



**TRAFFORD**  
**COUNCIL**

**AGENDA PAPERS FOR**  
**ACCOUNTS AND AUDIT COMMITTEE**

**Date: Wednesday, 31 October 2018**

**Time: 6.30 p.m.**

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

<b>A G E N D A</b>	<b>PART I</b>	<b>Pages</b>
1. <b>ATTENDANCES</b>		
To note attendances, including Officers and any apologies for absence.		
2. <b>MINUTES</b>		
To receive and if so determined, to approve as a correct record the Minutes of the meeting held on 30 July, 2018.		
		1 - 4
3. <b>ANNUAL AUDIT LETTER 2017/18</b>		
To receive a report from the Council's External Auditor, Grant Thornton UK.		
		5 - 18
4. <b>AUDIT PROGRESS REPORT (OCTOBER 2018)</b>		
To receive a report from the Council's External Auditor, Mazars.		
		19 - 32
5. <b>TREASURY MANAGEMENT 2018-19 MID-YEAR PERFORMANCE REPORT</b>		
To receive a joint report of the Executive Member for Finance and the Corporate Director of Finance and Systems.		
		33 - 46
6. <b>INSURANCE PERFORMANCE REPORT 2017/18</b>		
To receive a report of the Corporate Director of Finance and Systems.		
		47 - 54

7. **AUDIT AND ASSURANCE REPORT FOR THE PERIOD APRIL TO AUGUST 2018**  
To receive a report of the Audit and Assurance Manager. 55 - 70
8. **STRATEGIC RISK REGISTER 2018/19 (OCTOBER 2018 UPDATE)**  
To receive a report of the Audit and Assurance Manager. 71 - 86
9. **ACCOUNTS AND AUDIT COMMITTEE - WORK PROGRAMME - 2018/19**  
To receive a report of the Audit and Assurance Manager. 87 - 90
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.

**JIM TAYLOR**  
Interim Chief Executive

Membership of the Committee

Councillors B. Brotherton (Chair), E. Patel (Vice-Chair), C. Boyes, J. Dillon, P. Lally, A. Mitchell and J. Slater.

Further Information

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

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This agenda was issued on **Tuesday, 23 October 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

30 JULY 2018

### PRESENT

Councillor B. Brotherton (in the Chair).

Councillors C. Boyes, J. Dillon, A. Mitchell and J. Slater

#### In attendance

Chief Finance Officer	(N. Bishop)
Head of Governance	(P. Forrester) (present for minutes 12-16)
Audit and Assurance Manager	(M. Foster)
Finance Manager	(D. Muggerridge)
Counter Fraud and Enforcement Manager	(D. Wright) (present for minutes 12-13)
Democratic & Scrutiny Officer	(C. Gaffey)

#### Also in attendance

M. Heap, Grant Thornton UK LLP  
K. Murray, Mazars  
T. Rooney, Grant Thornton UK LLP

### APOLOGIES

Apologies for absence were received from Councillors E. Patel and P. Lally.

### 12. MINUTES

RESOLVED: That the Minutes of the meeting held on 20 June 2018, be approved as a correct record and signed by the Chairman.

### 13. COUNTER FRAUD AND ENFORCEMENT TEAM: 2017/18 ANNUAL REPORT

The Committee received a report of the Counter Fraud and Enforcement Manager, outlining the Council's fraud prevention and detection performance and activities in 2017/18, as well as the team's plans for 2018/19.

Members discussed the council tax discount review conducted by the Counter Fraud and Enforcement Team. Of the 5,500 households which were canvassed as part of the review, approximately 600 households had contacted the Council to advise that they no longer qualified for the discount. Approximately 400 households were yet to respond, but the team would continue their investigation and follow up on these non-respondents. The review had generated an additional circa £350k for the Council this year, and would provide further income for the Authority as the amount of council tax discount awarded would be reduced for future years.

It was noted that the £6.7k in relation to Employee Related Enforcement in Table 5 of the report related to continued salary payments to a member of staff for a short period after they left the Authority in 2013. The ex-employee did not make the Council aware of the continued payments at the time, but the funds had now been recovered in full. It was noted that safeguards were in place to ensure this did not happen in future, and the Internal Audit Team also covered this area as part of their work programme.

Committee Members and the Chief Finance Officer congratulated the Team on their excellent work.

RESOLVED: That the report be noted.

#### **14. EXTERNAL AUDIT 2017/18 FINDINGS REPORT**

The Committee received a report of Trafford's External Auditor, Grant Thornton LLP, highlighting the key matters arising from their audit of Trafford Council's financial statements for the year ending 31 March 2018. The report highlighted audit findings against significant risks, accounting policies, estimates and judgements, internal controls, misclassifications and disclosure changes.

Members were advised that the audit was not yet complete due to an issue concerning the Council's LOBO loan. Although a formal opinion could not be provided due to the outstanding issue with the loan, the External Auditor felt that the issue statement had been completed to a good standard and had been completed by the new deadline. The query relating to the LOBO loan also meant that a Value for Money (VfM) conclusion could not be provided, but the External Auditor emphasised there were no other issues in relation to VfM. No changes had been made to the financial bottom line as a result of the audit adjustments.

The Chief Finance Officer provided further information in relation to the LOBO loan, which meant that the annual statement of accounts for the year could not be approved at this time. The issue related to a £20m loan taken by the Council in 2010, which had been accounted for in the same way annually with no issues since that time. This year it had been suggested that the loan should be re-categorised, which would change its status from a loan to a financial instrument. This was a national issue, affecting 10 Local Authorities in the country. This re-categorisation would require for the loan to be accounted for differently, and the Council would need to set aside £23.5m in the budget – funds already allocated to offset other risks.

The Council disagreed with the assessment of the LOBO loan and had sought external advice. Of the three external auditors involved with the 10 authorities who had encountered this issue, two had disagreed with the assessment and had provided an audit opinion for the respective Authorities', which in turn allowed for their accounts to be approved. Grant Thornton were yet to take a decision, but had also sought external technical advice. The Chief Finance Officer did not plan on adjusting the accounts at this time until advice had been received.

In the event that the advice received by Grant Thornton was favourable and a satisfactory audit opinion was given, the Chief Finance Officer asked that the Accounts and Audit Committee delegate the approval of the accounts to the Chairman of the Committee. The Committee were also asked to delegate the signing of the letter of representation to the Chief Finance Officer if the issue was resolved.

In the event that the advice received was not favourable, meaning the Council would be asked to re-categorise the LOBO loan as a financial instrument, the Council would then approach central government to apply for a statutory override (i.e. to request that the

**Accounts and Audit Committee**  
**30 July 2018**

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Council be exempt from this situation). Members were advised that this could take a considerable amount of time to obtain. If this was unsuccessful and all avenues had been explored, the accounts would need to be qualified. In this event an emergency meeting of the Accounts and Audit Committee would need to be convened to consider the statement of accounts.

The Committee recognised that the situation was unfortunate, but all Members agreed to the proposed pathway.

**RESOLVED:**

- 1) In the event that the accounting issue was resolved and the LOBO loan could be accounted for in the usual way, the Committee agreed to delegate the approval of the annual statement of accounts to the Chairman of the Committee, and to delegate the signing of the letter of representation to the Chief Finance Officer.
- 2) In the event that the accounting issue is not resolved, with the LOBO loan considered a financial instrument and a statutory override not obtained from central government, an emergency meeting of the Accounts and Audit Committee be convened to consider qualification of the accounts.

**15. CORPORATE GOVERNANCE CODE**

The Committee received a report of the Head of Governance setting out the Council's updated Corporate Governance Code. A draft version of the Code had been presented to the Committee at their meeting on 20 June 2018, and no further changes had been made. The Committee were asked to approve the Corporate Governance Code.

**RESOLVED:** That the updated Corporate Governance Code be approved.

**16. ANNUAL GOVERNANCE STATEMENT - 2017/18**

The Committee received a report of the Head of Governance providing the final version of the 2017/18 Annual Governance Statement (AGS), which had been signed by the Leader and the then Interim Chief Executive. No substantial changes had been made to the draft 2017/18 AGS presented to the Committee on 20 June, 2018.

The report asked the Committee to approve the 2017/18 AGS. However, due to the issue identified as part of the External Audit 2017/18 Findings Report in relation to the accounting of the LOBO loan (see minute 14), it was requested that the final approval of the Statement be delegated to the Chairman once a resolution had been found.

**RESOLVED:** That the approval of 2017/18 Annual Governance Statement be delegated to the Chairman of the Accounts & Audit Committee following the resolution of the accounting query in relation to the LOBO loan.

**17. APPROVAL OF ANNUAL STATEMENT OF ACCOUNTS 2017/18**

As per the discussion in minute 14, the approval of the annual statement of accounts would be delegated to the Chairman of the Accounts & Audit Committee following a resolution to the accounting issue concerning the LOBO loan.

RESOLVED: That the approval of the Final Accounts for 2017/18 be delegated to the Chairman of Accounts and Audit Committee, with approval required as soon as practically possible following a resolution to the accounting query in relation to the LOBO loan.

**18. BUDGET MONITORING 2018/19 - PERIOD 2 (APRIL TO MAY 2018)**

The Committee received a report of the Executive Member for Finance and the Chief Finance Officer informing Members of the current 2018/19 forecast outturn figures relating to both Revenue and Capital budgets. It also summarised the latest forecast position for Council Tax and Business Rates within the Collection Fund. The report was presented to the Executive on 23 July 2018.

When discussing the Education, Health and Care Plan (EHCP) backlog on page 81 of the agenda, it was clarified that the sentence stating 'Finance will work with the service to recover the projected overspend throughout the financial year' referred to Children's Services as a whole, not just EHCPs, and EHCP services would not be adversely affected.

Members discussed how Special Education Needs (SEN) budgets were set. The Chief Finance Officer explained that funding for SEN fell into multiple budgets. Parts of the spend for Home to School Transport was funded from the main budget, but the Dedicated School Grants (DSGs) were ring-fenced to pay for schools, with part of this grant used for SEN. The high needs block amount was decided by central government. Members suggested this might be a useful area for additional training for the Committee.

RESOLVED: That the report be noted.

**19. ACCOUNTS AND AUDIT COMMITTEE - WORK PROGRAMME - 2018/19**

The Committee received a report of the Audit and Assurance Manager setting out the proposed work plan for the Committee for the 2018/19 municipal year. Members were reminded that a training session on Treasury Management would be provided for Members before the next Committee meeting scheduled for 31 October 2018. Members would be contacted to discuss potential dates for this training following the meeting.

Members were reminded that Cllr Chris Boyes was Trafford's representative on the GMCA Audit Committee. If Members had any issues they wished to raise at the GMCA Audit Committee meetings, Cllr Boyes would be happy to raise these on Members' behalf.

RESOLVED: That the report be noted.

The meeting commenced at 6.30 pm and finished at 7.13 pm

# Annual Audit Letter

*Year ending 31 March 2018*

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Trafford Council

September 2018

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Agenda Item 3

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Your key Grant Thornton  
team members are:

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3. Value for Money conclusion

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## Appendices

- A Reports issued and fees

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Trafford Council (the Council) and its subsidiary (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Accounts & Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2018.

## Respective responsibilities

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

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

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

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £8,150,000, which is 2% of the Council's 2016/17 gross revenue expenditure (group materiality £8,321,000, 2% of 2016/17 group gross revenue expenditure).
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the financial statements on 26 September 2018.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 26 September 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Accounts & Audit Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Trafford Council in accordance with the requirements of the Code of Audit Practice.

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## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting

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

**Grant Thornton UK LLP**  
27 September 2018

# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the group accounts to be £8,321,000, which is 2% of the group's 2016/17 gross revenue expenditure. We determined materiality for the audit of the Council's accounts to be £8,150,000, which is 2% of the Council's 2016/17 gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £13,760 for senior officer remuneration, based on 2% of total senior officer remuneration (including pension contributions). This item merits a lower materiality than financial statement level materiality due to being of particular interest to the public.

We set a lower threshold of £407,000, above which we reported errors to the Accounts & Audit Committee in our Audit Findings Report.

### The scope of our audit

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

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

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

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

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

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

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>evaluated the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p>
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its land and buildings over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>Assessed the competence, expertise and objectivity of any management experts used</li> <li>Discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions</li> <li>Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>Tested revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Our audit work did not identify any significant issues.</p>

# Audit of the Accounts

## Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 11</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li> <li>Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out</li> <li>Undertaken procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identify any significant issues.</p>

# Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Conclusion
<p data-bbox="72 399 103 435">1</p> <p data-bbox="93 614 134 771" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 12</p> <p data-bbox="140 392 507 478"><b>Valuation of inverse floating Lender Option Borrower Option Loan.</b></p> <p data-bbox="140 492 507 606">The Council took out an inverse floating Lender Option Borrower Option (LOBO) loan for a total value of £20m in 2011.</p> <p data-bbox="140 635 507 806">The Authority has in its financial statements made a critical judgement regarding the accounting treatment and valuation of this loan during the year.</p> <p data-bbox="140 821 507 985">We therefore identified the valuation and accounting for inverse floating LOBO loans as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p data-bbox="534 392 1253 506">During the year guidance has been issued by the National Audit Office and clarifications have been made by CIPFA in relation to the accounting for LOBO loans with inverse floater (or similar terms).</p> <p data-bbox="534 521 1253 606">We have engaged with the Finance team during 2018 to understand the accounting treatment and valuation method used by Trafford Council regarding this loan.</p> <p data-bbox="534 621 1253 642">Our audit work included, but was not restricted to:</p> <ul data-bbox="534 656 1253 1092" style="list-style-type: none"> <li>• assessing management's processes and assumptions for identifying critical judgements;</li> <li>• gaining an understanding of the processes and the controls put in place by management to ensure that the loans were not materially misstated and evaluating the design of the associated controls</li> <li>• evaluating the competence, capabilities and objectivity of management experts used in the valuation of the loans</li> <li>• discussing with management the basis on which the valuation was carried out, including advice received from treasury management advisers;</li> <li>• evaluating and challenging the reasonableness of the critical judgements and significant assumptions used by management and their expert in valuing and accounting for the loans.</li> </ul> <p data-bbox="534 1106 1253 1249">The Authority has made a critical judgement regarding the accounting treatment and valuation its inverse floating LOBO loan, determining the valuation of this loan during the year to be in accordance with International Accounting Standard (IAS) 39 Auditor Guidance note 7.</p> <p data-bbox="534 1263 1253 1370">This has been a protracted process and has involved technical advice being received by the Council from its Treasury Management Advisors, and by ourselves as your auditors through our in-house financial instruments technical experts.</p>	<p data-bbox="1284 392 2011 478">The Council has provided us with additional information regarding the nature of the contract and this has impacted on our view of the accounting treatment and method of valuation.</p> <p data-bbox="1284 492 2011 606">There are various options for valuing such loans under IAS 39, using Auditor Guidance note 7, as preferred by the Council or using Auditor Guidance note 8. The latter potentially has a significant impact on the Council's revenue position and reserves.</p> <p data-bbox="1284 621 2011 706">There have been differing views as to the interpretation of the relevant accounting treatment during the past months around the interpretation of the accounting standards.</p> <p data-bbox="1284 721 2011 806">Since the Accounts and Audit Committee meeting on 30 July 2018 the firm has now taken external advice on the inverse LOBO accounting treatment and has concluded:</p> <ul data-bbox="1284 821 2011 1056" style="list-style-type: none"> <li>- Whilst the firm's preferred route continues to be AG8, we acknowledge that AG7 is also a permissible route</li> <li>- On this basis, we will not be proposing any amendments to the primary financial statements</li> <li>- We do however feel It is important that the accounts include appropriate disclosure around the basis of the judgement made by the Council (to account for LOBO's under AG7 which we believe to be a critical judgement).</li> </ul> <p data-bbox="1284 1071 2011 1120"><b>We concluded that we have obtained sufficient audit assurance to conclude that:</b></p> <ul data-bbox="1284 1135 2011 1285" style="list-style-type: none"> <li>• <b>the basis of the accounting for inverse floating LOBO loans and the assumptions and processes used by management in determining the valuation were reasonable; and,</b></li> <li>• <b>the valuation of the Authority's inverse floating LOBO loans disclosed in the financial statements are reasonable.</b></li> </ul> <p data-bbox="1284 1299 2011 1406"><b>The Authority has added some additional disclosures into the financial statements to clearly describe the critical judgements they had made in this respect. These were added in note 18 to the financial statements</b></p>

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# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the financial statements on 26 September 2018, which was after the national deadline of 31 July 2018.

## **Preparation of the accounts**

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Accounts and Audit Committee on 30 July 2018. Our opinion was delayed due to our consideration of matters arising from the Council's treatment of an element of its "LOBO" loan holdings in the financial statements of the Council. This matter was resolved and an unqualified opinion was given.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues on 26 September 2018.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not exercise any of these powers during the audit.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Trafford Council in accordance with the requirements of the Code of Audit Practice. We did this on 26 September 2018.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

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# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Future budget pressures</b></p> <p>The Council's future budgets remain challenging with a budget gap of £41 million to be bridged in order to balance the Medium Term Financial Plan 2018/19 to 2020/21. The budget gap for 2018/19 is c£23 million and is to be met from £11.3 million additional funding, £1.6 million from reserves, £3.9 million income generation and £6.1 million service transformation savings. The Council will also need to manage financial pressures, particularly in Adult Social Care and in Children's Services in order to deliver a balanced revenue budget position over that period.</p> <p>The Council has established a £300 million Capital Investment Fund and appointed investment advisors to support the acquisition of investment assets to generate additional revenue to help bridge the funding gap and also support its regeneration and growth strategy.</p>	<p>As part of our work we have monitored the Council's budgetary performance and financial planning. We considered the processes established by the Council to identify, manage and monitor the savings proposals to address the budget gap to 2021. We will also update our understanding of the arrangements for overseeing the Council's investments to generate additional income and support regeneration and growth.</p>	<p>The Council achieved a £1.76 million underspend on revenue activity and additional funding from business rates Section 31 compensation grants that resulted in a final net revenue outturn underspend of £2.747 million. The Council has general fund and earmarked reserves of £58.5 million at 31 March 2018, an increase of almost £13 million compared with 31 March 2017. It achieved savings of £14.7 million against a target of £16.9 million that included £1.3 million savings required to be achieved from the 2016/17 savings target. The general fund balance has been maintained at £6 million, the same as at the end of 2016/17 and which is the Council's approved risk-assessed minimum level.</p> <p>Earmarked reserves include £6.7 million Business Rates Reserve which was established by the Council in 2017/18 to offset any fluctuation in business rate income in 2018/19 and later years. The Council's Budget Support Reserve balance at 31 March 2018 was £5.3 million and will be used to smooth potential volatility in revenue budget funding and savings achieved.</p> <p>The final capital outturn for 2017/18 was £41.8 million against a budget of £60.16 million and a spend of £44.77 million against the £295 million investment programme budget.</p> <p>The current and forecast financial position is reported regularly to the Executive Committee in the Budget Monitoring reports. The reports also explain reasons for variances from the previous forecast, pressures and risks.</p> <p>The Council agreed its 2018/19 budget and MTFs to 2020/21 in February 2018 after a process involving the Executive Portfolio Holders, members of the Corporate Leadership Team and other service management supported by Finance Managers. Unlike previous years there was no formal public consultation on the budget proposals which reflected a continuation of savings programmes agreed in earlier years or measures which did not warrant a new consultation. The 2018/19 budget sets out a requirement to balance a budget gap of £22.95 million with a combination of further income generation of £3.92 million, transformational savings of £6.06 million and additional funding and use of reserves of £12.97 million.</p> <p>The 2017/18 budget forms the first year of medium term planning through to 2019/20 using latest economic projections on funding and cost pressures. There are sufficient budget setting arrangements in place including appropriate assumptions such as pay and price inflation and the identification of risks. The budget is also subject to appropriate scrutiny and challenge through the Budget Scrutiny Working Group and committee and Council review and approval process. The MTFs forecasts a residual budget gap of £6.25 million in 2019/20 and £8.85 million in 2020/21.</p>

# Value for Money conclusion (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Page 16</p>		<p>Savings measures are identified within service areas with support from the Transformation support team. Delivery is monitored through monthly reporting to the Senior Leadership Team in service areas. The Transformation Board also receive monthly reports on savings and this informs the overall position reported in Budget Monitoring reports to the Executive committee. Performance against the Council's Annual Delivery Plan, including key performance outcomes against the Vision for Trafford 2031 outcomes, are reported quarterly to Executive.</p> <p>The Council has arrangements in place for the implementation of its investment strategy to promote economic development and regeneration and as part of the Council's budget strategy. This includes the appointment of investment advisers to assist in the implementation of the strategy and identification of investment opportunities. An Investment Management Board is also in place to oversee investment decisions and undertake a performance management role. Investment commitments currently total £179 million, of which £58 million has been spent to date out of the £300 million investment fund available. Investments include the Council's work with partners as part of the University Academy 92 (UA92) project and the acquisition of the Grafton Centre in Altrincham to contribute to the Council's regeneration objectives, and debt financing to support residential developments.</p> <p>We are satisfied that the Council has appropriate arrangements in place .</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	September 2018

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Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council and group audit	118,192	118,192	118,192
Housing Benefit Grant Certification	15,963	TBC	11,498
<b>Total fees</b>	<b>134,155</b>	<b>TBC</b>	<b>129,690</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
Teachers Pensions Return	TBC
<b>Non-Audit related services</b>	
CFO insights licence	12,500

## Non-audit services

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

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



# Audit Progress Report

Trafford Council

October 2018





## CONTENTS

1. **Audit progress**
2. **National publications**

This document is to be regarded as confidential to Trafford Council. It has been prepared for the sole use of the Accounts and Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 1. AUDIT PROGRESS

## Purpose of this report

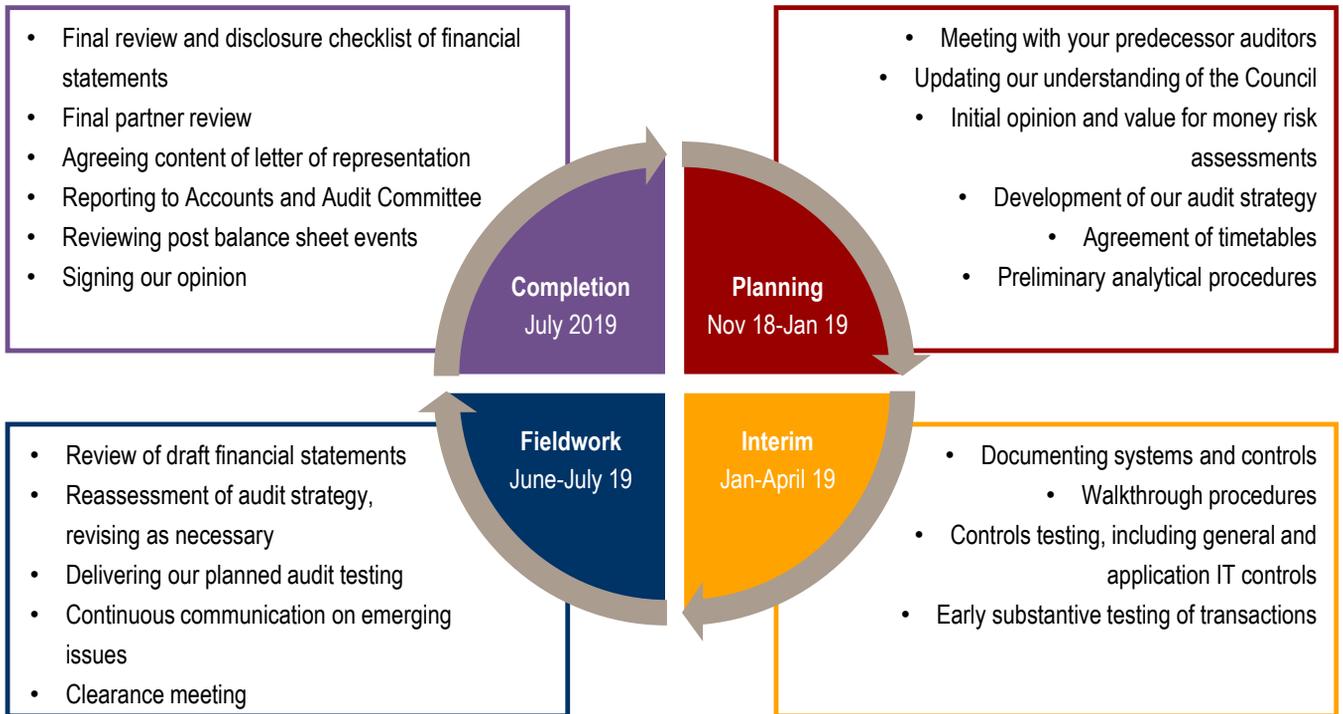
This report provides the Accounts and Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

## Audit progress

This is our first progress report in respect of the 2018/19 audit year. Our key audit stages are summarised in the diagram shown below. Upon completion of our initial planning and risk assessment, we will present our Audit Strategy Memorandum to the Accounts and Audit Committee for discussion.

We have begun to meet with senior members of your Finance team to discuss the audit process for 2018/19 and to agree timescales for the completion of our audit work.

We are working with Grant Thornton, as your predecessor auditors, as part of the handover arrangements for the audit to help ensure a smooth transition for your Finance team.



## 2. NATIONAL PUBLICATIONS

	Publication/update	Points to note
<b>National Audit Office (NAO)</b>		
1.	<b>Financial sustainability of local authorities 2018</b>	Continued financial pressures on local authorities. Increasingly crisis-driven approach to managing local authority finances risks value for money.
2.	<b>Transformation guidance for Audit Committees</b>	Key questions for Committees to consider for transformation projects.
3.	<b>Code of Audit Practice</b>	Provides more background for Committee Members, including the overarching Code which governs our work.
4.	<b>Roles and responsibilities of the NAO and local auditors</b>	Defines our responsibilities as your external auditor.
5.	<b>Guidance and information for auditors</b>	Includes guidance in respect of the VfM arrangements review which may be of interest to Committee Members.
<b>Public Sector Audit Appointments Ltd (PSAA)</b>		
6.	<b>Mazars Annual Regulatory and Compliance Report 2017/18</b>	Overall assessment of 'green'.
7.	<b>Oversight of audit quality, quarterly compliance reports</b>	No significant issues.
8.	<b>Local Audit Quality Forum, PSAA</b>	Inaugural meeting in April 2018; invite to all Audit Committee Chairs and Chief Finance Officers.
<b>Local Government Association (LGA)</b>		
9.	<b>Speeding up delivery: learning from councils enabling timely build-out of high quality housing</b>	Highlights some distinctive projects and innovative practices.
10.	<b>Sector-led improvement in 2016/17</b>	Reflections by LGA which may be of interest to the Council.

## 2. NATIONAL PUBLICATIONS

### 1. Financial sustainability of local authorities 2018, NAO, March 2018

Since 2010, successive governments have reduced funding for local government in England as part of their efforts to reduce the fiscal deficit. Changes in funding arrangements and new pressures on demand have created both new opportunities and further pressures for the sector. Local authorities deliver a range of services. The government sets statutory duties for them to provide services, ranging from adult social care to waste collection. Local authorities also provide discretionally services according to local priorities. The Ministry of Housing, Communities & Local Government (the Department) views authorities' ability to deliver their statutory services as the defining test of their financial sustainability.

The Department has overall responsibility in central government for local authorities' funding and dictates the overall levels and distribution of funding provided to the sector, and local authorities' statutory responsibilities. Responsibility for statutory services delivered by local authorities is spread across government departments.

This report reviews developments in the sector and examines whether the Department, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

#### Key findings

##### Financial, demand and cost pressures

- Government funding for local authorities has fallen by an estimated 49.1% in real terms from 2010-11 to 2017-18.
- Alongside reductions in funding, local authorities have had to deal with growth in demand for key services, as well as absorbing other cost pressures.
- Local authorities have changed their approach to managing reductions in income, shifting away from reducing spending on services to looking for other savings and sources of income.

##### Service sustainability

- Local authorities have protected spending on service areas such as adult and children's social care where they have significant statutory responsibilities, but the amount they spend on areas that are more discretionary has fallen sharply.
- Local authorities now spend less on services, and their spending is more concentrated on social care.
- Local authorities have tried to protect front-line services in their savings plans; while this has been successful in some areas, there are signs that services have been reduced in others.

##### Financial sustainability

- Compared with the situation described in the 2014 report, the financial position of the sector has worsened markedly, particularly for authorities with social care responsibilities.
- Financial resilience varies between authorities, with some having substantially lower reserves levels than others.
- A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year.

##### The role of government in securing financial and service sustainability: assessing funding need

- The Department's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review.
- As part of its work for the 2015 Spending Review, the Department identified adult social care as a key area of pressure in the sector.

## 2. NATIONAL PUBLICATIONS

### 1. Financial sustainability of local authorities 2018, NAO, March 2018 – continued

#### The financial model for the sector

- The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities.

#### The assurance system for financial sustainability

- The Department has improved its understanding of the extent to which local authorities are at risk of financial failure.

#### The assurance system for service sustainability

- There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.
- As funding continues to tighten for local authorities and pressure from social care grows, there are risks to statutory services.

#### Report conclusions: the Department

The sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the last study. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams. The current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014. The financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The Department's performance has improved since the last study. The Department's work on the 2015 Spending Review was an improvement on its predecessors and the Department has improved its oversight of the sector's financial sustainability. However, conditions in the sector have worsened and the Department must continue to strengthen its oversight and assurance mechanisms to protect against risks to value for money from financial failure in the sector. It must also set out at the earliest opportunity a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure the sector's future financial sustainability.

#### Report conclusions: wider government

The Department's capacity to secure the sector's financial sustainability in the context of limited resources is shaped by the priorities and agendas of other departments. The Department's improvements in understanding and oversight are necessary but not enough. Equally, because responsibility for services is dispersed across departments, each department has its own narrow view of performance within its own service responsibilities. There is no single central understanding of service delivery as a whole or of the interactions between service areas. To date, the current spending review period has been characterised by one-off and short-term funding fixes. Where these fixes come with restrictions and conditions, this poses a risk of slowly centralising decision-making. This increasingly crisis-driven approach to managing local authority finances also risks value for money.

The current trajectory for local government is towards a narrow core offer increasingly centred on social care. This is the default outcome of sustained increases in demand for social care and of tightening resources. The implications for value for money to government from the resulting re-shaping of local government need to be considered alongside purely departmental interests. Departments need to build a consensus about the role and significance of local government as a whole in the context of the current funding climate, rather than engaging with authorities solely to deliver their individual service responsibilities.

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

## 2. NATIONAL PUBLICATIONS

### 2. Transformation guidance for Audit Committees, NAO, May 2018

Transformation is used to describe significant changes in service delivery or in day to day operations in an organisation.

The government continues to aim to make significant savings and transform services by introducing new organisational models and ways of working. However, transformation comes with risk and can be highly complicated. Evidence from the private sector suggests that 70% of transformations fail.

In many cases transformation programmes rely on new technologies and online services, and are highly ambitious and have a high risk of failure. The complexity of public service delivery and user needs can make the successful transformation of public services even more difficult. Oversight of these transformation programmes creates a major challenge for management and audit committees.

The NAO transformation guidance to Audit Committees sets out the questions to ask of management and the evidence and indicators to help audit committees to look out for at the three stages of any transformation project, as summarised below.

- At the set-up and initiation stage the key areas are: vision and strategy, and governance and architecture. The guidance addresses the evolving nature of transformation and what this implies for oversight.
- During the delivery and implementation stage the key areas are: change and implementation, and service and performance management. The guidance highlights the importance of tackling ambiguity and confusion in transformation objectives.
- Once live-running and benefits are being delivered the key areas are: people, process and technology. The guidance considers how audit committees can challenge the role of technology in supporting transformation.

<https://www.nao.org.uk/report/transformation-guidance-for-audit-committees/>

### 3. Code of Audit Practice, NAO

The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General responsible for the preparation, publication and maintenance of the Code of Audit Practice. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

The audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. It is not part of the auditor's responsibilities to question the merits of policy, but the auditor does have wider duties (depending upon the relevant legislation) to scrutinise and report not only upon the truth and fairness of the financial statements but on aspects of public stewardship and the use to which resources have been put. The auditor carries out this work on behalf of the public and in the public interest.

The auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements in support of the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

The Code includes:

- general principles;
- audit of the financial statements;
- value for money arrangements;
- reporting the results of the auditor's work;
- auditor's additional powers and duties;
- auditor's statutory responsibilities;

<https://www.nao.org.uk/code-audit-practice/>

## 2. NATIONAL PUBLICATIONS

### 4. Roles and responsibilities of the NAO and local auditors, NAO

Includes a useful summary of auditor's additional powers as well as setting out the responsibilities of auditors and local authorities.

Those responsible for the conduct of public business and for spending public money are required to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging these responsibilities, public bodies must put in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published governance statement.

#### Responsibilities in relation to the financial statements

The audited body is responsible for preparing financial statements that meet relevant statutory, professional and any other applicable requirements.

Auditors provide an opinion on whether the audited body's financial statements:

- give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Auditors plan and perform their audit in compliance with the requirements of the Code and with relevant professional and quality control standards. The auditor's work is risk-based and proportionate and is designed to meet the auditor's statutory responsibilities,

#### Responsibilities for local authorities and NHS bodies in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives whilst safeguarding and securing value for money from the public funds at their disposal.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In carrying out this work, the auditor is not required to satisfy themselves as to whether or not the audited body has actually achieved value for money during the reporting period.

In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness.

<https://www.nao.org.uk/code-audit-practice/the-audit-framework-for-local-public-bodies/>

### 5. Guidance and information for auditors, NAO

Members may wish to note the guidance and information issued for auditors, covering sector-specific areas and providing a useful overview. This guidance is updated annually.

<https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>

## 2. NATIONAL PUBLICATIONS

### 6. Mazars Annual Regulatory and Compliance Report 2017/18, Public Sector Audit Appointments Ltd, July 2018

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2017/18 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit internal quality monitoring;
- reviews (QMRs) of its financial statements, Value for Money (VFM) arrangements conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of PSAA's inspection of each firm by the FRC's Audit Quality Review team (AQRT) as part of a commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2016/17 work.

The report sets out that:

- Mazars is meeting PSAA's standards for overall audit quality and regulatory compliance requirements;
- Mazars' combined audit quality and regulatory compliance rating was green for 2017/18;
- The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor; and
- Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2017/18 indicators scored as green and the overall weighted audit quality score of 2.55 having increased slightly from last year's 2.45.

From its assessment of all firms, the FRC has identified key issues which firms need to address in order to improve audit quality. These were the:

- challenge and scepticism of management in key areas involving judgment, such as impairment reviews, asset valuations and provisions;
- group audit team's oversight and challenge of component auditors;
- audit of company pension scheme assets and liabilities; and
- arrangements for ensuring compliance with the Ethical Standard and independence requirements.

#### Summary of PSAA annual assessments – overall combined

	BDO	EY	DT	PwC	GT	KPMG	Mazars
2018	Amber	Amber	n/a	n/a	Amber	Amber	Green
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green
2015	Amber	Green	Amber	Amber	Amber	Amber	Green

<https://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

### 7. Oversight of audit quality, quarterly compliance reports 2017/18 Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

## 2. NATIONAL PUBLICATIONS

### 8. Local Audit Quality Forum, Public Sector Audit Appointments Ltd, April 2018

The LAQF is intended to be a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England.

Local bodies which have opted into PSAA's national scheme will be entitled to attend Local Audit Quality Forum events free of charge (up to two delegates per body). The forum was launched in April 2018 and invites were sent to all Audit Committee Chairs and Chief Finance Officers.

Presentations from the inaugural event are available. Future events are being planned based on delegates' feedback and will be added to the PSAA website in due course.

<https://www.psa.co.uk/local-audit-quality-forum/18-april-2018-inaugural-meeting/>

### 9. Speeding up delivery: learning from councils enabling timely build-out of high quality housing, Local Government Association, August 2018

Many local authorities across the country are working to speed up the delivery and buildout of housing. This report highlights both the potential and the limitations of the measures local authorities can take to enable timely buildout of high-quality development. There are principles that all local authorities can follow and there are actions which may work better in some areas than others, depending to some degree on market conditions and developer activity.

Key points highlighted in the report include:

- understanding the issues to delivery in the area;
- considering the use of planning conditions and their proper use;
- design codes which can be a useful tool;
- use existing powers such as s215 enforcement notices;
- use s106 legal agreements to help solve the delivery problem;
- culture change in the planning department is key; and
- partner with others to help unlock sites by offering the types of housing needed that the industry isn't able to.

<https://www.local.gov.uk/speeding-delivery-learning-councils-enabling-timely-build-out-high-quality-housing>

### 10. Sector-led improvement in 2017/18, Local Government Association July 2018

This report shows how the LGA has used DCLG grant for 2016/17 to help councils and to support improvement in the sector.

Sector-led improvement is the approach that councils and the LGA have put in place to support continuous improvement. Challenge and support from one's peers lies at the heart of sector-led improvement and underpins its success.

During the year the LGA worked with Public Sector Audit Appointments (PSAA) to develop LG Inform Value for Money (VfM) a replacement for PSAA's existing VfM Profiles. The new tool was successfully launched in November. The VfM profiles bring together data about the costs, performance and activity of local councils and fire and rescue authorities. They have been designed to help auditors, people who work for councils and fire and rescue authorities and the public understand the costs of delivering local services, and to get an overview of comparative spend and performance over time and relative to others.

## 2. NATIONAL PUBLICATIONS

### 10. Sector-led improvement in 2017/18, Local Government Association July 2018 - continued

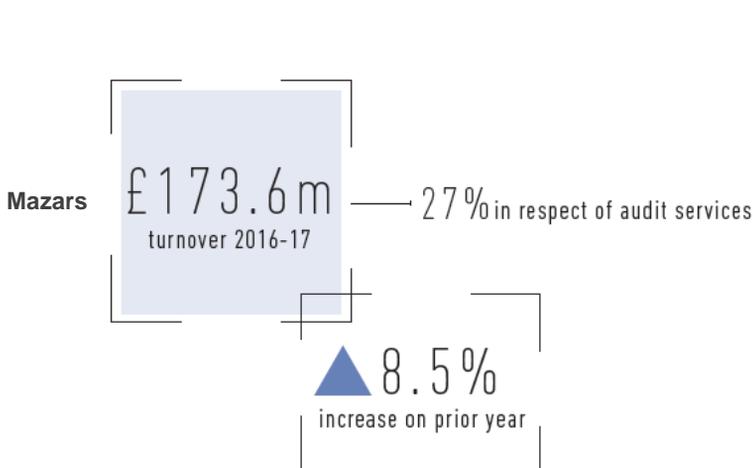
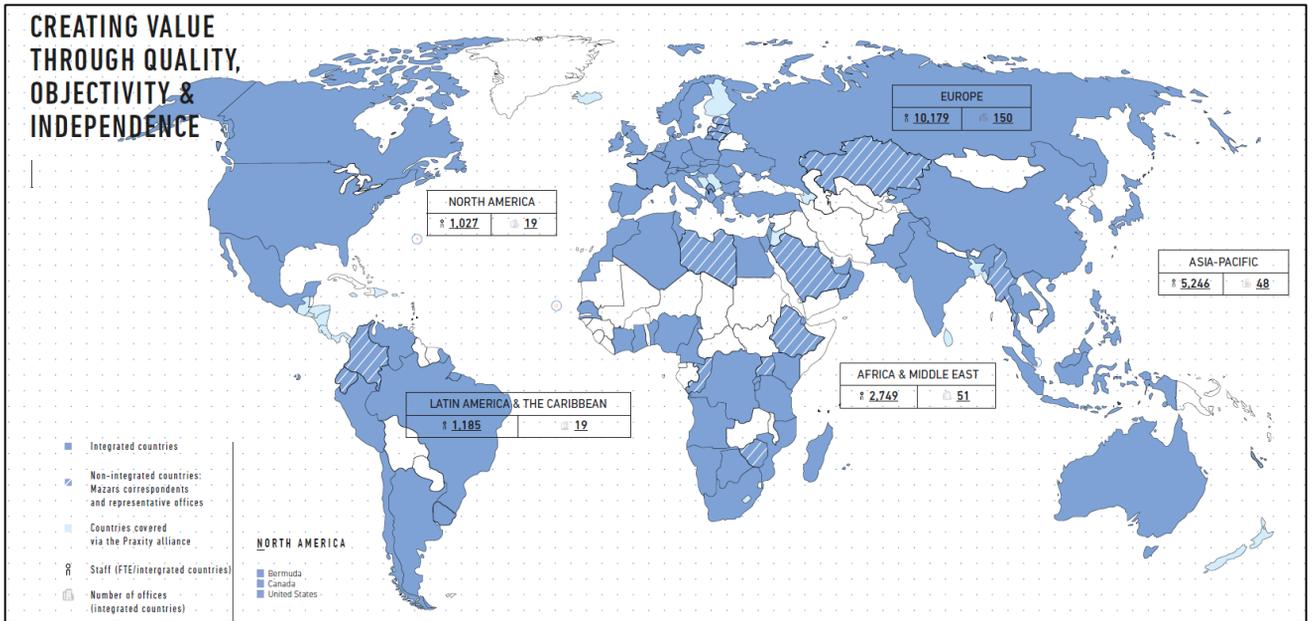
#### Sector-led improvement: some reflections

- Councils continue to demonstrate exceptional leadership of place when called upon to do so (for example, Manchester and Salisbury). Emergency response demonstrates that partnerships are still strong despite the impact cuts to funding across the local public sector can have on on-going activity.
- Whilst recognising the opportunities, the uncertainty surrounding the potential practical implications of Brexit (funding, workforce, procurement, etc.) is becoming of increasing concern as March 2019 draws ever closer.
- Devolution and local government reorganisation continue to consume significant resources in some areas. This agenda can have a negative impact on relationships and present a distraction to on-going service delivery.
- Councils continue to grapple with the increasingly more challenging financial situation as evidenced by the recent National Audit Office report into local authorities' financial viability and now overlaid by the Fair Funding Review and business rates reset. This period of ongoing financial uncertainty is arguably as damaging to councils as the cuts themselves.
- We have seen an increasing request from councils, as leadership teams change or are renewed, for top team support to help them effectively lead their organisation through turbulent and challenging times.
- There continues to be a strong interest in exploring appropriate commercial opportunities and lots of interest in the commercial skills training that we have offered. But adverse publicity around borrowing to invest has meant that some councils appear less willing to share their knowledge and experience.
- Many councils that took out layers of strategic management, or whole functions such as policy development, are now struggling with capacity. A lack of corporate capacity in particular impacts councils' ability to horizon scan and think through how they need to change and adapt.
- Councils have devoted significant time and effort seeking to be equal partners in sustainability and transformation plans which haven't always led to outcomes, and there is frustration in the sector about this and a continuing concern at the delay in moving to new ways of working.
- Demand pressures particularly on children's and adult social care have become much more noticeable. An increasing number of councils are also reporting budget pressures on their temporary accommodation budgets.
- Homelessness has become a bigger issue for more councils this year and the number of homeless families and individuals placed in temporary accommodation has increased significantly.
- Housing growth is still a big issue. Councils are continuing to explore new vehicles to build homes.

# MAZARS AT A GLANCE

## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



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## TRAFFORD COUNCIL

**Report to:** Accounts & Audit Committee – 31 October 2018  
Executive – 26 November 2018

**Report for:** Information

**Report of:** The Executive Member for Finance and the Corporate Director of Finance and Systems

### Report Title

**Treasury Management 2018-19 Mid-Year Performance Report**

### Summary

This report gives Members a summarised account of the Treasury Management activities undertaken for the first half of the year together with an update of the world economic situation.

#### **Debt Activity:-**

- Net debt interest costs are currently forecasted to be £5.4m for the year and are contained within the current MTFP,
- At 30 September the Council's external debt was £163.6m.

#### **Investment Activity:-**

- The annualised investment interest to be generated is forecasted to be in line with budget of £(0.7)m,
- Rate of Return achieved during the period April to September 2018 was;
  - i. short term investments 0.72%, or 0.28% £(113)k above the comparable performance indicator of average 7-day London Interbank **BID** interest rate of 0.44% and
  - ii. long term investments 4.90%,
- At 30 September the value of Council's investments was £80.0m.

#### **Prudential Indicators:-**

- During the first half of 2018/19 the Council complied with its legislative and regulatory requirements, including compliance with all treasury management prudential indicators.

### Recommendations

That the Accounts & Audit Committee & Executive be requested to:

1. Note the Treasury Management activities undertaken in the first half of 2018/19.

### Contact person for background papers and further information:

Name: Graham Perkins

Extension: 4017

Background papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial	The projected level of the Council's investment and debt net interest for 2018/19 are currently forecasted to be in line with budget of £(0.7)m & £5.4m respectively.
Legal Implications:	All actions undertaken during this period were in accordance with legislation, MHCLG Guidance, CIPFA Prudential Code and CIPFA Treasury Management Code of Practice.
Equality/Diversity Implications	Not applicable
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 interest forecasts and actual market interest rate movements to ensure that any exposure to adverse fluctuations in interest rates are minimised and security of capital sums are maintained at all times.
Health and Safety Implications	Not applicable

## **1. BACKGROUND**

1.1 This report has been issued in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code are as follows:

- Receipt by the Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, covering activities during the previous year.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body and this has been delegated to the Accounts and Audit committee.

1.2 This mid-year report highlights the treasury management activities undertaken during the first half year of 2018/19 as follows;

- Economic Update (section 2)
- Treasury Position (section 3)
- Debt Activity (section 4)
- Investment Activity (section 5)
- Risk Benchmarking (section 6)
- Prudential and Performance Indicators (section 7)
- Other Activity Update (section 8)
- Recommendations (section 9)

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

1.4 Another main function of the treasury management service is the funding of the Council's capital programme. This function highlights any potential borrowing requirement which may involve arranging long or short term loans, or using longer term cash flow surpluses. In addition periodically when the opportunities arise, any debt previously drawn may be restructured to meet Council risk or cost objectives.

## **2. ECONOMIC UPDATE**

2.1 During the first half of 2018/19, the main economic headlines are outlined below and a forecast of the main indicators for 2019 is provided at Appendix B for reference:

## UK

- Gross Domestic Product (GDP) for the first quarter of 2018 was +0.2% (1.2% y/y) however due to the hot weather and World Cup “feel good” factor the second quarter came in stronger at 0.4% (1.3% y/y). For 2018 it is currently forecasted that growth will be 1.5%.
- The Monetary Policy Committee (MPC) at its August meeting increased bank rate from 0.50% to 0.75%, the highest it has been since March 2009.
- Consumer Price Index (CPI) was 2.7% in August which is 0.7% above the Government’s target of 2.0%.
- Unemployment continues to fall recording a level of 4.0% for the 2<sup>nd</sup> quarter of 2018, the lowest level it has been since the winter of 1975.
- Uncertainty around Brexit negotiations remains making it difficult to be confident about how the forthcoming year will perform.

## U.S.

- The American economy continues to record strong growth with 2.2% (2.6% y/y) for quarter 1 and 4.2% (2.9% y/y) for quarter 2.
- The Federal Bank (Fed) has increased rates twice in 2018 to 2.0% with a further 2 more increases forecasted this year as a result of accelerated growth and rapid job creation.
- Unemployment in the US continues to fall and the latest figures show this to be 3.9%.
- CPI fell by 0.2% in August 2018 to 2.7%.

## Eurozone

- European Central Bank (ECB) has maintained the main refinancing rate at 0% with little prospect of any upswing in rates in the near future.
- GDP in quarters 1 and 2 were identical at 0.4% and this as at the end of quarter 2 equates to annual growth of (2.2% y/y).
- CPI was recorded at 2.0% in August, the ECB target rate.
- The 3 month unemployment rate continues its downward trend falling to 8.2% for the period ending July.

## Other Countries

- As a result of improving markets Japan’s economy recovered strongly in the second quarter of 2018 following the contraction in the previous quarter and consumer spending, however tensions between the US and China could be a cause for concern.
- China’s economic growth eased further in July on the back of the prolonged trade war with the U.S. In addition to this the leadership vowed to adopt a more active fiscal policy to bolster the economy.

2.2 The Council’s treasury management advisors Link Asset Services, provide interest rate forecasts periodically through-out the year and the table below outlines the latest **average** forecasted rates, as issued in August 2018, for the periods stated:

	<b>2018-19 Original Forecast</b> %	<b>2018-19 Revised Forecast</b> %	<b>2019-20 Revised Forecast</b> %	<b>2020-21 Revised Forecast</b> %
Bank Rate	0.58	0.67	0.90	1.30
Investment Rates				
3 month	0.50	0.72	1.00	1.46
1 Year	0.90	0.95	1.39	1.66
PWLB Loan Rates				
5 Year	1.50	1.94	2.22	2.45
25 Year	3.00	2.77	3.13	3.39

- 2.3 Previously market analysts were predicting that the Monetary Policy Committee (MPC) wouldn't start increasing the Bank of England's bank rate until December 2018. At its meeting on the 2 August 2018 however, the MPC raised bank rate from 0.50% to 0.75%. This increase was the second in over 10 years and was responding to the positive level of economic statistics released since the end of the first quarter of 2018.
- 2.4 The MPC also stated at its August meeting that any future increases would be gradual with rates peaking at 2.50% in 10 years' time. With regards to gilt yields and PWLB rates, these are set to rise from their current levels albeit slowly and gently.
- 2.5 The above interest rate forecasts shown at paragraph 2.2 are based on an assumption that sufficient progress will be made concerning Brexit which benefits both the EU and UK. If however no agreement is reached then forecasters predict that both the Bank rate and PWLB rates will be subject to downward movements in order to avoid any potential recessionary effects which may arise as a result.
- 2.6 To reduce any risk aspects arising from this situation the Council will continue its policy to take a cautious approach when undertaking money market transactions.

### **3. TREASURY POSITION**

- 3.1 The Council's investment and debt positions at the beginning and midway through the current financial year are listed in the table shown at paragraph 3.2 below for reference.
- 3.2 It is important to note that when referring to this information, that the levels of investments fluctuate daily as a result of timing issues from monies being received ahead of spend requirement and are therefore only available on a temporary basis.

	31 March 2018		30 September 2018	
	Principal £m	Average Interest Rate %	Principal £m	Average Interest Rate %
<b>DEBT</b>				
<i>Short term (payable before 31.03.19)</i>				
PWLB	2.8	5.83	2.7	5.50
Market	0.0	0.00	0.0	0.00
Government Loans - Salix	1.4	0.00	0.7	0.00
Sub-total	4.2	3.89	3.4	4.38
<i>Long term (payable after 31.03.19)</i>				
PWLB	100.6	3.62	100.6	3.62
Market	56.0	5.50	56.0	5.52
Government Loans - Salix	3.6	0.00	3.6	0.00
Sub-total	160.2	4.21	160.2	4.10
<b>Total debt</b>	<b>164.4</b>	<b>4.19</b>	<b>163.6</b>	<b>4.21</b>
<b>INVESTMENTS</b>				
- Instant access	30.3	0.48	19.5	0.70
- Call accounts	7.2	0.57	7.8	0.80
- Term deposit	30.7	0.78	47.7	0.93
- Long term - CCLA	5.0	4.87	5.0	4.90
<b>Total Investments</b>	<b>73.2</b>	<b>0.92</b>	<b>80.0</b>	<b>1.11</b>

#### 4. DEBT ACTIVITY

- 4.1 The Council's under borrowed position as at 31 March 2018, was £30.7m due to the total Capital Financing Requirement (CFR), the underlying need to borrow for capital purposes, of £195.1m being higher than the actual level of external debt of £164.4m.
- 4.2 This under borrowed position reflects previous years decisions to apply its own funds (cash supporting reserves & balances) to fund the capital borrowing requirement instead of taking out any new loans. This approach, which continues to be widely adopted by Councils, reflects the current high "cost of carry" situation i.e. the difference between long-term debt interest rates and short-term investment interest rates.
- 4.3 In response to the Council's overall financial position and the underlying need to borrow for capital purposes, particularly with regards to funding the commercial investment programme, new external borrowing will be required to be taken. The loan servicing costs associated with new borrowing will be met from either an existing revenue provision within the Medium Term Financial Plan or from applying a proportion of the investment returns generated from the commercial investment programme. All new borrowing which is to undertaken will be done so in conjunction with the information obtained from the Council's advisors Link Asset Services.

- 4.4 Prior to the completion of the acquisition of a commercial property, a number of due diligence exercises are carried out ensuring that the Council only completes on worthwhile properties. It is acknowledged however that as a result of potential future events beyond the Council's control, a possible risk arising from tenant default may exist. In order to overcome the effect that this would have on the Council's resources, a new risk reserve has been created which will be applied to this situation.
- 4.5 During the first half of 2018/19, no new long term loans were taken and the table below highlights the level of debt transactions which occurred during the first half of 2018/19:

<b>Loans</b>	<b>Balance 31 March 2018</b>	<b>Borrowed</b>	<b>Debt Repaid</b>	<b>Balance 30 September 2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Short Term	4.2	0.0	0.8	3.4
Long Term	160.2	0.0	0.0	160.2
<b>Total</b>	<b>164.4</b>	<b>0.0</b>	<b>0.8</b>	<b>163.6</b>

- 4.6 The Council currently has 23 loans in total with only 1 of these being subject to quarterly interest rate fixings using a recognised market indicator.
- 4.7 As a consequence of low interest rates, debt rescheduling opportunities continue to be expensive to complete due to high breakage (premium) costs which would be incurred. During the first half of the year no debt restructuring was undertaken however the situation will continue to be monitored.

## **5. INVESTMENT ACTIVITY**

- 5.1 In compliance with the Council's Annual Investment Strategy, approved by Council in February 2018, the priorities when placing any temporary surplus funds continues to be that as adopted in previous years of security of capital, liquidity and finally obtaining an appropriate level of return.
- 5.2 The table below highlights the level of investment transactions carried out during the first half of 2018/19;

<b>Investments</b>	<b>31 March 2018</b>	<b>Made</b>	<b>Repaid</b>	<b>30 September 2018</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Instant access	30.3	180.1	190.9	19.5
Call accounts	7.2	0.6	0.0	7.8
Term deposit	30.7	21.0	4.0	47.7
Long term – CCLA*	5.0	0.0	0.0	5.0
<b>Total</b>	<b>73.2</b>	<b>201.7</b>	<b>194.9</b>	<b>80.0</b>

\* reflects movement in valuation of the CCLA Property Fund investment.

- 5.3 The £6.8m upward movement in short-term investments from 31 March 2018 to 30 September 2018 reflects the day to day cash flow movements and monies received ahead of spend.
- 5.4 All investments placed with any of the Council's approved institutions and which matured during the first half of the financial year, were repaid on time

without any difficulties and the list of institutions in which the Council invests continues to be kept under review.

- 5.5 The movement in the Council's temporary investments as at 31 March 2018 compared to 30 September 2018 is shown below for reference:

<b>Sector</b>	<b>31 March 2018 £m</b>	<b>30 September 2018 £m</b>
UK Banks	31.4	39.0
UK Building Societies	0.0	0.0
Money Market Funds	30.3	19.5
Non UK Banks	2.5	13.5
Local Authority	4.0	3.0
Other - CCLA	5.0	5.0
<b>Total</b>	<b>73.2</b>	<b>80.0</b>

The maturity structure of the investment portfolio was as follows:

<b>Period</b>	<b>31 March 2018 £m</b>	<b>30 September 2018 £m</b>
Instant Access	30.3	19.5
Up to 3 Months	13.0	14.8
3 to 6 Months	10.9	33.8
6 to 9 Months	2.0	2.9
9 to 12 months	9.5	4.0
Over 1 year	7.5	5.0
<b>Total</b>	<b>73.2</b>	<b>80.0</b>

- 5.6 During the first half of the year, a total of 81 short term temporary investments were undertaken by the Council's in-house treasury management team in an environment of slowly increasing but still low interest rates. The table below highlights the results of these activities and this clearly illustrates the Council outperforming the 7day LIBID benchmark, a recognised market performance indicator, by 0.28% on its short term investments whilst ensuring that all risk was kept to a minimum during this period.

<b>Average level of Investments (ex CCLA) 1 April to 30 Sept £m</b>	<b>Average interest rate earned %</b>	<b>Average 7 day LIBID rate %</b>	<b>Additional interest earned against 7 day LIBID £k</b>
79.0	0.72	0.44	(113)

- 5.7 In September 2015, the Council invested £5m in the Local Authority Property Investment fund, managed by the Church Commissioners Local Authority, (CCLA), and this enabled 1,643,872 units to be purchased in the fund. This fund is only accessible to Local Authorities and its objective is to generate long-term growth in the amount originally invested whilst generating returns in the form of annual dividends by investing in commercial property throughout the UK.

- 5.8 By the very nature of this type of investment and to enable a satisfactory rate of return to be achieved in the form of capital growth and annual revenue

returns, it is expected that funds will be held in this account for a minimum period of 5 years.

- 5.9 At 31 March 2018 the Council’s investment was worth £4.96m and this has now risen to £4.99m as at 30 September 2018. Based on current property growth forecasts there are no concerns on the security and liquidity of this investment, which remains within the limits approved.
- 5.10 With regards to the level of dividends received, these continue to be strong as a result of the high rental returns being achieved. For reference the annualised level of return generated for the first half of 2018/19 was 4.90% gross of fees compared to 5.27% for the same period in 2017/18. It is anticipated that the return for the remainder of the year will be in line with that achieved for the first half of the year.
- 5.11 The level of budgeted investment interest forecasted to be generated from all of the Council’s investments during 2018/19 was set at £(0.7)m and currently it is forecasted that this will be achieved.
- 5.12 As outlined at Section 2 above, worldwide events together with the uncertainty surrounding Brexit continue to affect money markets and the potential for earning a respectable level of interest whilst ensuring the Council’s risk exposure is kept to a minimum, remains a challenge. In order to maintain risk to a minimum, funds will continue to be placed in low risk counterparties with returns set to reflect this strategy.
- 5.13 Appendix A details the Council’s investments, as at 30 September 2018.

**6. RISK BENCHMARKING**

- 6.1 In accordance with the Code and MHCLG Investment Guidance, appropriate security and liquidity benchmarks are used by the in-house treasury management team to monitor the current and future potential risk conditions enabling any corrective action to the strategy to be applied if required.
- 6.2 These benchmarks are simple guides to maximum risk (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria.
- 6.3 During the first half of 2018/19 it can be reported that no benchmarks, which were set in the Strategy report in February 2018, were breached as shown from the table below;

Indicator	Target	Actual
<b>Security</b> – potential default rate of the Council’s investment portfolio based on rates issued by the 3 main credit rating agencies.	Max 0.07%	Max 0.02%
<b>Liquidity</b> – investments available within 1 week notice	£10m min.	Achieved
<b>Liquidity</b> – Weighted Average Life of investments (ex CCLA Property Fund)	6 months	This was not breached and as at 30 September was 3.8 months.

<b>Indicator</b>	<b>Target</b>	<b>Actual</b>
<b>Yield</b> – Investment interest return to exceed 7 day London Interbank <b>BID</b> rate	0.44% (Avg. 7 day LIBID)	0.96% (All Investments)
<b>Origin of investments placed</b> - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100%  Non UK institutions 40%	Achieved

## **7. PRUDENTIAL AND PERFORMANCE INDICATORS**

- 7.1 In accordance with MHCLG Guidance and the Code, a number of prudential indicators are in place ensuring that the Council's capital expenditure plans and borrowing remain robust, prudent and sustainable.
- 7.2 These indicators which originally approved by Council in February 2018 were subsequently revised and approved by Council at the July 2018 meeting.
- 7.3 All prudential indicators are monitored on a monthly basis and during the first half of 2018/19 it can be reported that no breaches occurred.
- 7.4 The Council's Audit & Assurance Service, as part of their 2018/19 audit plan, undertook a review of the treasury management process & activities undertaken in 2017/18. The objective of the review was to provide assurance on the operation of the key controls within the treasury management system. For the 12<sup>th</sup> year in succession a report was issued stating that the in-house treasury management team offered a High Level of Assurance (very good) and there were no recommendations required to be implemented.

## **8. OTHER ACTIVITY UPDATE**

- 8.1 The main purpose of this report is to inform Members of the activities undertaken during 1 April 2018 to 30 September 2018 however in addition to that activities outlined above the following events have also occurred;
- Local Authority Mortgage Scheme (LAMS) - the Council participated in the national Local Authority Mortgage Scheme with Lloyds bank placing a total of £3m in 2 separate tranches (£2m at 4.41% and £1m at 2.7%). I can confirm that all funds placed in this scheme have been repaid back to the Council. Spend incurred under this scheme is deemed to be capital expenditure being classified as a service investment and so does not form part of treasury management activities or reports.
  - Member Training - this was provided by the Council's advisors Link Asset Services and internal staff to Members of both the Accounts and Audit Committee and Executive on 16 October 2018. The purpose of this training was to support Members in being able to fulfil their responsibilities in accordance with the Code of Practice.

## 9. RECOMMENDATIONS

- 9.1 That the Accounts & Audit Committee & Executive be requested to;
- Note the Treasury Management activities undertaken in the first half of 2018/19.

### Other Options

This report has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during the first half of 2018/19.

### Consultation

Information for the period 1 April 2018 to 30 September 2018 was obtained from Link Asset Services, the Council's external consultants.

### Reasons for Recommendation

The report has been produced in order to meet the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

**Finance Officer Clearance**      ...GB.....

**Legal Officer Clearance**      ...DS .....

**DIRECTOR'S Signature**



**APPENDIX A**

**Breakdown of Investments as at 30 September 2018**

Counterparty	(31 March 2018) £000	(30 September 2018) £000
<i>Instant Access (Money Market Funds)</i>		
Amundi	16,200	11,500
Federated Investors	7,320	6,050
Invesco Aim	260	140
Legal & General	200	1,400
Standard Life	6,300	400
<i>Sub-total</i>	<i>30,280</i>	<i>19,490</i>
<i>Call accounts</i>		
Barclays Bank	5,000	5,000
Santander UK Bank	4,200	4,800
<i>Sub-total</i>	<i>9,200</i>	<i>9,800</i>
<i>Term Deposit</i>		
Birmingham City Council	0	3,000
Close Brothers Bank	5,500	7,500
Commonwealth Bank of Australia	0	2,000
Development Bank of Singapore	0	9,000
Goldman Sachs Bank	4,500	7,000
Lloyds Bank	12,270	14,670
National Bank of Abu Dhabi	2,500	2,500
Plymouth City Council	2,000	0
Thurrock Council	2,000	0
<i>Sub-total</i>	<i>28,770</i>	<i>45,670</i>
<i>Long term deposit</i>		
Church Commissioners Local Authority	4,964	4,992
<i>Sub-total</i>	<i>4,964</i>	<i>4,992</i>
<b>Total UK</b>	<b>73,214</b>	<b>79,952</b>

The above table shows the level of investments placed at 30 September 2018 and 31 March 2018, the last time Members were provided with this information.

## APPENDIX B

### Major Economic Forecasts for Calendar Year 2019

Location	Gross Domestic Product	Unemployment Rate	Consumer Price Index	Bank Rate
UK	1.3%	4.6%	2.2%	1.00%
Euro Area	2.1%	7.8%	1.8%	0.05%
USA	2.8%	3.6%	2.3%	2.75%
China	6.4%	n/a	2.0%	4.50%

Source of information OECD % Trading Economics

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## TRAFFORD COUNCIL

**Report to:** Accounts & Audit Committee  
**Date:** 31 October 2018  
**Report of:** Corporate Director of Finance and Systems

### Report Title

**Insurance Performance Report 2017/18**

### Summary

This report provides a summary of insurance performance for 2017/18.

The gross cost of the insurance activity for 2017/18 was £0.626m; comprising £0.562 of premium costs and £0.064m provision for liability claims.

The provision for outstanding liability claims was £2.958m as at 31 March 2018, compared to £3.439m as at 31 March 2017. During the year the level of insurance provision was reassessed downwards by an independent actuary which gave rise to an overall budget underspend of £0.481m.

There was an increase in claim numbers for 2017/18 with 431 new claims compared to 306 in 2016/17.

### Recommendations

That the report be noted.

Contact person for access to background papers and further information:

Name: Graeme Bentley  
Extension: 4336  
Background Papers: None

## 1. Introduction

1.1 This report updates the Committee on the Council's insurance activities for 2017/18 and our report focuses on:

**Section 2** Cost of Insurance

**Section 3** Claims

**Section 4** Achievements / Outlook

1.2 The Council's insurance programme covers a number of insurable risks including property, public and employer's liability. For a detailed summary of policies and providers please refer to **Annex 1**.

1.3 The Insurance Team exert financial control in managing and monitoring risk and in handling and defending claims made against the Council.

## 2. Cost of Insurance

	Budget £000	Actual £000	Variance £000
<b>Premiums</b>	568	562	(6)
<b>Provisions</b>	799	64	(735)
<b>Income</b>	(746)	(725)	21
<b>Contribution to/(from) reserves</b>	181	420	239
<b>Total</b>	<b>802</b>	<b>321</b>	<b>(481)</b>

2.1 The net cost of insurance activities in 2017/18 was £0.321m, a budget underspend of £0.481m and this was included in the P12 revenue budget outturn position. This underspend was caused primarily due to a net decrease in the provision required to be set aside for claims following an actuarial assessment by an independent actuary.

2.2 This independent assessment is reflective of the level of savings we were expecting as a result of the Ministry of Justice reforms, which came into effect in 2013. These reforms capped claimant's Solicitor fees, before the reforms the average fee to claimant solicitors was £9,115 since the reforms this has reduced to £3,867 and the result is a net decrease in provision for claims (£0.481m). This reduction reflects savings achieved on the assessed cost of claims relating to previous policy years and the savings have been transferred to the Budget Support Reserve.

2.3 Given this positive movement it is possible to review the level of insurance budget in the MTFP in future years with a prudent reduction of £0.050m to be made to the budget from 2019/20 onwards.

- 2.4 The Council maintains an Insurance Provision (to cover the cost of outstanding liability claims) and an Insurance Reserve (see below):

Provision	£000:	Insurance Reserve	£000:
<b>Balance as at 01/04/2017</b>	<b>(3,439)</b>	Balance as at 01/04/2017	<b>(2,139)</b>
<b>Less Claims Paid</b>	544	Contribution from revenue/provision*	<b>(424)</b>
<b>Reassessed Provision</b>	<b>(63)</b>	MMI Reimbursement	<b>(120)</b>
<b>Balance as at 31/03/2018</b>	<b>(2,958)</b>	Balance as at 31/03/2018	<b>(2,683)</b>

(\*) Includes other budgeted contributions

- Insurance Reserve: the reserve is maintained in the event of a catastrophe whereby the Council is required to cover the first £0.250m of any property loss. It is also used to balance any fluctuation in the overall provision level and additional costs associated with historic Municipal Mutual Insurance claims. The reserve is also utilised when we foresee that the insurance market is hardening and rates are increasing.

### 3. Claims

- 3.1 **Claims Activity.** In 2017/18 the Council received 431 new liability claims compared to 306 in 2016/17 an increase of 41%. Claims fall into one of four categories Highway Injury, Highway Property, Public Liability (Non-Highway) and Employer's Liability. The table below details the activity in 2017/18 for each category of claim and **Annex 2** charts the current claims volume and reserve position.

	HW Injury	HW Prop	PL	EL	Total
<b>Live Claims 01/04/2017</b>	119	141	41	12	313
<b>New Claims in 2017/18</b>	82	286	55	8	431
<b>Settled Claims in 2017/18</b>	86	127	30	4	247
<b>Live Claims 31/03/2018</b>	115	300	66	16	497
<b>Net Change</b>	<b>(4)</b>	159	25	4	184
<b>O/S Reserve £000</b>	1,038	339	1,300	121	2,798

- 3.2 The outstanding reserve will not be the total that is paid out for the current claims as the majority will be repudiated, see table in Section 3.7 for current repudiation rates.
- 3.3 The two noticeable figures are the number of Highway Property claims and the outstanding reserve for Public Liability claims. The increase in Highway Property claims is primarily down to the effect the adverse winter had on the highway network. We are working closely with Amey LG to handle these additional claims and the numbers have returned to expected levels during the summer months.
- 3.4 An additional capital investment made in 2017/18 of £2.000m and the extra in 2018/19 of £5.900m should also have a positive impact on claim numbers.

- 3.5 The outstanding reserve of £1.300m for Public Liability claims is mainly due to six **high value claims** having a total reserve of £0.928m. For three of these claims investigations are ongoing and for the other three we have denied liability and are awaiting a response from the claimant's solicitors, this includes a claim with a reserve of £0.500m. These claims range across a number of policy years and are managed by specialist claim handlers and solicitors and are closely monitored by the Insurance team.
- 3.6 This table shows claims numbers and repudiation rates over the last five policy years for Employer's and Public liability claims.

Policy Year	No of Claims	Open	Closed	Settled	Repudiated	Rep Rate
2013/2014	307	6	301	105	196	65%
2014/2015	308	13	295	68	227	77%
2015/2016	301	30	271	69	202	75%
2016/2017	284	84	200	32	168	84%
2017/2018	426	372	54	6	48	89%
<b>Total</b>	<b>1,626</b>	<b>505</b>	<b>1,121</b>	<b>280</b>	<b>841</b>	<b>75%</b>

- 3.7 **Annex 3** shows the total cost of claims across the last 5 policy years for each category of claim along with the current repudiation rate over the period. These charts detail claims paid within the appropriate policy year together with reserve levels held for claims which are outstanding. Years 2016/17 and 2017/18 are immature years; the reserve level required will decrease with time, as we successfully defend claims.
- 3.8 Particular attention is given to highway injury claims as they present the largest financial insurance risk to the Council. In 2017/18 we successfully defended three claims which alone produced a saving of £0.195m in potential costs. We continue to robustly defend claims made against us where we can and feel that this reflected in our current repudiation rate of 85% for highway injury claims.
- 3.9 The table below summarises the reasons highway claims were settled in 2017/18 when compared to 2016/17.

Reason for Settlement	2017/18	2016/17
<b>Defect not picked up in carriageway</b>	0	3
<b>Defect not picked up in footway</b>	3	5
<b>Failure to repair carriageway</b>	12	2
<b>Failure to repair footway</b>	2	0
<b>No inspection carriageway</b>	9	8
<b>No inspection footway</b>	3	8

- 3.10 We continually monitor the numbers, cost and causes of claims and have an open dialogue with Amey LG to address trends.

3.11 **The Highway Damage Claim Form.** Introduced in 2013, this form serves as a first defence against claims. From the outset, we seek full documentation in support of a claim and explain the claim procedure and legal duty we hold under the Highways Act 1980 in respect of maintaining the public highway. In 2017/18, 461 forms were sent out and 217 were returned. This represents a “drop-out” rate of 53% compared to a “drop-out” rate of 42% in 2016/17.

#### 4. **Achievements / Plan**

4.1 Our on-going objectives for the coming year are:

- **Insurance Tender 2018/19.** Our current 5 year long term agreement with Insurers ends on the 31<sup>st</sup> March 2019. As a result, we are now working closely with our Procurement colleagues, Brokers and all Council Directorate’s to prepare the Insurance Programme for a full OJEU tender.
- We will complete a full review of cover, including indemnity limits and deductible levels to ensure it remains aligned to the specific risk exposures of the Council and that we continue to be adequately protected.
- Rates are under pressure within the market, particularly in respect of liability risks where insurers have become less competitive as they continue to be exposed to Abuse and Deprivation of Liberty Safeguards (DoLS) claims.
- Global property insurance rates remain under pressure due to the earthquakes in the Far East, wildfires in the US and Australia and the impact of the fire at Grenfell, however, this area of the market remains competitive.
- By starting our Tender preparations early and working alongside our wider colleagues to showcase working practices and policies, we will present Trafford as a good risk, therefore, encouraging competition within the market.
- **Cyber Insurance.** This emerging area of insurance cover is expanding with new products and providers coming into the market place. We continue to assess the extent of our Cyber risks internally and alongside our wider colleagues within the North West Insurers Officers Group.
- The introduction of the new General Data Protection Rules brings with it compulsory notification of data breaches and increased fines and penalties. A specialised Cyber wording will provide a dedicated in-house response team, which includes forensic and legal notification assistance.
- We have established a Trafford working group to consider our approach to risk alongside available insurance cover. Indicative quotations for cover range from £20,000 to £30,000, dependent on the indemnity limits required. Given the limitations of the cover we have, Cyber Insurance will be included in the insurance tender process.
- **Property Data.** During the forthcoming year we will be carrying out property surveys on a number of our high value properties (over £20.000m) to ensure that cover held remains accurate and up-to-date.
- **Presentation to Committee – 6<sup>th</sup> December 2017.** We hope you found the presentation of interest, providing a detailed look at the insurance risks we face and the continued work we carry out with our Insurers.

## Trafford Council Current Insurance Programme

Limit of Indemnity	Sum Insured	£50m EL	£50m PL	Unlimited TP Injury	Accidental bodily injury, death, disablement or the incurring of Medical Expenses	Various	£5m	£5m	Sum Insured
	BIMax Indemnity Period 36 months			£20m TP Damage		Physical loss of money	Financial loss sustained as a result of a criminal act		BIMax Indemnity Period 36 months
Policy	Property Damage / Business Interruption	Employers' Liability / Officials Indemnity	Public Liability	Motor	Personal Accident	Money	Crime / Fidelity Guarantee	Professional Negligence	Commercial Investment Strategy
Insurer	Zurich Municipal	Zurich Municipal	Zurich Municipal	Amlin	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Municipal	Zurich Commercial Via Marsh
Deductibles	£250,000	£275,000	£275,000	£1000	Nil	£250	£10,000	£100,000	£250
Stop Loss	Aggregate £1M	Aggregate £2M	Aggregate £2M						

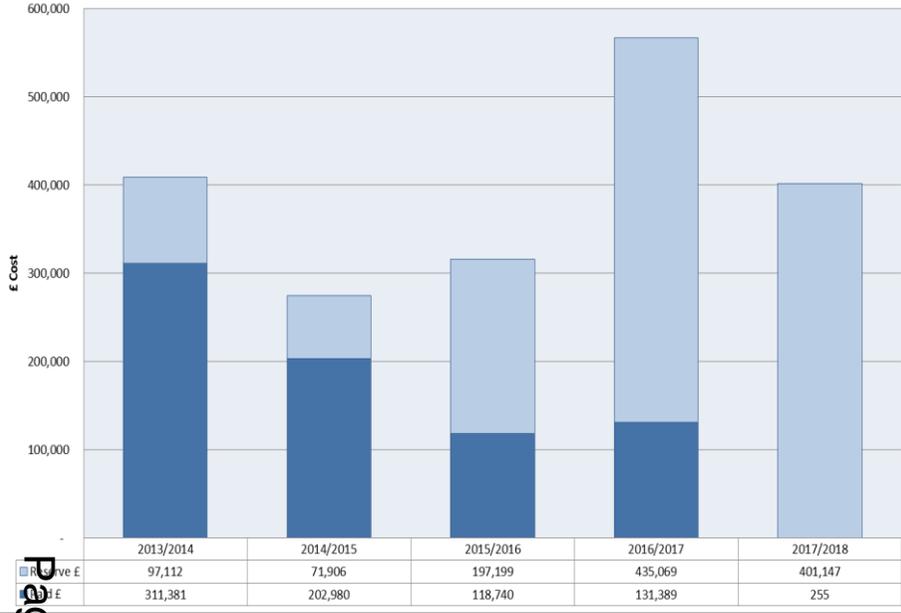
# Current Claims Volume and Reserve

Annex 2

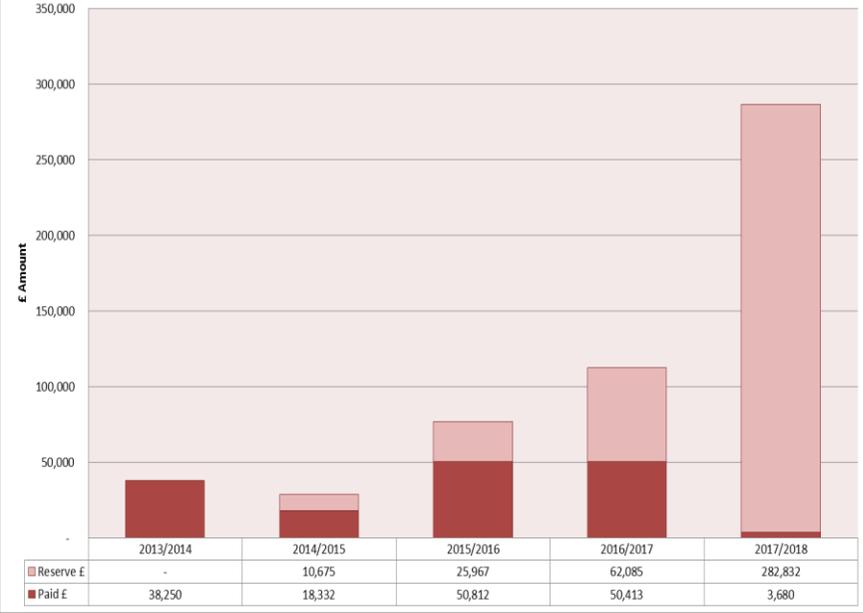


	Highway Injury	Highway Property	Public Liability	Employer's Liability
No of Live Claims as at 31/03/2018	115	300	66	16
O/S Reserve £000	1,038	339	1,300	121

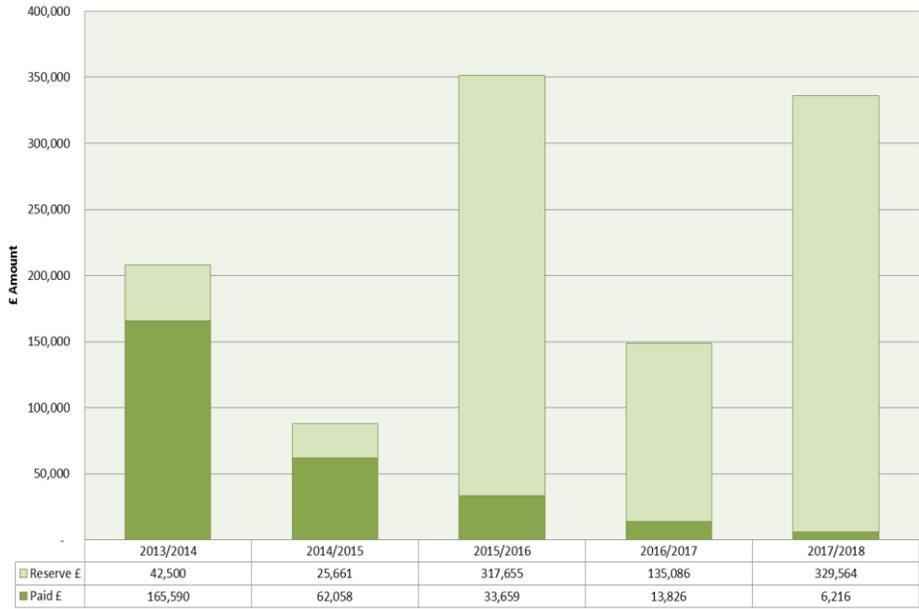
**Highway Injury**  
Current Repudiation Rate 85%



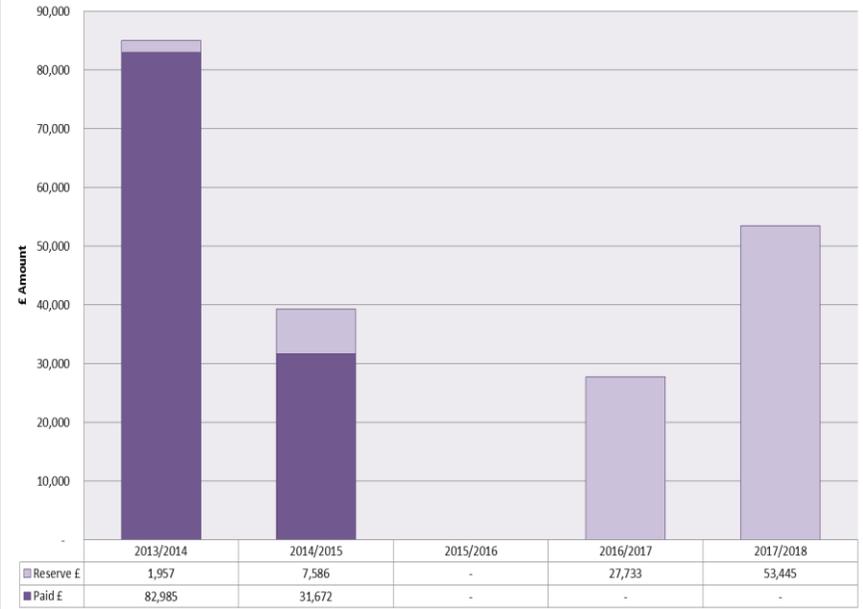
**Highway Property**  
Current Repudiation rate 70%



**Public Liability**  
Current Repudiation Rate 69%



**Employers's Liability**  
Current Repudiation Rate 50%



## TRAFFORD COUNCIL

**Report to:** Accounts and Audit Committee  
**Date:** 31 October 2018  
**Report for:** Information  
**Report of:** Audit and Assurance Manager

### Report Title

**Audit and Assurance Report for the Period April to August 2018.**

### Summary

**The purpose of the report is:**

- **To provide a summary of the work of Audit and Assurance during the period April to August 2018.**
- **To provide ongoing assurance to the Council on the adequacy of its control environment.**

### Recommendation

**CLT is asked to consider the report which is to be presented to the Accounts and Audit Committee on 31 October 2018.**

### 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 April to August 2018**

**Date:** **October 2018**

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## **1. Purpose of Report**

This report summarises the work of the Audit and Assurance Service between April and August 2018 and highlights progress against the 2018/19 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 2018/19.

## **2. Planned Assurance Work**

Key elements of the 2018/19 Work Plan include:

- Fundamental Financial Systems reviews.
- Input to the completion of the Annual Governance Statement for 2017/18.
- Continued input to and review of risk management arrangements and provision of guidance.
- Review of corporate procurement and value for money arrangements.
- Audit reviews in respect of ICT and information governance.
- Anti fraud and corruption work.
- Provision of guidance and advice to services 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 – April to August 2018**

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

- Audit review work in respect of financial systems including the issue of a number of audit opinion reports.
- Completion of a number of school audit reviews.
- Issue of reports and ongoing work in relation to a number of other audit reviews from the Internal Audit Plan.
- Facilitating an update of the Strategic Risk Register for the Corporate Leadership Team
- Review of the Draft 2017/18 Annual Governance Statement prior to its approval.
- Commencement of preparations for the 2018/19 National Fraud Initiative exercise.

## **4. Summary of Assurances for April to August 2018**

There were 14 internal audit opinion reports issued in the period, 13 final reports and 1 at draft stage. A number of other audit reports were in progress, to be formally issued later in 2018. A listing of audit report opinions issued including overall findings is shown in Section 5.

In respect of the final reports issued, at least "Adequate" Opinions (Medium or above) were given in relation to 12 of the 13 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 – April to August 2018

(See Appendix 3 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
<b>FINAL REPORTS</b>		
<b>Level 4 Reports :</b>		
<b>Let Estates (Place) / (Investment, Regeneration and Strategic Planning)</b>	<b>Medium/High (GREEN) (8/5/18)</b>	The objective of the audit was to ensure that Let Estates income is collected in accordance with the terms of the agreements in place. Progress has been made in introducing new systems and processes since previous audits and overall, a good level of control was found to be in place. A small number of recommendations were made including in relation to the completion and approval of the Let Estates strategy.
<b>Adult Social Care Payments System - Liquid Logic / ContrOCC (Adult Services) / (Adult Social Care)</b>	<b>Medium * (GREEN) (25/5/18)</b>	A review of the Adult Social Care payment and charging system was previously completed in 2017 and a follow up audit has since been undertaken to assess progress in implementing recommendations. There have been a number of control improvements made with further work agreed in an action plan (Of the 28 recommendations previously made, 10 had been fully implemented, 14 in progress and 4 to be implemented). Areas for further improvement include issues regarding system training and IT access rights. Further progress will be reviewed as part of future planned audit work in 2019/20.
<b>Income Control (Finance and Systems) / (Finance)</b>	<b>High (GREEN) (4/6/18)</b>	Processes for Income Control across the Council, undertaken by the Tax & Systems Team within Financial Management, were reviewed. A high level of assurance was provided with only a small number of recommendations made.
<b>Cyber Security follow- up audit (Finance and Systems) / (Constitutional Reform and Resident Engagement)</b>	<b>Medium * (GREEN) (2/7/18)</b>	An audit of the Council's cyber security arrangements was previously completed in 2016 and a follow-up audit has since been completed to assess progress in implementing recommendations. The review found that progress has been made, with further actions planned. Of the 14 recommendations previously made, 5 had been fully implemented, 7 in progress and 2 to be implemented. Planned work includes development of improved disaster recovery arrangements. Progress will be reviewed as part of future planned audit work.
<b>Contracts Register –STAR Procurement (Finance and Systems) / (Finance)</b>	<b>Adequate (GREEN) (1/8/18)</b>	The audit was completed by Rochdale Council Internal Audit on behalf of Stockport, Trafford and Rochdale Councils. The overall objective was to evaluate whether the contracts register is being used effectively to support procurement work undertaken by STAR across the Councils. Overall, adequate systems of control were found to be in place. Recommendations made included future consideration of the appropriate system to use to record contract register data.  (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").
<b>Level 2 Reports:</b>		
<b>Bereavement Services (People) / (Equalities and Partnerships)</b>	<b>High (GREEN) (21/5/18)</b>	Good progress had been made in improving systems and controls since previous audits. A small number of recommendations were made.
<b>STAR Quality Management System (Finance and</b>	<b>Moderate (GREEN)</b>	The audit was completed by Stockport Council Internal Audit on behalf of Stockport, Trafford and Rochdale Councils. The review

<b>Systems) / (Finance)</b>	(26/6/18)	confirmed that the STAR service has been pro-active in trying to ensure that it is delivering and maintaining continuous improvement in the provision of its services. This was confirmed by the establishment of its Quality Management System and the associated process maps and work instructions for the respective processes that STAR carry out. An area for improvement identified included the undertaking of self-assessment against STAR's documented processes to review its adherence on a periodic basis. (A "Moderate Opinion" was provided which is equivalent to an opinion of at least "Medium" per the Trafford Council framework and the opinion is therefore shown as "Green").
<b>Registration Service (Governance and Community Strategy) / (Constitutional Reform and Resident Engagement)</b>	<b>Medium/High (GREEN)</b> (20/7/18)	Overall, the audit found that procedures had been maintained to a good standard. A small number of recommendations were made including in relation to income and banking procedures.
<b>Pest Control (Place) / (Environment, Air Quality and Climate Change)</b>	<b>Medium/High (GREEN)</b> (14/8/18)	Overall, the audit found that procedures had been maintained to a good standard. A small number of recommendations were made including in relation to procedures for annual stock checks.
<b><u>Level 1 Reports:</u></b>		
<b>Trafford Alternative Education – Trafford High School and Trafford Medical Education Service (Children's Services) / (Children's Services)</b>	<b>Medium (GREEN)</b> (2/5/18)	Overall, systems, procedures and controls in place were found to be adequate but existing systems and processes could be enhanced in certain areas. A number of recommendations have been made such as updating certain policy and procedural documents for approval by the Management Committee.
<b>The Firs Primary School (Children's Services) / (Children's Services)</b>	<b>Low/Medium (AMBER)</b> (8/5/18)	Whilst systems and controls were adequate in certain areas, a significant number of recommendations were made to improve controls across a number of areas reviewed. Areas identified for improvement included the updating and approval of a number of school policies and approval of the updated local finance manual; some controls in relation to procurement procedures; frequency of banking income and maintenance of school fund records. An action plan was agreed to address the recommendations made. A follow up audit review of this school will be included in the 2019/20 Internal Audit Plan.
<b>Bowdon Church School (Children's Services) / (Children's Services)</b>	<b>Medium (GREEN)</b> (15/5/18)	Systems and controls were found to be adequate across most areas covered. A number of recommendations have been made including in relation to updating the school's financial procedures handbook; development of a business continuity plan and updating of the equipment inventory.
<b>Old Trafford Library (Governance and Community Strategy) / (Communities and Housing)</b>	<b>Medium/High (GREEN)</b> (10/7/18)	Systems and controls were found to be adequate across most areas covered. Some recommendations were made including in relation to records retained in relation to income and the equipment inventory.
<b><u>DRAFT REPORTS</u></b>		
<b><u>Level 4 Reports:</u></b>		
<b>Direct Payments (Adult Services) / (Adult Social Care)</b>		A draft report was issued for management to consider and confirm agreed recommended actions. A final report is due to be issued.
<b><u>OTHER REPORTS IN PROGRESS</u></b>		

<b><u>Level 4 Reports:</u></b>	
<b>Compliance with Contract Procedure Rules (Authority-Wide) / (Finance)</b>	The audit was undertaken by Stockport Council Internal Audit on behalf of Stockport, Trafford and Rochdale Councils. Draft findings have been shared with STAR. An agreed action plan is being considered and a final audit report is expected to be issued later in 2018.
<b>Declaration of Gifts and Hospitality (Governance and Community Strategy) / Constitutional Reform and Resident Engagement)</b>	Draft findings were shared with management. (A final report was issued in October 2018 and will be reported in the next Audit and Assurance update).
<b>Business Continuity Management (Authority-wide) / (Constitutional Reform and Resident Engagement)</b>	Draft findings were shared with management. A draft report which includes progress against recommendations made in a previous audit review will be issued later in 2018.
<b><u>Level 1 Reports:</u></b>	
<b>Templemoor Infant School (Children's Services) / (Children's Services)</b>	Draft findings were shared with management. A final report was issued in October 2018 and will be reported in the next Audit and Assurance update).
<b>Woodhouse Primary School (Children's Services) / (Children's Services)</b>	Draft findings were shared with management. (A final report was issued in October 2018 and will be reported in the next Audit and Assurance update).
<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>	

## **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 update the strategic risk register with an update report shared with CLT in August 2018 and also updating risk management guidance on the intranet.
- Working in liaison with Legal and Democratic Services to provide support in the process for producing the 2017/18 AGS including an independent review of its content prior to its final completion.
- Providing guidance to schools, with a briefing note included on the schools weekly e-bulletin covering frequently made audit recommendations.
- Completing a number of checks as part of the process for certifying grant claims with work completed in relation to the 2017/18 Local Growth Fund, and in progress by the end of the period in relation to the 2017/18 Cycle City Ambition Grant.
- Preparation for submission of data as part of the 2018/19 National Fraud Initiative, including liaison with all services that are required to provide information.

## **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 produced and issued by the Audit and Assurance Service during the period, 98% of recommendations have been accepted (126 out of 128 recommendations made) compared to a service target of 95%.

### **Implementation of Audit Recommendations**

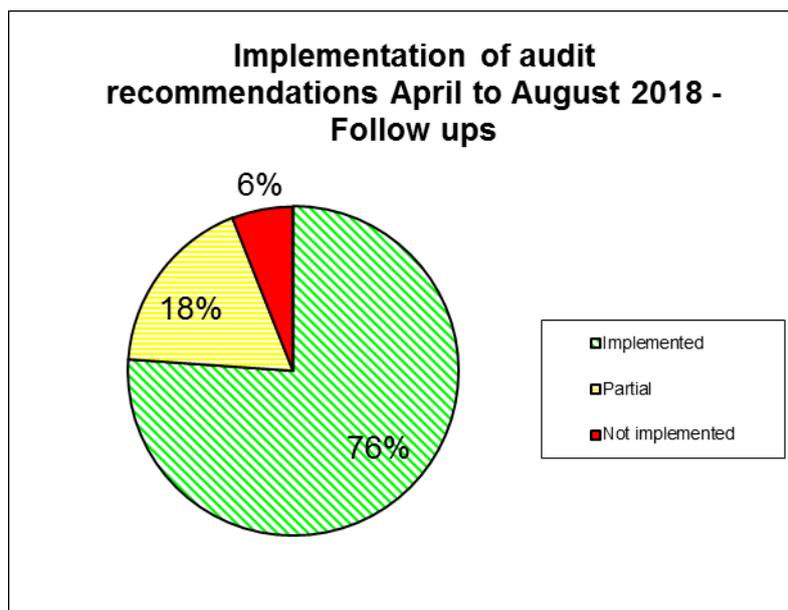
Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means.

As listed under final reports in Section 5, follow up audits were completed in relation to Cyber Security and also the Adult Social Care Payments System (Liquid Logic /ContrOCC).

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 (relevant Directorate in brackets):

- Coppice Avenue Library (Governance and Community Strategy) - Of the 6 recommendations previously made, 5 have been implemented with one remaining recommendation to implement.
- Housing Waiting List (Place) - All 4 recommendations previously made have been implemented.
- Corporate Health and Safety (People) - All 5 recommendations previously made have been implemented.
- Partington Children's Centre (Children's Services) - Of the 13 recommendations previously made, 12 have been implemented with one remaining recommendation to implement.
- St Hugh's Catholic Primary School (Children's Services) - Of the 15 recommendations previously made, 14 have been implemented with one planned to be implemented shortly.
- Victoria Park Infant School (Children's Services) - All 19 recommendations previously made have been implemented.
- Moss Park Infant School (Children's Services) – Of the 16 recommendations previously made, 15 have been implemented with one in progress.
- Our Lady of the Rosary RC Primary School (Children's Services) – Of the 14 recommendations previously made, 13 have been implemented with one planned to be implemented shortly.

An overall analysis of audit recommendations followed up in 2018/19 (up to 31 August 2018) is shown below.



## **8. Performance against Audit & Assurance Annual Work Plan**

### **Appendix 1 shows an analysis of time spent to date against planned time for the 2018/19 Operational Internal Audit Plan**

As at 31 August 2018, 360 audit days were spent against 421 planned allocated days. The difference is largely accounted for by one of the audit staff being on a temporary secondment to the Trafford CCG Finance team. (Due to this, whilst it is anticipated that days spent will be lower than planned allocated days at the year end, this will be partly mitigated by the use of the contingency of 60 days included within the Plan).

As part of the Internal Audit Plan, a target of 40 audit opinion reports was set to be issued during 2018/19 (excluding reports issued by other partner authorities in relation to STAR Procurement). As at 31 August 2018, 11 opinion reports were issued by the Audit and Assurance Service to final stage, 1 to draft stage and a further 4 reports have been shared with management for initial comments. There were 8 other audits in progress as at 31 August 2018. (Note: 2 other final reports were issued to final stage in relation to STAR Procurement with 1 other report in progress. See Appendix 2 for listings of reports issued and planned).

A further update will be provided as at the end of December 2018 which will highlight the number of reports issued to date together with anticipated reports to be issued in the final quarter of the year.

## **9. Planned Work for September to December 2018**

### **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.
- Submission of data to the Cabinet Office in October 2018 as required as part of deadlines set for the National Fraud Initiative.
- Certification of grant claims relating to the Cycle City Ambition Grant; Pothole Fund and the Disabled Facilities Grant.
- Supporting CLT in updating the Strategic Risk Register with a report due to be shared with the Accounts and Audit Committee in October 2018.

**2018/19 Operational Plan: Planned against Actual Work (as at 31 August 2018)**

<b>Category</b>	<b>Details</b>	<b>Planned Allocated Days 2018/19</b>	<b>Planned Days (up to 31/8/18)</b>	<b>Actual Days (as at 31/8/18)</b>
<b>Fundamental Systems</b>	<b>Completion of fundamental financial systems reviews: (See Appendix 2 for opinion reports issued and planned to be issued during 2018/19).</b>	180	83	41
<b>Governance</b>	<p><b>Corporate Governance / Annual Governance Statement (AGS) – to provide support and advice to Legal and Democratic Services.</b></p> <p><b>Complete a review of the content of the draft AGS with reference to the CIPFA/SOLACE Governance framework and guidance.</b></p> <p><b>Ongoing advice / assurance in respect of governance issues.</b></p> <p>Audit has worked with Legal and Democratic Services to assist and provide input to planning the process for producing the AGS. A review was completed as planned of the Draft AGS with findings fed back to Legal and Democratic Services to consider in finalising the document.</p> <p>An audit review was added to the Audit Plan to assess procedures for the declarations of gifts and hospitality by officers which is in progress (See Appendix 2 under Governance).</p>	30	17	12
<b>Corporate Risk Management</b>	<p><b>Actions to support the Council's Risk Management Strategy including:</b></p> <ul style="list-style-type: none"> <li>- <b>facilitating the update of the strategic risk register</b></li> <li>- <b>provision of guidance and reviewing existing Service / Directorate level risk registers to consider areas for development.</b></li> </ul> <p>- Work to date: Strategic Risk update report completed in July 2018 and reviewed by CLT in August 2018. (Further refresh of the risk register planned to commence in September with a report to CLT and the Accounts and Audit Committee in October 2018).</p> <p>The risk management site on the intranet was updated including reviewing of the layout of information.</p>	35	10	10
<b>Anti-Fraud and Corruption</b>	<b>The Service will also continue to support the National Fraud Initiative (NFI) and will liaise with other services to ensure the Council</b>	110	38	29

	<p>provides data in accordance with the requirements of the NFI 2018/19 exercise.</p> <p>Investigation of referred cases of suspected theft, fraud or corruption.</p> <p>Other work to support the Ant-Fraud and Corruption Strategy, including where applicable working with other relevant services to review existing policies and guidance supporting the overarching strategy.</p> <p>Key focus in period to make preparations for the 2018/19 NFI exercise - liaison with other services and also the Cabinet Office in advance of submitting required data in October 2018.</p>			
Procurement / Contracts/ Value for money	<p>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).</p> <p>See Appendix 2 for reports completed and planned.</p>	80	29	12
ICT / Information Governance Audit	<p>ICT Audit reviews completed by Salford Internal Audit Services.</p> <p>ICT related investigations where applicable.</p> <p>Information Governance audit reviews</p> <p>See Appendix 2 for reports completed and planned.</p>	100	37	43
Schools	<p>Providing assurance on the control environment within schools, supporting schools in ensuring awareness of requirements within the DfE Schools' Financial Value Standard (SFVS).</p> <p>Audit reviews of schools – at least 14 school audit visits to be undertaken during the year.</p> <p>See Appendix 2 for audit opinion reports issued and planned. (As at 31/8/18, 3 final reports issued; 2 reviews where draft findings have been shared; 7 other schools audits arranged to date with visits to be undertaken between September and December 2018).</p>	180	74	45
Assurance – Other Business Risks	<p>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:</p> <ul style="list-style-type: none"> <li>- Audit reviews</li> <li>- Follow up reviews including further audits and gaining assurance from service updates.</li> </ul>	250	86	116

	<b>See Appendix 2</b> for audit opinion reports issued and other work completed / planned.			
<b>Grant claims checks / Data Quality</b>	<b>Internal audit checks of grant claims / statutory returns as required:</b>  <b>Grant checks completed or to be undertaken include the following:</b> - Local Growth Fund (completed July 2018) - Cycle City Grant (completion due by September 2018) - Pot Hole Fund Grant (completion due by end of September 2018) - Disabled Facilities Grant (completion due by end of October 2018).	35	15	10
<b>Service Advice / Projects</b>	<b>General advice, both corporately and across individual service areas.</b>  <b>Support and advice to the organisation in contributing to working groups and projects in relation to governance, risk and control issues.</b>  <b>To date this has Included:</b> - In early 2018/19, contributing to work of the Information Security Governance Board; - Guidance shared with schools in respect of commonly made audit recommendations; - Other ad hoc guidance and advice through the period.	80	32	42
<b>TOTAL</b>		<b>1080*</b>	<b>421</b>	<b>360</b>

- Note there is a further contingency of 60 days within the 2018/19 Plan.

**Audit Opinion Reports Issued and Planned 2018/19 (as at 31 August 2018)**

<b><u>Category</u></b>	<b><u>Audit Opinion Reports</u></b> (Corporate Directorates in place when IA Plan issued in March 2018 shown in brackets)	<b><u>Status (where progressed by 31/8/18)</u></b>	<b><u>2018/19 IA Plan</u></b>
<b>Fundamental Systems</b>	<ul style="list-style-type: none"> <li>- Income Control (T&amp;R)</li> <li>- Liquid Logic/ContrOCC system – Adult Services (CFW/T&amp;R)</li> <li>- Direct Payments (CFW - Adults)</li> <li>- Treasury Management (T&amp;R)</li> <li>- Accounts Payable (T&amp;R)</li> <li>- Payroll (T&amp;R)</li> <li>- Liquid Logic/ContrOCC system – Children’s Services (CFW/T&amp;R)</li> <li>- Direct Payments (CFW – Children’s Services)</li> <li>- Budgetary Control (Authority-wide)</li> </ul>	<ul style="list-style-type: none"> <li>Final report issued 4/6/18</li> <li>Final report issued 4/6/18</li> <li>Draft report issued</li> <li>In progress</li> <li>-</li> <li>-</li> <li>In progress</li> <li>In progress</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>Completed</li> <li>Completed</li> <li>Final report to be issued Q3</li> <li>Final report to be issued Q3</li> <li>Commence by Q3</li> <li>Commence by Q4</li> <li>Draft report to be issued Q3</li> <li>Draft report to be issued Q3</li> <li>Commence by Q4</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>- Declaration of gifts and hospitality</li> </ul>	<ul style="list-style-type: none"> <li>Report in progress</li> </ul>	<ul style="list-style-type: none"> <li>Final report to be issued Q3</li> </ul>
<b>Procurement /Contracts /Value for money</b>	<ul style="list-style-type: none"> <li>- Contracts Register (STAR Authorities – Rochdale lead) (T&amp;R)</li> <li>- Contract Procedure Rules (STAR Authorities – Stockport lead) (T&amp;R/Authority-Wide)</li> <li>- Social Value in Procurement (including follow up) (STAR authorities – Trafford lead) (T&amp;R/Authority Wide)</li> <li>- STAR Quality Management System (STAR Authorities – Stockport lead) (T&amp;R)</li> <li>- Chest Procurement Portal (follow up) (STAR Authorities – Rochdale lead) (T&amp;R)</li> <li>- Financial vetting of firms (follow up) (STAR Authorities – Trafford lead) (T&amp;R)</li> <li>- STAR Performance Indicators (STAR Authorities – lead to be confirmed) (T&amp;R)</li> <li>- New vendor requests / spend monitoring (STAR Authorities – lead to be confirmed) (T&amp;R)</li> <li>- Commissioning of children’s external residential placements (CFW)</li> </ul>	<ul style="list-style-type: none"> <li>Final report issued 1/8/18</li> <li>Report in progress</li> <li>-</li> <li>Final report issued 13/6/18</li> <li>-</li> <li>-</li> <li>-</li> <li>-</li> <li>-</li> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>Completed</li> <li>Final report to be issued Q3</li> <li>Commence in 2019 (Timing to be agreed)</li> <li>Completed</li> <li>To commence by Q4</li> <li>To commence Q3</li> <li>Commence in 2019 (Timing to be agreed)</li> <li>Commence in 2019 (Timing to be agreed)</li> <li>Commence in 2019 (Timing to be agreed)</li> </ul>
<b>Information Governance / ICT Audit</b>	<ul style="list-style-type: none"> <li>-IT Change Management follow-up audit (T&amp;R)</li> <li>- ITrent System IT Application Controls (T&amp;R)</li> <li>- Software Licensing - follow up (T&amp;R)</li> <li>- Cyber Security follow-up (T&amp;R)</li> <li>- Information Security Management (ISO 27001 Gap Analysis) (T&amp;R)</li> <li>- Data breaches (T&amp;R/Authority-Wide)</li> </ul>	<ul style="list-style-type: none"> <li>In progress</li> <li>-</li> <li>Initial update completed</li> <li>Final report issued 2/7/18</li> <li>-</li> <li>In progress</li> </ul>	<ul style="list-style-type: none"> <li>Draft report to be issued Q4</li> <li>Commence by Q3</li> <li>Further update and follow-up in Q4</li> <li>Completed</li> <li>Commence by Q4</li> <li>Final report to be issued Q3</li> </ul>

<b>Schools</b>	14 Opinion Reports to be issued. The full list of audits to be confirmed through 2018/19. (CFW).	3 final reports issued to date: -Bowdon Church School (15/5/18) -Firs Primary School (8/5/18) -Trafford Alternative Education (Trafford High School and Trafford Medical Education Service) (2/5/18) 2 reports in progress: -Templemoor Infant School -Woodhouse Primary	4 final reports to be issued in Q3: -Templemoor Infant School -Woodhouse Primary School - Altrincham C of E Primary School -Our Lady of Lourdes Catholic Primary School  4 draft reports to be issued in Q3 (with final reports by Q4): -St. Antony's Catholic College -St. Hugh's of Lincoln RC Primary School -Willows Primary School -Flixton Primary School  1 other review to commence in Q3 (with final report by Q4): -Highfield Primary School  5 further reviews to commence in Q4 – schools to be confirmed.
<b>Assurance – Other Key Business Risks</b>	<ul style="list-style-type: none"> <li>- Old Trafford Library (T&amp;R)</li> <li>- Bereavement Services (T&amp;R)</li> <li>- Trafford Town Hall - Catering Income (T&amp;R)</li> <li>- Let Estates (EGEI)</li> <li>- Client Finances (Appointees and Deputyships) (T&amp;R/CFW)</li> <li>- Section 17 Payments – Children (CFW)*</li> <li>- Music Service (T&amp;R)</li> <li>- Altrincham Library (T&amp;R)</li> <li>- Flixton House (T&amp;R)</li> <li>- Registration Service (T&amp;R)</li> <li>- Licensing (EGEI)</li> <li>- Planning Enforcement (EGEI)</li> <li>- Pest Control (EGEI)</li> <li>- Environmental Health (EGEI)</li> <li>- Strategic Growth Team (EGEI)</li> <li>- Statutory Homelessness Services (EGEI)</li> <li>- Energy Management (EGEI)</li> <li>- Payments to Care Leavers - follow up (CFW)</li> <li>- Aids and Adaptations - follow up (CFW)</li> <li>- Business Continuity</li> </ul>	<ul style="list-style-type: none"> <li>Final report issued 10/7/18</li> <li>Final report issued 21/5/18</li> <li>In progress</li> <li>Final report issued 8/5/18</li> <li>In progress</li> <li>-</li> <li>-</li> <li>-</li> <li>-</li> <li>Final report issued 20/7/18</li> <li>-</li> <li>Final report issued 14/8/18</li> <li>-</li> <li>-</li> <li>Initial work undertaken and findings shared</li> <li>-</li> <li>-</li> <li>Report in progress</li> </ul>	<ul style="list-style-type: none"> <li>Completed</li> <li>Completed</li> <li>Final report to be issued Q3</li> <li>Completed</li> <li>Draft report to be issued Q3</li> <li>Commencing Q2</li> <li>Commence by Q4</li> <li>Commence by Q4</li> <li>Rescheduled in agreement with service to 2019/20</li> <li>Completed</li> <li>Commence by Q4</li> <li>Timing to be agreed</li> <li>Completed</li> <li>Commence by Q3</li> <li>Commence by Q4</li> <li>Commence by Q4</li> <li>To be agreed</li> <li>Commence by Q4</li> <li>Commence by Q3</li> <li>Final report to be issued Q3</li> </ul>

(Note in respect of planned audit reports, any changes or additions to the 2018/19 Internal Audit Plan will be reflected in the September to December 2018 update).

## 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.

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### 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:** Accounts and Audit Committee  
**Date:** 31 October 2018  
**Report for:** Information  
**Report of:** Audit and Assurance Manager

### Report Title

**Strategic Risk Register 2018/19 (October 2018 update)**

### Summary

The Accounts and Audit Committee is asked to consider this report which provides an update on the strategic risk environment, setting out developments relating to the management of each of the Council's strategic risks.

### Recommendation

The Accounts and Audit Committee reviews this report.

### Contact person for access to background papers and further information:

**Name:** Mark Foster – Audit & Assurance Manager.      **Extension:** 1323  
Mike Sullivan – Senior Audit & Assurance Officer      **Extension:** 1564

### **Background Papers:**

None

## **1. INTRODUCTION**

- 1.1 The Council's Strategic Risk Register (SRR) contains the strategic risks the Council is likely to face in achieving its high level corporate objectives.
- 1.2 In accordance with the Council's Risk Management Policy, the Corporate Leadership Team (CLT) provides regular periodic updates on the strategic risk environment and in particular performance in managing the specific risks incorporated within the SRR.
- 1.3 This report is based on information provided by risk owners in September and October 2018 for each risk.

## **2. THE STRATEGIC RISK ENVIRONMENT – RISK EXPOSURE AND PERFORMANCE MANAGEMENT**

- 2.1 The Council continues to review and monitor its strategic risks. Given the challenges faced by the Council going forward, it is acknowledged that it will need to continue to review its approach to risk and risk management as risks change and potentially higher risks arise. Progress has continued to be made in addressing the strategic risks as detailed in this report.
- 2.2 Through September and October 2018, the Audit & Assurance Service liaised with CLT and senior managers to agree the risks to be included in the strategic risk register and provide updates on risks under their remit, including progress in managing these risks. Section 3 of this report contains an update on the strategic risks identified. (The previous risk report update was completed in August 2018).
- 2.3 The risk chart on page 3 shows an analysis of the current strategic risks. The chart analyses the levels of risk exposure in terms of impact and likelihood. The number of strategic risks for each risk level is shown.
- 2.4 In the August 2018 Strategic Risk Register update, it was recommended that the Strategic Risk 13 (Availability of Burial Land) was removed as it was considered a low risk with a risk score of 4. There are now, therefore, 14 strategic risks (The Investment Strategy Risk 15 has been renumbered to Strategic Risk 13).
- 2.5 For each risk listed in Section 3, this includes the relevant Executive Portfolio and Service Directorate, reflecting the changes in these over recent months.
- 2.6 The next Strategic Risk Register update is due to be undertaken in the final quarter of 2018/19 with an update report to be presented to the Accounts and Audit Committee.

## Comparison of Risk Levels August and October 2018

**IMPACT** **Risk Levels – August 2018**

Very High(5)	2	11		
High (4)	1	1		
Medium (3)				
Low (2)				
Very Low (1)				
	Very Low (1)	Low (2)	Med. (3)	High (4)

**LIKELIHOOD**

**IMPACT** **Risk Levels – October 2018**

Very High(5)	2	11		
High (4)		1		
Medium (3)				
Low (2)				
Very Low (1)				
	Very Low (1)	Low (2)	Med. (3)	High (4)

**LIKELIHOOD**

<b>High Risk</b>
<b>Medium Risk</b>
<b>Low Risk</b>

### 3. Strategic Risks (October 2018)

Red	Amber	Green
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<i>Risk</i>	<i>Strategic Risk Title / (Directorate / Portfolio)</i>	<i>Risk Score / Level / Direction of Travel</i>	<i>Management of Risk - Direction of Travel **</i>  <i>(Refer to the key at the end of the report for a detailed explanation)</i>	<i>Comments</i>
1	<p>Integration between Trafford Council and Trafford CCG failing to meet its objectives.</p> <p>(Authority-wide - Chief Executive / Leader).</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<p>At the point of integration, 3 April 2018, the Chief Executive of Trafford Council became the Accountable Officer and a joint Corporate Leadership Team (CLT) was put in place.</p> <p>Since the departure of the Chief Executive, in July 2018, the Council and the CCG have confirmed their commitment to an integrated organisation. The exact organisational form is however under review to ensure it is fit for purpose moving forward.</p> <p>A key aspect of the integration is an integrated commissioning team. This fundamental organisational and service redesign is underway and provides both major opportunities and risks to both organisations.</p> <p>This integration requires a clear vision, strong leadership and clear accountability from the top, supported by both community and staff engagement.</p> <p>Detailed work commenced last year and is continuing through a number of Transformation, Finance and HR working groups.</p> <p>The CCG is in formal financial recovery with a plan that has been agreed by GM Health and social Care Partnership and the CCG Governing Body.</p> <p>It is acknowledged that there are significant risks, including financial, reputational, technological and cultural attached to the integration.</p> <p>The opportunities which are likely to be derived include:</p> <ul style="list-style-type: none"> <li>• More effective commissioning;</li> </ul>

				<ul style="list-style-type: none"> <li>• Integrated service offering to the residents of Trafford;</li> <li>• Financial cost savings, and</li> <li>• Improved service offering to residents.</li> </ul> <p>Action plans are in operation for each of the nine Domains.</p>
2	<p>The Council does not fulfil its statutory duties and all accompanying policy requirements in terms of identifying and safeguarding vulnerable children.</p> <p>(Children's Services / Children's Services).</p>	<p><b>15</b> <b>Medium</b> (No change).</p>		<p>There is a Sustainability Process in place to change delivery models within Children's Social Care. Child Protection numbers have now stabilised to a more manageable level. Children in Care numbers continue to be high but have now levelled. We have had some churn in our system and delays in recruitment. This, along with the increases we have experienced, have put pressure on social worker caseloads and created pressures within the system generally. These increases are monitored and managed through moving staff or use of agency staff whenever possible.</p> <p>Our temporary Multi-Agency Review and Improvement Team as part of our Sustainability programme is helping the service review existing practice and drive improvements to our approaches to improve outcomes and significantly contributed towards our positive Ofsted outcome.</p> <p>A new set of Inspection Frameworks now apply to Children's Services. We will now be subject to three different unannounced inspection processes over the next three years. The focussed 'visit' from Ofsted in July 2018 was positive and praised strong leadership at council level and strong multi agency working.</p> <p>There are also changes for both the Children's and Adults Safeguarding Boards with a Joint Board Chair for both children and adults. The Safeguarding Board staff team have been through a formal Consultation to make them into one team and gaps are now being recruited to.</p> <p>Measures:</p> <ul style="list-style-type: none"> <li>• Monthly meetings of the Director of Children's Services Safeguarding Group.</li> <li>• Biannual safeguarding children assurance meetings with the Chief Executive, Leader and Executive Member.</li> <li>• Rigorous Performance Management and Quality Assurance through robust leadership processes.</li> </ul>

3	<p>Demand for school places underestimated and/ or additional school places are not delivered to satisfy increased demand.</p> <p>(Children's Services / Children's Services).</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<ul style="list-style-type: none"> <li>• In the 2018 admission round all Trafford children have been allocated places within the current provision. The demand for primary and secondary school places continues to be monitored and capital resources allocated to ensure sufficient places are provided to meet our statutory duty.</li> <li>• All basic need funding has been allocated up to March 2018.</li> <li>• There was no basic need funding from the Department for Education (DfE) for 2018/19, the first year the LA had received a £0 allocation. Indicative basic need funding for 2019/2020 is £18m. There is no basic need funding for 2020/21.</li> <li>• Public consultation for how Special Educational Needs and Disability (SEND) Provision Capital Funding allocation of £1.27m for 2018-2021 can be spent to create new places or improve facilities in existing provision has been completed focusing on 6 schemes.</li> </ul>
4	<p>Continuing uncertainty regarding the Council's medium term financial position given the reliance that exists on support from Central Government, cost pressures within the existing budget and major changes in the administration of Business Rates resulting in a greater risk being transferred to local government.</p> <p>(Finance &amp; Systems / Finance).</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<ul style="list-style-type: none"> <li>• The 2018/19 budget was agreed on 21st February 2018, the Council agreed the 2018/19 budget of £164.25m.</li> <li>• The funding gap addressed for 2018/19 was £22.9 caused by overall cost pressures of £13.3m and funding reductions of £9.6m have contributed to the gap and these include additional client demand pressures in social care services.</li> <li>• The budget gap in 2018/19 was met by a combination of new funding and income of £17m, including:- <ul style="list-style-type: none"> <li>○ A 4.99% increase in the council tax (2.99% general increase and 2% for adult social care) and increase in tax base £6m;</li> <li>○ Additional business rate revenues (mainly from the 100% GM pilot) £5.4m;</li> <li>○ Net income from investment properties £1.2m;</li> <li>○ Additional MAG dividends and shareholder loan returns £1.6m;</li> <li>○ Use of Budget Support Reserve £1.6m;</li> <li>○ Other £1.2m, and;</li> <li>○ continuation of savings programmes of £6m.</li> </ul> </li> <li>• The 2018/19 budget monitoring position as at period 4 indicates a projected overspend of £1.96m, albeit a cautious position is being taken at this stage as a number of contingency budget remain which should help mitigate this as the year progresses. Despite this, provision</li> </ul>

				<p>has been included in budget plans for 2019/20 to reflect this position.</p> <ul style="list-style-type: none"> <li>• Work is ongoing to develop balanced budget proposals for 2019/20 and these will be presented to the Executive on 15 October 2018.</li> <li>• The next few years is likely to give rise to significant turbulence due to national changes in the way resources are distributed to local government from 2020/21 as well as significant changes to the business rate retention system which will move to a 75% retention scheme from 2020/21. The volatility this could cause is steering the Council's reserves strategy to provide cushion in the event that the council's baseline funding or previously retained growth in business rates income is reduced.</li> </ul>
5	<p>Loss / absence and retention of senior managers to the organisation.</p> <p>(People / Equalities and Partnerships).</p>	<p><b>15</b> <b>Medium</b> (No change).</p>		<ul style="list-style-type: none"> <li>• A review of the senior leadership structure is underway to ensure there is sufficient leadership capacity in the organisation.</li> <li>• Strengthening of the senior leadership team - introduction of new roles and new appointments will be made to Corporate and Directorate level roles.</li> <li>• A number of interim internal 'act-up' arrangements are in place, again aiding succession planning, pending permanent appointments while we transition to new delivery models.</li> <li>• Leadership development &amp; coaching for all managers/senior managers across the organisation to support them in leading and engaging their staff through transformational change and Vision 2031.</li> <li>• A succession planning strategy is being rolled out that formalises an approach to ensure that key skills are not lost to the Council, whilst up-skilling staff to take on higher graded roles. Successors will be identified at senior manager level and targeted development initiatives provided to ensure that we are equipped to flex our workforce to react to resource and skills gaps. Each successor will also have access to a coach.</li> <li>• Leadership behaviours are being developed in line with #Leading GM expectations and Trafford's Vision 2031.</li> <li>• Pro-active attendance management strategy developed and will be rolled out across Trafford with refreshment training for managers.</li> <li>• A Health &amp; Well-being strategy is in place with actions to maintain and improve employee</li> </ul>

6	<p>Trafford Council must ensure that information held about citizens, employees, partners, contractors, members and organisations in Trafford is safe in their hands. To be able to assure its partners and the public that this is the case they need to demonstrate that they are handling personal/ sensitive and commercial data securely both in technology and physical terms. They also need to ensure that 3<sup>rd</sup> parties acting on their behalf are handling their data sets in accordance with Trafford Council's policies and procedures. This is a corporate risk and the risk to the Council is reputational, financial, adverse publicity and could ultimately be a breach of the Data Protection Act.</p> <p>(Governance &amp; Community Strategy / Constitutional Reform and Resident Engagement).</p>	<p><b>15</b> <b>Medium</b>  (No change).</p>		<p>morale and well-being.</p> <ul style="list-style-type: none"> <li>• Citizens and businesses have a right to expect data held about them to be treated in a secure manner and only shared on a need to know basis.</li> <li>• Employees, Partners, Contractors and members have the right to expect data held about them to be treated in a secure manner.</li> <li>• Trafford Council have a responsibility to protect their data and information.</li> <li>• The Council has a dedicated Corporate Information Governance (IG) team which provides advice and guidance in relation to compliance with Data Protection and Freedom of Information legislation. It also investigates data security breaches and reports these monthly to the ISGB and quarterly to CLT, providing services concerned with recommendations to improve their working practices. The IG team structure has been reviewed because of increased workload with more resources due to be allocated to the team. A new IG Manager is due to start in December 2018.</li> <li>• The Council has an Information Security Governance Board (ISGB), which is comprised of officers from key service areas across the council who “champion” good information governance practice within their Directorates. The ISGB has a terms of reference which provides a direct reporting line to the CLT, underlining the importance of information governance and information security within the Council. The ISGB takes the corporate lead on all data protection related matters and in progressing the embedding of information governance into the Council’s day to day activities. Progress on the ISGB’s information governance work plan is reported fortnightly to CLT.</li> <li>• The Council achieved “reasonable assurance”, the second highest level awarded, in the, voluntary information governance audit performed by the Information Commissioner’s Office (ICO) during January 2017.</li> <li>• Progress has been made and continues with implementing the various changes as a result of the General Data Protection Regulations (GDPR) and Data Protection Act 2018.</li> <li>• Council integration with Trafford CCG will enable a “pooling” of IG resources from both organisations to bring a holistic approach to</li> </ul>
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				<p>address the challenges and changes the new data protection laws bring.</p> <ul style="list-style-type: none"> <li>The Council has appointed a Data Protection Officer, a mandatory requirement under GDPR.</li> </ul>
7	<p>University Academy 92: failure to implement programme and achieve possible benefits this may bring in terms of regeneration around Stretford and Old Trafford.</p> <p>(Authority wide - Place) / (Investment, Regeneration and Strategic Planning).</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<p>University Academy 92 (UA92) was launched in September 2017 to establish a new model of university by bringing together the best of academia, business and sport. It is a unique collaboration involving the Class of 92, Lancaster University, Microsoft, Trafford College and Bruntwood as well as Trafford Council. Other supporters of UA92 and the regeneration in the Trafford area include Lancashire County Cricket Club and Manchester United Football Club.</p> <p>Trafford Council believe UA92 will help regenerate the area around Stretford and Old Trafford as it presents a fantastic opportunity to revitalise and support local communities to maximise their potential. UA92 aims to create jobs and attract 6,500 students by 2028.</p> <p>This programme comprises of a number of facets including the university campus, student accommodation and Stretford leisure centre. Each of these aspects are being considered individually as well as part of the overall programme. Mitigation arrangements are in place in the event of failure of any part of the programme. For example, Stretford Leisure refurbishment will continue regardless of the university as this is also a community asset.</p> <p>The Executive have approved the Council entering into an options agreement for Westpoint for the provision of student accommodation for year one (and up to three years) and the Council will work to enable the development/provision of new student accommodation.</p>
8	<p>A successful Cyber Security Attack could lead to sensitive data being compromised, denial of access to the Council's computing services or severe degradation or loss of control of those services.</p> <p>(Finance &amp; Systems / Constitutional</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<p>The volume and sophistication of cyber-attacks continues to increase as it is a low risk and lucrative form of crime, and there is considerable 'state actors' and 'bedroom hackers' activity. Trafford Council has a number of technical solutions and processes in place to protect IT systems and data from cyber-attack. There remains a significant risk that the Council's defences could be breached even with effective tools and approaches in place, so it is equally important to ensure the processes for dealing with an attack are effective.</p> <p>A review of the Council's cyber security technical</p>

	Reform and Resident Engagement).			<p>solutions and processes will be undertaken during the development of the Council's Digital Strategy. The review will assess whether the existing defences remain proportionate as services and public interaction becomes more digital. The outcome and recommendations of the review are expected in January 2019.</p> <p>Some of the existing controls include:</p> <ul style="list-style-type: none"> <li>• All information sources and systems within the Council should have an identified information asset owner following the implementation of the General Data Protection Regulations (GDPR) in May 18.</li> <li>• Trafford is actively collaborating and sharing information about potential cyber threats through the iNetwork North West Warning, Advice and Reporting Point community and nationally with the NHS CareCert service.</li> <li>• The Network People (TNP) have been procured to provide Trafford Council with specialist security advice to help develop, manage and monitor Trafford's security defences and incident response.</li> <li>• Public Services Network (PSN) compliance is maintained which includes annual vulnerability penetration testing of both the internal and external networks.</li> </ul>
9	<p>Failure of the Adult Safeguarding Service.</p> <p>(Adult Services / Adult Social Care).</p>	<p><b>12</b> <b>Medium</b></p> <p>(No change).</p>		<ul style="list-style-type: none"> <li>• The Director of Safeguarding and Professional Development has been recruited to on an interim basis (whilst CR acts up to Director for Children's Services) is in role and the standard of safeguarding for adults and children continues to be managed centrally through this role.</li> <li>• Serious Case Review Panel (Adults) reviewed and in place, has completed several Learning Reviews, a Safeguarding Adults Review (SAR) has been published, more SAR's have now been commissioned and Independent Authors procured. Learning from these processes will be rolled out to staff. Learning review sessions are being delivered to staff across ASC.</li> <li>• The process of handling provider notifications is being revised end of October. The notifications will be sent to the Commissioning team giving grater oversight of issues across the care market.</li> <li>• As part of the adult improvement programme all referrals into Screening are immediately risk assessed and Safeguarding referrals are</li> </ul>

				<p>prioritised. Jointly with children’s services and GMP.</p> <ul style="list-style-type: none"> <li>• There is a discrete Adult Protection Line for members of the public to directly contact social care to raise safeguarding concerns.</li> <li>• There are advanced plans for Greater Manchester Police (GMP) officers to co-locate with the Screening Team to enhance our response to safeguarding referrals. Daily meetings between the Screening team and the Police are in place.</li> <li>• Mental Capacity Act (MCA) and Deprivation of Liberty Safeguards (DoLS) e-learning available for all staff and use is monitored.</li> <li>• Increased demand presenting at the front door is being managed with additional staff capacity and daily risk management reviews.</li> <li>• Member training is in development regarding safeguarding –expected to be delivered early November.</li> <li>• All deprivation of liberty safeguarding assessments are now allocated immediately due to changes in process and improved staffing arrangements.</li> <li>• Peer review completed with Rochdale safeguarding board .Action plan in place to address agreed areas for improvement.</li> <li>• Additional resources agreed to complete the applications to the court of protection for community deprivation arrangements. Due to start towards Christmas 2018.</li> </ul>
10	<p>Breach of health and safety legislation leading to prosecution under the Corporate Manslaughter Act and other Health and Safety Regulations.</p> <p>(People / Equalities and Partnerships).</p>	<p><b>10</b> <b>Medium</b> (No change).</p>		<ul style="list-style-type: none"> <li>• Current Health &amp; Safety Policy and comprehensive arrangements in place. Subject to periodic review as required and available to the workforce via the intranet.</li> <li>• Health and Safety Audit programme in place across all Directorates and schools. This programme includes proactive monitoring of compliance with health &amp; safety law and internal H&amp;S management arrangements.</li> <li>• Policy, arrangements, protocols and guidance for Directorates and schools updated to reflect legislative or organisational changes and any new or emerging risks (in addition, a targeted rolling programme is ongoing).</li> <li>• Health &amp; Safety Unit (HSU) support in the comprehensive assessment and investigation, where required, of health and safety issues or incidents. Facilitates the effective management of risk and statutory compliance.</li> <li>• HSU support in responding to occupational health and workforce referrals to ensure the</li> </ul>

				<p>health, safety and welfare of staff.</p> <ul style="list-style-type: none"> <li>• Staff consultation processes in place to report and liaise on Health and Safety performance issues.</li> <li>• Competent HSU advisory service with advisors subject to continuing professional development requirements.</li> <li>• Employee Health and Wellbeing Strategy in place which incorporates ill health reduction and mental wellbeing support.</li> <li>• Training calendar in place and online training available to support managers and schools in ensuring staff are competent to undertake tasks/role.</li> <li>• Arrangements in place for the health and safety assessment of providers/contractors prior to approval and for subsequent monitoring of performance.</li> <li>• HSU engagement in Health, Safety and Welfare issues relating to the Council's Corporate and Let Estate through Corporate Landlord</li> </ul>
11	<p>Joint Venture partner fails to deliver services to the required standard or fails to deliver required efficiency savings.</p> <p>(Place / Environment, Air Quality and Climate Change).</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<ul style="list-style-type: none"> <li>• Third year of contract completed. Increasing number of service issues identified and public perception negative. Additional staffing has been brought into the client team to enhance contract management.</li> <li>• New measures put in place by Amey with additional resources. Independent validation of Key Performance Indicators (KPI) and Job records by Trafford Council on-going. This has been done across the contract but with a particular focus on domestic waste, greenspace and highways maintenance services.</li> <li>• KPIs monitored on a monthly basis, and control and auditing mechanisms reviewed.</li> <li>• Capital programme delivery is currently on target for highways.</li> <li>• Out turn KPIs for 2017/18 not agreed as yet and negotiations underway on the level of deductions.</li> <li>• New client team structure agreed and recruitment underway. Current vacancy for OTP Director being recruited into both interim and permanent.</li> </ul>
12	<p>The Programme Savings are not delivered in full.</p> <p>(Finance and Systems / Leader).</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<ul style="list-style-type: none"> <li>• Robust governance is in place, with greater scrutiny at theme level, and progress reported through to Corporate Leadership Team (CLT)</li> <li>• A review of programme management is underway that will pick up the interdependencies between the Council and the CCG as well as Place Shaping.</li> </ul>

				<ul style="list-style-type: none"> <li>The CLT continue to support understanding of and engagement in the programmes, to secure support for it and to continue to the original plan with minimal disruption. CLT and Senior Responsible Officers work closely to identify risks and dependencies to the projects and programme outcomes at the earliest opportunity and identify appropriate mitigations plans.</li> <li>Exceptions to plan are escalated to CLT.</li> </ul>																																																								
13	<p>Investment Strategy (Finance &amp; Systems / Investment, Regeneration and Strategic Planning).</p> <p>(Previously Strategic Risk 15)</p>	<p><b>15</b> <b>Medium</b></p> <p>(No change).</p>		<ul style="list-style-type: none"> <li>Since the Executive approved the Investment Strategy in July 2017 and the Investment Fund of £300m, a number of key acquisitions have been completed of revenue generating commercial properties. The returns from this approach have been sufficient to repay borrowing costs and provide a net return to support the revenue budget.</li> <li>In addition the Council will provide development debt where it will be senior lender on some major regeneration projects in the local areas generating a net interest return.</li> <li>To mitigate the risks of the approach nationally recognised investment advisors are being used as part of the due diligence process with emphasis placed on securing investments in low risk assets.</li> <li>Further risk mitigation is being undertaken through the creation of a “Risk Reserve” through the ring-fencing of an element of the returns and an allowance for debt repayment (in accordance with national regulations). All investments are scrutinised by an Investment Management Board which includes cross-party representation.</li> <li>To date nearly £180m has been committed on a range of debt finance arrangements and commercial property purchases, yielding an average net return of 2%:-</li> </ul> <table border="1" data-bbox="927 1444 1518 1829"> <thead> <tr> <th>Table 8 : Capital Investment Strategy</th> <th>2017/18 £m</th> <th>2018/19 £m</th> <th>Total £m</th> </tr> </thead> <tbody> <tr> <td><b>Total Investment Fund</b></td> <td></td> <td></td> <td><b>300.00</b></td> </tr> <tr> <td>Activity to date :</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Projected Cost</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>K Site, Talbot Rd, Stretford</td> <td>1.24</td> <td>25.17</td> <td>26.41</td> </tr> <tr> <td>Sonova House, Warrington</td> <td>12.17</td> <td></td> <td>12.17</td> </tr> <tr> <td>DSG, Preston</td> <td>17.39</td> <td></td> <td>17.39</td> </tr> <tr> <td>Grafton Centre incl. Travelodge Hotel, Altrincham</td> <td>10.84</td> <td></td> <td>10.84</td> </tr> <tr> <td>No. 1, Old Trafford : Debt financing for residential development</td> <td>3.13</td> <td>37.77</td> <td>40.90</td> </tr> <tr> <td>Brown Street, Hale</td> <td></td> <td>6.21</td> <td>6.21</td> </tr> <tr> <td>Trafford Magistrates Court, Sale</td> <td></td> <td>4.30</td> <td>4.30</td> </tr> <tr> <td>The Crescent, Salford : Debt financing for residential development</td> <td></td> <td>60.80</td> <td>60.80</td> </tr> <tr> <td><b>Total investments</b></td> <td><b>44.77</b></td> <td><b>134.25</b></td> <td><b>179.02</b></td> </tr> <tr> <td><b>Balance available</b></td> <td></td> <td></td> <td><b>120.98</b></td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>When evaluating potential opportunities</li> </ul>	Table 8 : Capital Investment Strategy	2017/18 £m	2018/19 £m	Total £m	<b>Total Investment Fund</b>			<b>300.00</b>	Activity to date :				<b>Projected Cost</b>				K Site, Talbot Rd, Stretford	1.24	25.17	26.41	Sonova House, Warrington	12.17		12.17	DSG, Preston	17.39		17.39	Grafton Centre incl. Travelodge Hotel, Altrincham	10.84		10.84	No. 1, Old Trafford : Debt financing for residential development	3.13	37.77	40.90	Brown Street, Hale		6.21	6.21	Trafford Magistrates Court, Sale		4.30	4.30	The Crescent, Salford : Debt financing for residential development		60.80	60.80	<b>Total investments</b>	<b>44.77</b>	<b>134.25</b>	<b>179.02</b>	<b>Balance available</b>			<b>120.98</b>
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				<p>extensive legal and property due diligence is undertaken which places a significant emphasis on security and liquidity and includes for example an assessment of the financial strength of the tenants and market sector, length of unexpired lease, location, asset condition and residual land value.</p> <ul style="list-style-type: none"> <li>• Each year there will be performance monitoring of each investment to ensure it is still consistent with the investment strategy. In addition an annual valuation will be undertaken to assess the current capital value of the asset and this will be used to determine whether the right level of debt repayment is being made. It is inevitable there will be changes in valuation year on year but the risks of downward movements in value are being mitigated through a diversified portfolio of assets.</li> <li>• The approach to these strategic investments is currently being reviewed and an updated Investment Strategy will be presented to Executive shortly.</li> </ul>
14	<p>Failure to complete the Business Continuity (BC) Programme Project, resulting in an increased risk that the Council may fail to deliver Council services in the event of significant disruption.</p> <p>(Authority-wide / Constitutional Reform and Resident Engagement).</p>	<p><b>10</b> <b>Medium</b> (No change).</p>		<ul style="list-style-type: none"> <li>• The Emergency Planning Manager maintains a RAG rating for Business Impact Analysis (BIA) completion across all services which is reported to Directors quarterly. There are still gaps in completion. At its last meeting TPR agreed that an annual staggered programme for BIA review and refresh should be devised so that they are not all due at once and so it is easier for Directors to maintain an overview of performance across their services.</li> <li>• Contractual requirements on external providers have business continuity plans in place.</li> <li>• Trafford are considering options for improved IT disaster recovery as the current site at Sale Waterside is inadequate. Identification of a preferred option is expected by the end of October and implementation is planned for April 2019.</li> <li>• The Council's Digital Strategy is in development and will consider wider adoption of cloud hosting, which should provide greater resilience and disaster recovery capabilities.</li> <li>• Mobile Telephone Privileged Access Scheme (MTPAS) – Priority access to telecommunications has been reviewed to ensure capability during incidents. Numbers and update processes are now fully functional and up to date.</li> <li>• Underuse of Resilience Direct, is a national web based portal endorsed by the Cabinet</li> </ul>

			<p>Office. Emergency Planning Manager to increase usage. All Greater Manchester and Control of Major accidents Hazards (COMAH) plans are now accessed through the portal. All Forward incident Officers (FIO) and Duty Directors are registered.</p> <ul style="list-style-type: none"> <li>• The integration between Trafford Council and Trafford CCG and the required fundamental organisation and service redesign pose additional risks around Emergency Planning and Business Continuity. Full oversight of CCG rota has now fully transitioned. Business Continuity still remains with the CCG. This work sits with the CCG Transitions Programme.</li> </ul> <p><i>Refer also to the comments regarding Risk 8.</i></p>
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\*\* Note: This indicates the direction of travel in respect of performance in managing the risk and not direction of travel of the risk level.

<b>Key:</b>	
	= Improvement in management of the risk.
	= No change in management of the risk.
	= Deterioration in management of the risk.

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## TRAFFORD COUNCIL

**Report to:** Accounts and Audit Committee  
**Date:** 31 October 2018  
**Report for:** Information  
**Report of:** Audit and Assurance Manager

### Report Title

**Accounts and Audit Committee – Work Programme – 2018/19**

### Summary

**This report sets out the work plan for the Committee for the 2018/19 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 2018/19 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
20 June 2018  Page 88	Agree Committee's Work Programme for 2018/19 (including consideration of training and development). Training & Development/Presentation - Draft accounts (Provided outside of the Committee on 28 June 2018)					
	- 2017/18 Head of Internal Audit Annual Report	- Audit Progress Report – 2017/18 Audit (Grant Thornton) - Introduction from External Auditors for the 2018/19 accounts (Mazars)		- 2017/18 draft Annual Governance Statement - Corporate Governance Code - Accounts and Audit Committee 2017/18 Annual Report to Council		-Treasury Management update (Annual Performance Report 2017/18) -2017/18 Revenue Budget Monitoring Outturn and Capital Investment Programme Outturn reports (to be circulated outside of the meeting by the end of June 2018).
30 July 2018		- 2017/18 Audit Findings Report (Grant Thornton)		- 2017/18 Annual Governance Statement (final version) - Corporate Governance Code.	- Counter Fraud and Enforcement Team Annual Report 2017/18	- Approval of Annual Statement of Accounts 2017/18 - Budget Monitoring Report (Period 2 2018/19)

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31 October 2018	(Note: Training session on Treasury Management was provided outside of the Committee on 16 October 2018.					
Page 19	- Internal Audit monitoring report	- 2017/18 Annual Audit Letter (Grant Thornton) - Audit Update (Mazars)	- Strategic Risk Register Monitoring Report - Insurance Performance Report 2017/18			- Treasury Management : 2018/19 mid- year performance report - Budget Monitoring Reports (Period 4 and Period 6 2018/19 reports to be circulated to Members outside of meeting in September and November 2018 respectively).
	- Internal Audit monitoring report	-Grant Claims summary (Grant Thornton) - Audit Update (Mazars)		- Report on arrangements for 2018/19 Annual Governance Statement.	(Fraud update, including National Fraud Initiative update, within Internal Audit monitoring report).	- Treasury Management Strategy - Budget Monitoring Report (Period 8 2018/19).
26 March 2019	- 2019/20 Internal Audit Plan	- Audit Plan / update (Mazars)	- Strategic Risk Register Monitoring Report			- Budget Monitoring Report (Period 10 2018/19). - Procurement update (STAR Shared Procurement Service)

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