p>Draft report to be issued Q4.</p> <p>Draft report to be issued Q4.</p>
Assurance – Other Key Business Risks	<ul style="list-style-type: none"> - Housing Waiting List (EGEI) - Corporate Health and Safety (T&R/Authority-wide) - Schools Catering – follow up (T&R) * - Coppice Avenue Library – follow up (T&R) * - Let Estates (EGEI) * - Taxi Licensing – follow up (EGEI) * - Flixton House (T&R) - Altrincham Crematorium (T&R) - Old Trafford Library (T&R) - Trafford Town Hall - Catering Income (T&R) - Planning Enforcement (EGEI) - Strategic Growth Team (EGEI) - Partington Children's Centre (CFW) - Music Service (CFW) - Client Finances system (T&R/CFW) - Foster Care payments (CFW) - Section 17 Payments – Children (CFW) - Out of Borough School Placements – follow up (CFW) - Aids and Adaptations (CFW) - Payments to Care Leavers (CFW) 	<p>Final report issued 5/6/17</p> <p>Final report issued 21/7/17</p> <p>Initial findings shared with management.</p> <p>Final report issued 8/8/17</p> <p>Planning commenced</p> <p>Final report issued 26/5/17</p> <p>-</p> <p>-</p> <p>-</p> <p>-</p> <p>-</p> <p>-</p> <p>Final report issued 28/11/17</p> <p>-</p> <p>-</p> <p>-</p> <p>-</p> <p>In progress</p> <p>Final report issued 8/12/17</p> <p>Final report issued 20/12/17</p>	<p>Completed</p> <p>Completed</p> <p>Final report to be issued Q4.</p> <p>Completed</p> <p>Commencing Q4.</p> <p>Completed</p> <p>Timing to be agreed.</p> <p>Commence in Q4</p> <p>Commence in Q4</p> <p>Commence in Q4</p> <p>Agreed to reschedule to 2018/19</p> <p>Timing to be agreed.</p> <p>Completed.</p> <p>Timing to be agreed.</p> <p>Commence planning Q4.</p> <p>Commence planning Q4.</p> <p>Timing to be agreed.</p> <p>Final report to be issued Q4.</p> <p>Completed.</p> <p>Completed.</p>

NATIONAL FRAUD INITIATIVE – OUTCOMES FROM WORK IN 2017/18

The Audit and Assurance Service continues to co-ordinate the Council's participation in the National Fraud Initiative (NFI). The NFI is a nationwide data matching exercise. It is designed to help participating bodies identify possible cases of error or fraud and detect and correct any consequential under or overpayments from the public purse. The main exercise is carried out once every two years at minimal cost to the organisations involved and is firmly established as the United Kingdom's premier public sector fraud detection exercise.

In respect of the latest 2016/17 NFI exercise, the Audit and Assurance Service co-ordinated the submission of Council data to the Cabinet Office in October 2016 and the subsequent matches were received in January 2017. Up to 11 January 2018, a total of 2,991 matches have been reviewed by officers across a range of Council services, including a substantial portion by the Council's Counter Fraud and Enforcement Team. This has resulted in the identification and correction of 522 errors, and the detection of 1 fraud, totalling £247,615, with £115,853 in the process of recovery, and potential ongoing annual increases in income of £25,888.

Of the above total, total Housing Benefit overpayments being recovered as a result of the 2016/2017 NFI exercise amounted to £45,802. In addition to this there has been a further £8,204 in overpaid Council Tax Support that has been identified and is in the process of recovery.

There has also been work undertaken to investigate potential Council tax Single Person Discounts, via matching Council tax data against other data sets such as the electoral register, housing waiting lists, concessionary travel passes and parking permits. To date this has resulted in 90 Council Tax discounts being removed, with £42,257 in the process of recovery and creating potential future additional annual Council tax liability (noted above) of £25,888 based on the annual level of discounts. In addition, the investigation of these matches has revealed a further £19,590 in overpaid Housing Benefit / Council Tax Support that is also in the process of recovery.

The fraud identified related to one employee found to have been working without leave to work in the UK. At the time the individual was initially recruited, they had been granted the right to work in the UK and been issued with a National Insurance Number. This right to work, and remain in the UK, subsequently expired and over the period during which the individual did not have the right to work in the UK, their total earnings from their Council employment were £131,703. Initial queries to the individual to produce valid documentation in support of their right to work resulted in the individual no longer attending work and refusing all attempts made to contact them. Despite classification of this case as fraud, it should be noted that the Council did not suffer a financial loss as, had this individual not been employed, another would have been employed to undertake this role.

Other non-financial outcomes from the current exercise to date include the cancellation of 381 Blue Badges due to the holder now being deceased, and ongoing review of applicants on the Council's Housing Waiting List.

A final update from this exercise will be reflected in the Annual Head of Internal Audit Report 2017/18.

POINTS OF INFORMATION TO SUPPORT THE REPORT:

Audit Opinion Levels (RAG reporting) :

Opinion – General Audits

High – Very Good	Green
Medium / High – Good	Green
Medium – Adequate	Green
Low / Medium - Marginal	Amber
Low – Unsatisfactory	Red

An opinion is stated in each audit report to assess the standard of the control environment.

Report Status:

Draft reports:

These are issued to managers prior to the final report to provide comments and finalise agreed responses to audit recommendations.

Final reports:

These incorporate management comments and responses to audit recommendations, including planned improvement actions.

Breadth of coverage of review (Levels 1 to 4)

Provides an indication as to the nature / breadth of coverage of the review in terms of which aspects of the organisation's governance and control environment it relates to. Levels are as follows:

- **Level 4 : Key strategic risk or significant corporate / authority wide issue** - Area under review directly relates to a strategic risk or a significant corporate / authority wide issue or area of activity.
 - **Level 3 : Directorate wide** - Area under review has a significant impact within a given Directorate.
 - **Level 2 : Service wide** - Area under review relates to a particular service provided or service area which comprises for example a number of functions or establishments.
 - **Level 1 : Establishment / function specific** - Area under review relates to a single area such as an establishment.
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TRAFFORD COUNCIL

Report to: Executive

Date: 29 January 2018

Report for: Discussion

Report of: The Executive Member for Corporate Resources and the Chief Finance Officer

Report Title:

Budget Monitoring 2017/18 – Period 8 (April to November 2017).

Summary:

The purpose of this report is to inform Members of the current 2017/18 forecast outturn figures relating to both Revenue and Capital budgets. It also summarises the latest forecast position for Council Tax and Business Rates within the Collection Fund.

Recommendation(s)

It is recommended that the Executive:

- a) note the forecast revenue budget underspend of £216k;
- b) note the estimated benefit of up to £5.1m to be received from the 2017/18 GM 100% Business Rates Retention Pilot, as a result of a new benefit sharing agreement. This will be transferred to a new earmarked reserve to fund the 2018/19 budget;
- c) note the interim dividend received from Manchester Airport investment of £1.784m most of which is being used to fund an extra £1.4m investment in the highways infrastructure in 17/18;
- d) note the changes to the Capital Programme as detailed in paragraph 18, which includes the extra highways investment referred to above.

Contact person for access to background papers and further information:

David Muggeridge, Finance Manager, Financial Accounting Extension: 4534

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial	Revenue and Capital expenditure to be contained within available resources in 2017/18.
Legal Implications:	None arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	Not applicable
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Other Options

Not Applicable

Consultation

Not Applicable

Reasons for Recommendation

Not Applicable

Finance Officer Clearance **NB**.....
Legal Officer Clearance **DA**.....

CORPORATE DIRECTOR'S SIGNATURE 

REVENUE BUDGET

Budget Monitoring - Financial Results

1. The approved budget agreed at the 22 February 2017 Council meeting is £160.83m. In determining the budget an overall gap of £25.37m was addressed by a combination of additional resources of £9.80m, including projected growth in business rates, council tax and use of general reserve and £15.57m of service savings and additional income.
2. Based on the budget monitoring for the first 8 months the year-end forecast outturn is an underspend of £216k, an adverse movement of £725k since Period 6. This position takes into account planned additional investment in the Council's highways of £2.0m due to the positive position of the EG&I and C-W budgets (See Table 2). At this stage caution should be exercised as the projections continue to be based on a number of assumptions including delivery of the significant savings programme in year (see para. 8), the on-going risk to business rate income (see para. 14) and the stability of demographic pressures in social care.
3. Detailed below in Table 1 is a summary breakdown of the service and funding variances against budget, with Table 2 providing an explanation of the variances:

Table 1: Budget Monitoring results by Service	2017/18 Revised * Budget (£000's)	Forecast Outturn (£000's)	Forecast Variance (£000's)	Percentage
Children's Services	31,289	31,930	641	2.1%
Adult Services (Inc. Public Health)	57,794	59,592	1,798	3.1%
Economic Growth, Environment & Infrastructure	38,318	37,868	(450)	(1.2)%
Transformation & Resources	16,893	16,164	(729)	(4.3)%
Total Directorate Budgets	144,294	145,554	1,260	0.9%
Council-wide budgets	16,531	15,055	(1,476)	(8.9)%
Net Service Expenditure variance	160,825	160,609	(216)	(0.1)%
Funding				
Business Rates (see para. 14) **	(67,462)	(67,462)	-	
Council Tax (see para. 12)	(88,630)	(88,630)	-	
Reserves	(3,058)	(3,058)	-	
Collection Fund surplus	(1,675)	(1,675)	-	
Funding variance	(160,825)	(160,825)	0	0.0%
Net Revenue Outturn variance	0	(216)	(216)	(0.1)%
Dedicated Schools Grant	124,519	125,158	639	0.5%
Public Health	12,178	12,178	0	0.0%

* A number of budget virements have been made, under delegated powers, since the Period 6 Budget Monitoring Report and are detailed in Annex 1.

** One-off income relating to the 2016/17 Business Rate Growth Pilot of £1.3m will be transferred to a new earmarked reserve to mitigate future business rates funding risks (as previously reported). In addition, a figure of £5.1m is estimated to be received from the 2017/18 GM Business Rates Retention Pilot, as a result of a proposed new sharing agreement. This will be transferred to a new earmarked reserve to fund the 2018/19 budget (see para. 16).

Main variances, changes to budget assumptions and key risks

4. The main variances contributing to the projected underspend of £216k, the adverse movement of £725k since Period 6, any changes to budget assumptions and associated key risks are highlighted below:

Table 2: Main variances	Forecast Variance (£000's)	Explanation/Risks
Children's Services	641	<p>The overall forecast position is for a £641k variance, an adverse movement of £641k since Period 6.</p> <p>Within the service there remains a number of pressures.</p> <p>Children's placements:-</p> <ul style="list-style-type: none"> • There is an estimated gross overspend of £726k this is partially offset by a one off underspend of £180k on the Regional Adoption Agency resulting in a net overspend of £546k. There is also a forecast underachievement of £781k on the service's overall savings target (£2.5m). <p>This gives an overall variance of £1.327m an increase of £610k from that reported previously. The variance is as a result of delays in the implementation of some savings schemes. The area of most significant pressures continues to be for placements for children age 14+ who need specialist care. There is an ongoing lack of capacity in placements for young people age 14+ with in-house foster carers and external provision. The recruitment of more in-house carers is in hand but will take time. We are continuing to work with the Family Placement team and with Healthy Young Minds to develop comprehensive training and support interventions to increase our internal provision and capacity.</p> <p>The number of children in care as at the end of November 2017 is 387, an increase of 6 from that last reported.</p> <ul style="list-style-type: none"> • Within this projection a contingency of £372k remains in the event of additional placements over the next four months. • The above variance has been offset by underspends and additional income within the overall service. These include vacancies of £176k, additional grant/income £300k, savings from restructures £182k, and general underspends across the service of £27k.

<p>Adult Services / Public Health</p>	<p>1,798</p>	<p>The overall position is a forecasted overspend of £1.798m, an adverse movement of £901k since Period 6.</p> <p>The main budget pressure is in the adult client budget in which there is an estimated gross overspend of £1.683m which is partially offset by one off underspends on grant funding and Transition budgets totalling £913k producing a net overspend of £770k.</p> <p>In addition there is an underachievement of £1.415m on the service's savings target (£6.2m). This gives an overall variance of £2.185m, an increase of £763k from that reported previously.</p> <p>This overall position reflects an increase in the cost per person of care due to increased complexity of cases, an absence of Council rate homecare and nursing care provision (to the extent required) in the borough which has also impacted on the savings programme. The lack of affordable nursing care beds in the borough is increasing the number of top-up fees payable by the Council, as is the higher rate of home care packages. The accelerated work on delayed transfers of care is also increasing the financial pressure in this area as residents are brought out of hospital quickly to assess their needs in the community.</p> <p>Within this forecast £425k remains within a contingency budget to help to offset potential pressures for the remaining 4 months.</p> <p>Included within the forecast is a £257k overspend on Deprivation of Liberty assessment fees due to activity well in excess of expected levels.</p> <p>The overall position is partly mitigated by vacancies of £332k, a one-off VAT refund, £235k and minor variations across the service of £77k.</p> <p>Within this forecast the service is still to realise £0.609m of savings.</p>
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Economic Growth, Environment & Infrastructure	(450)	<p>The overall underspend of £450k includes staff cost savings of £219k and net income savings from property rents, planning, car park and other fees of £557k. These savings are partly offset by a net overspend in running costs of £326k, which includes the increase in Waste Disposal Levy of £188k previously reported.</p> <p>This is an adverse movement of £135k since Period 6 and includes a net reduction in the One Trafford Partnership underspend of £145k partly offset by a net reduction in staffing and running costs across all other services of £10k.</p> <p>The above figures exclude the new income from the garden waste collection service which has exceeded budgeted levels by £600k. This will now be used to support additional investment in the Council's highways, as highlighted in the period 4 report.</p>
Transformation & Resources	(729)	<p>The overall underspend of £729k includes staff cost savings of £784k and additional income and reduced running costs, saving £215k. These are partly offset by a shortfall in the savings associated with School crossing patrols of £270k, albeit other funding sources will be pursued where available.</p> <p>This is a favourable movement of £87k since Period 6.</p> <p>Forecast staff costs are £784k less than budget across the Directorate based on actual and projected vacancies, which is 3.9% of the total staffing budget. This is a favourable movement since Period 6 of £105k. However, this is lower than the average level experienced in 2016/17 of 4.6%, and reflects the ongoing efforts to fill outstanding vacant posts.</p> <p>Projected income levels have increased by a net £41k to £153k since Period 6 across a number of areas, particularly within Finance Services.</p> <p>Running costs are currently projected to be £62k below budget, an adverse movement of £59k.</p>

Council-wide budgets	(1,476)	<p>The overall underspend of £1.476m is a favourable movement of £537k since Period 6 and includes:</p> <ul style="list-style-type: none"> • Treasury Management savings of £848k (mainly airport dividend above budget of £816k, see comment below); • part release of Contingency budgets of £380k; • Overpayment recovery of previous years' Council Tax Benefit, £53k; • Members allowances and running cost savings, £20k and Apprenticeship Levy saving against budget of £31k; • A final one-off rebate from the Public Sector Audit Appointments (PSAA) relating to historic external audit fees, £18k; • Which is partially offset by a projected shortfall in the savings associated with the 'Advance contributions to GM Pension Fund' project of £165k and an expected overspend in Coroners and Mortuary fees of £37k. • In September 2017 the Council approved an Investment Strategy covering the purchase of properties and other investments aimed at generating a net income stream to support the budget. A number of acquisitions have been made in 2017/18 which will yield a part year benefit of £328k with full year impact supporting future years' budgets. <p>A number of Council-wide contingencies and provisions relating to service savings not being achieved and doubtful debts have been reviewed and it is considered appropriate at this stage of the year to release a further £155k, in addition to the £225k already released at Period 6. This leaves £378k remaining.</p> <p>The net Housing Benefit budget (payments made, less subsidy and overpayment recovery) is above budget by £357k, largely as a result of the successful collection of prior years' housing benefit overpayments. This is an adverse movement of £209k since Period 6.</p> <p>However, as reported previously, any overachievement on this budget will be transferred into a Housing Benefit Overpayments earmarked reserve which will be used to smooth the budget reductions required in 2018/19. The estimated over recovery of £357k is therefore not included in the Council Wide outturn figure.</p> <p>It should also be noted that a 2017/18 Interim airport dividend has recently been received for £1.784m. This is in addition to the £3.029m already received in July 2017 for the final 2016/17 dividend. The total dividend received in the year is therefore £4.813m and is above budget by £2.216m. It is proposed to use £1.4m of this to support additional investment in the Council's highways, in addition to the £600k already agreed in September 2017 from the garden waste collection service. The remaining £816k is included in the outturn figure above.</p>
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Dedicated Schools Grant	639	The increase in the projected overspend of £405k relates to the funding of additional places at special schools, the additional cost of top-ups and a deduction made by the Education and Skills Funding Agency (ESFA) for High Needs 6th form places which is currently the subject of a dispute. This overspend will be financed from the DSG reserve.
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Progress against Locality Plan

- A key element of the Health and Social Care devolution agenda is the submission of a Locality Plan setting out the Council and CCG vision for the greatest and fastest possible improvement in the health and wellbeing of our residents by 2020. This improvement will be achieved by supporting people to be more in control of their lives by having a health and social care system that is geared towards wellbeing and the prevention of ill health; access to health services at home and in the community; and social care that works with health and voluntary services to support people to look after themselves and each other.
- Work is ongoing on the locality plan and it is anticipated that further work will be required in the coming months to understand how any budget gaps will be addressed. Financial performance against the locality plan is highlighted below in Table 3.

Table 3: Locality Plan Update	2017/18 Budget (£000's)	Outturn (£000's)	Variance (£000's)	Percentage
Public Health	12,178	12,178	0	0.0%
Adult Social Care	57,180	58,978	1,798	3.1%
Children and Families	31,960	32,601	641	2.0%
Total	101,318	103,757	2,439	2.4%

*The figures in the above table have been collated using a different rationale incorporating wider budget elements not included in the CFW budget.

MTFP Savings and increased income (Vision 2031 Portfolio)

- The 2017/18 budget is based on the achievement of permanent base budget savings and increased income of £15.57m (see para. 1 above). In addition a number of savings initiatives which underachieved in 2016/17 have been rolled over to the 2017/18 programme totalling £1.36m, giving a total savings target of £16.93m.
- The latest forecast indicates that total savings of £14.90m have been or are projected to be delivered by 31 March 2018. This represents an underachievement against target of £2.03m and includes £13.70m already achieved (91.9%) and £1.20m (8.1%) still to be achieved. At this stage the projected under-performance on savings can be financed from other savings and

additional income across the rest of the revenue budget in 2017/18. The impact of the shortfall will be taken into consideration when setting the 2018/19 budget.

RESERVES

9. The audited General Reserve balance brought forward is £6.00m, the approved minimum level agreed by Council in February 2017.
10. Service balances brought forward from 2016/17 were a net £4.11m and are largely allocated to support Vision 2031 Portfolio projects in 2017/18 and later years, however before making firm commitments to utilise these resources consideration will be given to the overall projected outturn position in each directorate.

	b/f April 2017 (£000's)
Table 4: Service balances	
Communities, Families & Wellbeing	(793)
Economic Growth, Environment & Infrastructure	(1,205)
Transformation & Resources	(2,113)
Total (Surplus)/Deficit	(4,111)

COLLECTION FUND

Council Tax

11. The 2017/18 surplus on the Council Tax element of the Collection Fund is shared between the Council (84%), the Police & Crime Commissioner for GM (12%) and GM Fire & Rescue Authority (4%). The total surplus brought forward as at 1 April 2017 was £2.54m.
12. As at November 2017 the end of year surplus balance is forecasted to be £1.48m, after the application of £1.55m of brought forward surplus and addition of an in-year surplus of £485k. The Council's share of this is £1.24m, and is planned to support future budgets in the MTFP.
13. Council Tax collection rate as at 30 November 2017 was 77.16% compared to the targeted collection rate of 77.41%.

Business Rates

14. The 2017/18 budget included anticipated growth in retained business rates and related S31 grants of £5.46m and at this stage it is still anticipated that this will be achieved in year, albeit the risk of appeals still remains a significant concern.
15. In addition, agreement was reached across AGMA on the sharing of benefits from the 2016/17 business rate growth pilot and as previously reported the benefit Trafford will receive from this at £1.276m has been transferred to a new earmarked reserve to help mitigate any future business rates related risks.

16. From April 2017 the ten Greater Manchester (GM) authorities were able to retain 100% of Business Rates income collected above baselines. Each GM authority calculated their 2017/18 budget for business rates using the historic sharing agreement (49%) with any difference being transferred to the GM Pool via a 'No Detriment' payment. Trafford budgeted for a 'No Detriment' payment of £10.2m. A new sharing agreement has now been reached across AGMA and the benefits accumulated from the 'No Detriment' payments will now be shared 50% to GMCA and 50% to the local authority. The estimated benefit to Trafford in 2017/18 will be £5.1m, however given the overall risk faced by Trafford due to its large business rates baseline and volatility from business rate appeals, it is prudent that this amount be transferred to a new earmarked smoothing reserve used to fund the 2018/19 and future years budgets.
17. Business Rates collection rate as at 30 November 2017 was 73.28% compared to a targeted collection rate of 73.86%.

CAPITAL PROGRAMME

18. The value of the indicative 2017/18 Capital Programme set in February 2017 was £65.74m which was updated as a result of 2016/17 outturn and reported in the P6 monitor at £353.17m. Taking into account the increase to the Highway Maintenance Programme and additional grants and contributions the budget is currently estimated at £355.22m. The changes are summarised as follows with details below:

Table 5 - Capital Investment Programme 2017/18	Period 6 Programme £m	Changes £m	Current Programme £m
Service Analysis:			
Children, Families & Wellbeing	15.43	0.19	15.62
Economic Growth, Environment & Infrastructure *	36.53	1.29	37.82
Transformation & Resources *	6.21	0.57	6.78
General Programme Total	58.17	2.05	60.22
Capital Investment Fund **	295.00	-	295.00
Total Programme	353.17	2.05	355.22

* Adjustment made to service area budgets for Vision 2031 related projects.

** The remaining £5m has been rephased to 2018/19.

19. Amendments to Capital Programme

- **Disabled Facilities Grants** – As part of the recent Autumn Budget central government announced additional funding of £42m for Disabled Facilities Grants. We have been notified that this equates to £187k for Trafford and it is expected by DCLG that this will be utilised in 2017/18.

- **Highways Maintenance Investment** – New investment of £0.6m was approved in the P6 monitor. A further investment of an extra £1.4m will now be made in 2017/18 and financed from additional share dividend from the Manchester Airport Group (referred to in the revenue budget monitoring update).
- **Pot Hole Funding** - As part of the recent Autumn Budget central government announced additional funding for pothole repairs of £70m nationally. Based on the allocation of the original 2017/18 distribution this equates to approx. £112k for Trafford. We are waiting on notification from GMCA as to the exact figure we will receive.
- **Land at Sinderland Road, Broadheath** – The purchase and sale of this land from National Trust to a developer has been completed through the council. The original purchase cost of £351k is covered by the final sales receipt received and resulted in the council receiving net income of £392k for its share of the land sold.

Resourcing of the capital investment programme is made up of both internal and external funding. Details of this are shown in the table below.

Table 6 - Capital Investment Resources 2017/18	Period 6 Programme £m	Changes £m	Current Programme £m
External:			
Grants	19.84	0.30	20.14
Contributions	10.27	-	10.27
Sub-total	30.11	0.30	30.41
Internal:			
Receipts	16.07	0.35	16.42
Borrowing	10.50	-	10.50
Reserves & revenue	1.49	1.40	2.89
Sub-total	28.06	1.75	29.81
General Programme Total	58.17	2.05	60.22
Borrowing – Capital Investment Fund	295.00	-	295.00
Total Programme	353.17	2.05	355.22

General Programme - Status and progress of projects

20. This section aims to give certainty about delivery and the level of outturn performance that can be expected in 2017/18 on the general capital programme.
21. As part of the monitoring process a record of the “milestones” reached by each project is kept to show the progress of the scheme from inclusion in the programme through to completion. The table below shows the value of the programme across the milestone categories.

Table 7 - Status on 2017/18 Projects	Current Budget £m	Percentage of Budget
Already complete	22.17	37%
On site	21.77	36%
Programmed to start later in year	13.01	22%
Not yet programmed	3.27	5%
Total	60.22	100%

22. There are a number of schemes which, whilst they have started or are still due to start in year, are not now expected to complete until 2018/19. As a result the outturn projection is now estimated to be £52.32m (87%) in 2017/18. The table below provides a summary with scheme details shown in the following paragraph.

Table 8 – 2017/18 Outturn Projection	£m
Current General Programme	60.22
Actual spend to date	27.73
Expected spend for P9-P12	24.59
Outturn Projection	52.32
Variance to current budget	(7.90)
Major Areas which require re-phasing to 2018/19	
- Schools related projects	2.27
- Public Building Repairs	0.30
- City Cycle Ambition Grant	0.43
- Cycle Link schemes	0.52
- Altrincham – Library / Community Facility	1.74
- Additional Burial Land	0.44
- Flexible use of Capital Receipts	1.80
- SAP Development / Replacement	0.40
Total re-phasing requirement	7.90

23. Listed below are those schemes where delivery is not expected to either complete or commence in 2017/18 and budgets will be rephased as part of the budget setting report in February 2018. Of the £7.90m, £4.13m was explained in the previous monitoring report with the additional £3.77m being:
- **Gorse Hill Primary School (expansion works) - £450k** : Ongoing consultation and design works and the need to start works over the summer holidays mean that works are not expected to start this financial year;
 - **Schools Capital Maintenance Works - £994k**: Work at two schools are being undertaken in conjunction with expansion works and it is expected that all the works will complete for the start of the 2018 academic year. As a result some costs will fall due in 2018/19;

- **Cycle Link Projects – £530k:** Transport for Greater Manchester has, with agreement from the Department of Transport, agreed that the deadline for using the grant can be extended to 2019/20. There are two cycle link projects, Urmston to Ashton-on-Mersey and Altrincham town centre, in the budget and the opportunity has been taken to ensure that budgets are phased in line with the delivery timescales for the proposed projects;
- **Flexible use of capital receipts - £1.80m:** The original plan was to capitalise the costs of the Transformation Team but during the course of the year alternative funding has been identified. Therefore the £1.80m will be available to support new capital investment in later years.

Capital Investment Fund

24. The Council's Investment Strategy was approved by the Executive in September 2017 when approval was given to increase the Capital Investment Fund to £300m, supported by prudential borrowing, to support the approach. To date three acquisitions have been made at a total capital cost of £41.6m with others currently under consideration. This investment will provide a net benefit to support the revenue budget in 2017/18 and later years.

Issues / Risks

25. The main risk in the area of the capital programme is the timely delivery of the programme and this situation will continue to be closely monitored and any issues will be reported as and when they arise.

Recommendations

26. That the Executive note the report and the changes to the Capital Programme as detailed in paragraph 18.

Virements	Children's (£000's)	Adults (£000's)	EGEI (£000's)	T&R (£000's)	Council- wide (£000's)	Total (£000's)
Period 6 Report	32,499	57,815	38,418	16,966	15,127	160,825
Re-align all premature retirement budgets & costs to Council-wide.	(1,231)			(73)	1,304	0
Restructure within Education Services	40	(40)				0
Additional cost of 1.0 FTE Band 5 Student Social worker for 7 months to be funded from within Children's Services budget.	(19)	19				0
Purchase of Tatton House depot, part year interest costs budget transferred to Treasury Management.			(100)		100	0
Total virements	(1,210)	(21)	(100)	(73)	1,404	0
Period 8 Report	31,289	57,794	38,318	16,893	16,531	160,825

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TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2018
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Accounts and Audit Committee – Work Programme – 2017/18

Summary

This report sets out the work plan for the Committee for the 2017/18 municipal year.

It outlines areas to be considered by the Committee at each of its meetings, over the period of the year. The work programme helps to ensure that the Committee meets its responsibilities under its terms of reference and maintains focus on key issues and priorities as defined by the Committee.

The work programme is flexible and can have items added or rescheduled if this ensures that the Committee best meets its responsibilities.

Recommendation

The Accounts and Audit Committee is asked to note the 2017/18 work programme.

Contact person for access to background papers and further information:

Name: Mark Foster – Audit and Assurance Manager
Extension: 1323

Background Papers: None

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	External Audit	Risk Management	Governance (including Annual Governance Statement)	Anti- Fraud & Corruption Arrangements	Accounts / Financial Management
10 July 2017	Agree Committee's Work Programme for 2017/18 (including consideration of training and development). Training & Development/Presentation - Draft accounts (provided outside of the Committee in July 2017)					
	- 2016/17 Head of Internal Audit Annual Report	- Audit Progress Report	-Cyber Security risk update	- Review 2016/17 draft Annual Governance Statement - Corporate Governance Code - Accounts and Audit Committee 2016/17 Annual Report to Council		- 2016/17 Revenue Budget Monitoring Outturn and Capital Investment Programme Outturn reports -Treasury Management update (including Annual Performance Report 2016/17)
6 September 2017	(Budget Monitoring 2017/18 Period 2 report sent to Committee Members in August 2017)					
	- Q1 Internal Audit Monitoring Report	- Audit Findings Report		- 2016/17 Annual Governance Statement (final version)	- Counter Fraud and Enforcement Team Annual Report 2016/17.	- Approval of Annual Statement of Accounts 2016/17 - Procurement update (STAR Shared Procurement Service) -Insurance Performance Report 2016/17

Committee Meeting Dates	Areas of Responsibility of the Committee					
	Internal Audit	External Audit	Risk Management	Governance (Including Annual Governance Statement)	Anti- Fraud & Corruption Arrangements	Accounts/Financial Management
6 December 2017	Training and Development :Risk Management – Insurance (Provided outside of the Committee meeting)					
	- Q2 Internal Audit monitoring report	- Annual Audit Letter - Audit Update	- Strategic Risk Register Monitoring Report			- Treasury Management : mid-year performance report - Budget Monitoring Report
7 February 2018						
	- Q3 Internal Audit monitoring report - Public Sector Internal Audit Standards: External Assessment	- Audit Update (including Grant Claims summary)		- Report on arrangements for 2017/18 Annual Governance Statement.	(National Fraud Initiative update within Q3 Internal Audit monitoring report).	- Treasury Management Strategy - Budget Monitoring Report
23 March 2018						
	- 2018/19 Internal Audit Plan - Internal Audit Charter and Strategy	- Audit Plan / update	- Strategic Risk Register Monitoring Report			- Budget Monitoring Report.

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