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TRAFFORD
COUNCIL

AGENDA PAPERS FOR

ACCOUNTS AND AUDIT COMMITTEE

Date: Tuesday, 7 February 2017

Time: 6.30 p.m.

Place: Meeting Room 9, Trafford Town Hall, Talbot Road, Stretford, M32 0TH

	A G E N D A	**PART I**	**Pages**
1.	**ATTENDANCES**		
	To note attendances, including Officers and any apologies for absence.		
2.	**MINUTES**		
	To receive and if so determined, to approve as a correct record the Minutes of the meeting held on 23 November, 2016.		1 - 6
3.	**ANNUAL GOVERNANCE STATEMENT 2015/16 - UPDATE ON SIGNIFICANT GOVERNANCE ISSUE : RESHAPING TRAFFORD**		
	To receive a report of the Corporate Director, Transformation and Resources.		7 - 12
4.	**TREASURY MANAGEMENT STRATEGY 2017/18 - 2019/20**		
	To consider a report of the Executive Member for Finance and Chief Finance Officer.		13 - 38
5.	**ANNUAL GOVERNANCE STATEMENT 2016/17 - APPROACH / TIMETABLE**		
	To receive a report of the Audit and Assurance Manager.		39 - 46
6.	**ACCOUNTS AND AUDIT COMMITTEE PROGRESS REPORT AND UPDATE (JANUARY 2017)**		
	To receive a report from the Council's External Auditor.		47 - 68

11. **URGENT BUSINESS (IF ANY)**

Any other item or items which by reason of special circumstances (to be specified) the Chairman of the meeting is of the opinion should be considered at this meeting as a matter of urgency.

THERESA GRANT
Chief Executive

Membership of the Committee

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

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

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

This agenda was issued on **Monday, 30 January 2017** 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

23 NOVEMBER 2016

PRESENT

Councillor J. Coupe (in the Chair).
Councillors P. Lally (Vice-Chairman), J. Baugh, C. Boyes, B. Brotherton and T. Ross

In attendance

Interim Head of Financial Management	(G. Bentley)
Audit and Assurance Manager	(M. Foster)
Democratic & Scrutiny Officer	(C. Gaffey)

Also in attendance
H. Stevenson, Grant Thornton UK LLP

APOLOGIES

Apologies for absence were received from Councillors A. Mitchell

25. MINUTES

RESOLVED: That the Minutes of the meeting held on 29 September 2016, be approved as a correct record and signed by the Chairman.

26. TREASURY MANAGEMENT 2016-17 MID-YEAR PERFORMANCE REPORT

The Committee received a report of the Executive Member for Finance and the Chief Finance Officer providing a summarised account of the Treasury Management activities and outturn for the first half of the 2016/17 financial year. It was agreed that Members would be provided with Treasury Management training before the next meeting scheduled for February 2017.

The report provided Members with an economic update, discussing the possible implications of Brexit and interest rates changes. Members were reminded of the upcoming pension fund transaction which should be completed in April 2017, and the Council's overachievement in investment activities mentioned in paragraph 5.4 was highlighted.

Members were given the opportunity to ask questions, and discussions took place around temporary investments and the savings associated with the pension investment transaction.

RESOLVED: That the report be noted.

27. ANNUAL AUDIT LETTER 2015/16

The Committee received the Council's Annual Audit Letter for the year ending 31 March 2016, summarising the key findings arising from the work of the External Auditor, Grant Thornton. The report highlighted the summary of reports issued and fees charged. It was noted that the certificate of closure was issued on 18 October 2016.

Members discussed the highways network assets and how these were valued.

RESOLVED: That the report be noted.

28. PROGRESS AND UPDATE REPORT FOR TRAFFORD COUNCIL

Members received a report of Grant Thornton UK LLP on the progress at November 2016 in delivering its responsibilities as the Authority's external auditor. The report also highlighted key emerging national issues and developments and a number of challenge questions in respect of the emerging issues.

Members were advised that there was no change to the planned scope of work, which would be the same for 2017/18. The Audit Plan would be brought to the Accounts & Audit Committee meeting scheduled for March 2017.

RESOLVED: That the report be noted.

29. OPTIONS FOR APPOINTMENT OF EXTERNAL AUDITOR

The Committee received a report of the Chief Finance Officer detailing the options for the provision of external audit services from 2018/19. The appointment of the external auditor would need to be completed by 31 December 2017.

Members were advised of the options available. It was recommended that the Committee delegate to the Chairman of the Audit and Accounts Committee, under advice from the Chief Finance Officer, to agree the final recommendation to be made to Full Council before March 2017. From the options available, the current preferred option would be to establish a local joint procurement arrangement with the Greater Manchester Combined Authority, enabling the Council to benefit from economies of scale. It was noted that the Chief Finance Officer would provide the Committee with further updates at future meetings.

RESOLVED:

1) That the proposal for the establishment of a local joint procurement arrangement with GMCA and other neighbouring authorities for the provision of external audit services from 2017/18 be noted.

2) That the decision on the final recommendation made to Full Council before March 2017 be delegated to the Chair of the Audit and Accounts Committee, under advice from the Chief Finance Officer.

30. STRATEGIC RISK REGISTER - 2016/17 (OCTOBER 2016 UPDATE)

The Committee received a report of the Audit and Assurance manager providing an update on the strategic risk environment and setting out developments relating to the management of each of the Council's strategic risks. A further update would be provided at the meeting scheduled for March 2017.

Members raised their concerns about the direction of travel for risk 2 in relation to Children's Services and requested that more information on this be made available. The Audit & Assurance Manager agreed to provide Members with the information requested and advised that Members' concerns would be relayed to the Children, Families and Wellbeing Directorate following the meeting.

Members also requested further information in relation to the One Trafford Partnership and its progress. The Democratic and Scrutiny Officer agreed to circulate information relating to an ongoing Scrutiny Committee task and finish group review of the Partnership and its progress to Committee Members following the meeting.

RESOLVED:

1) That the report be noted.

2) That The Audit and Assurance Manager provide Members with further information on risk 2.

3) That the Democratic and Scrutiny Officer provide Members with an update on the Scrutiny Committee review of the One Trafford Partnership.

31. FRAUD REPORTING: AWARENESS RAISING

The Committee received a report of the Audit and Assurance Manager providing an update on recent developments in respect of the use of the Council website to report fraud and plans to raise awareness of this. The Counter Fraud and Enforcement Team would receive these referrals and periodically report back to the Committee. Members suggested that a flier be included with upcoming council tax bills to help promote the new site.

Existing anti-fraud related policies and guidance documents would be updated accordingly and brought to the Committee in March 2017.

RESOLVED: That the report be noted.

32. AUDIT AND ASSURANCE REPORT FOR THE PERIOD JULY TO SEPTEMBER 2016

The Committee received a report of the Audit and Assurance Manager providing a summary of the work of Audit and Assurance during the period July to September 2016. The report also provided ongoing assurance to the Council on the adequacy of its control environment.

In respect of the final reports issued, 6 of the 7 reviews received a rating of at least 'adequate' (Medium or above), with one review rated as 'less than adequate' (Low/Medium opinion), which would be followed up later in 2016/17. The Council would continue to monitor the IT control issues previously raised by the external auditor, and a further Audit and Assurance report would be brought to the Committee at the end of the financial year.

Members were reminded of the Information Commissioners Office Audit of the Council scheduled for January 2017.

RESOLVED: That the report be noted.

33. BUDGET MONITORING 2016/17 - PERIOD 6 (APRIL TO SEPTEMBER 2016)

The Committee received a report of the Executive Member for Finance and the Chief Finance Officer informing Members of the current 2016/17 forecast outturn figures relating to both Revenue and Capital budgets. The report also summarised the latest forecast position for Council Tax and Business Rates within the Collection Fund.

Members were advised of the forecasted overspend of £214k, mostly relating to the significant in year pressures in social care. It was noted that this was a national trend and not unique to Trafford. The overspend would be mitigated through savings made in the Economic Growth, Environment and Infrastructure and Transformation and Resources budgets, mostly achieved through vacancy management. Members requested more information on these vacancies, which the Interim Head of Financial Management agreed to provide after the meeting.

The status and progress of projects were highlighted as part of the report. It was noted that 98 per cent of the budget was now spent, committed or programmed to start in the financial year.

RESOLVED: That the report be noted.

34. ACCOUNTS AND AUDIT COMMITTEE - WORK PROGRAMME - 2016/17

The Committee received a report of the Audit and Assurance Manager setting out the updated work plan for the Committee for the 2016/17 municipal year. It was noted that the treasury management training discussed in minute 26 would be reflected in the work programme.

RESOLVED: That the report be noted.

35. URGENT BUSINESS (IF ANY)

(a) Approval of Accounts

[The Chairman agreed to accept this item as a matter of urgent business to allow a timely update on the situation to Members]

Members were advised of the upcoming changes to the deadlines for the submitting and approval of accounts. For the accounts for the financial year 2017/18 and each year onwards, local authorities’ accounts would need to be approved by 31 July, as opposed to the current deadline of 30 September. Members would still be provided with the required training, although this might occur after the audit stage. Members would be provided with a further update in due course.

(b) Autumn Statement

[The Chairman agreed to accept this item as a matter of urgent business to allow a timely update on the situation to Members]

Members were provided with a briefing following the autumn statement made earlier in the day. It was noted that the National Living Wage would be set to £7.50 an hour for 2017/18, which was lower than the amount previously quoted. There would be a harmonisation of National Insurance rates which would have minor adverse effects, and changes would be made to salary sacrifice scheme benefits. Members would be provided with more information when it became available.

The meeting commenced at 6.30 pm and finished at 7.30 pm

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TRAFFORD COUNCIL

Report to: **Accounts and Audit Committee**
Date: **7 February 2016**
Report for: **Information**
Report of: **Joanne Hyde, Corporate Director of Transformation & Resources**

Report Title

Annual Governance Statement 2015/16 – update on significant governance issue : Reshaping Trafford

Summary

This report includes an extract from the 2015/16 Annual Governance Statement outlining one of the significant governance issues identified for further development through 2016/17 – Reshaping Trafford. It provides the Committee with an update on developments in this area and further work planned.

Recommendation

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

Contact person for access to background papers and further information:

Name: Sarah Maynard
Extension: x 1222

Background Papers:

2015/16 Annual Governance Statement

Annual Governance 2015/16 Statement – Significant Governance Issue: Reshaping Trafford

1. INTRODUCTION

1.1 Detailed below is an extract from the 2015/16 Annual Governance Statement in relation to one of the significant governance issues listed in the Statement i.e. Reshaping Trafford. This is followed by an update on actual progress made to date in respect of this issue.

1.2 The following detail (in italics) was included in the action plan of Section 5 of Trafford Council's 2015/16 Annual Governance Statement:

2016/17 Issues and Action Planned 2015/16
1. Reshaping Trafford *In 2016/17 there are 37 projects / programmes under 6 themes:* • *Working smarter* • *Buying better* • *Commissioning* • *Promoting Independence* • *Maximising income* • *Joined up and working together* • *Eligibility and access* *The 2016/17 Transformation saving target is £9.94m. The Benefits Realisation approach is under review now to build on learning from within the CFW Directorate to wider arrangements.* *<u>GMP HR Collaboration</u>* *This is now in the 'construct' phase, staff consultation with all parties has been concluded and it is planned the service will begin operation in late summer 2016. A number of other organisations have expressed interest in joining and these opportunities will continue to be explored.* *<u>Delivery of the Trafford Locality Plan, including new place based integrated working delivery models.</u>* *The CFW programme has been supported by a leadership group. This is now under review to ensure the terms of reference are fit for the 2016/17 programme* *Trafford Council and Trafford CCG have agreed integrated commissioning priorities which align to the new Health and Wellbeing Board priorities going forward:* • *Learning Disabilities* • *Mental Health* • *Community Equipment* • *Better Care Fund*

2016/17 Issues and Action Planned 2015/16
• *Alcohol use* • *Smoking cessation* • *Reducing Physical Inactivity* *<u>Youth Trust</u>* *The new CIC Board are currently working with independent consultants red Quadrant funded by the Cabinet Office, to support Board development and develop investment and membership models, further stakeholder and young people engagements culminating in the drafting of a business plan and operating model for Year One. In addition the consultants are working with both the Trust and Trafford Council to draft an Operating Agreement which sets out the relationship and funding arrangement between the 2 organisations. This work will be completed by July 2016.*

2. UPDATED POSITION

2.1 The Transformation Programme continues to robustly support the delivery of the Council's savings. At Dec 2016, the Transformation Programme comprised 31 live projects (including a new project: Stabilise and Make Safe); 7 projects have now been closed. As at Jan 2017, we are forecasting an outturn position for the year of £3k above the transformation savings target of £9.66m (amended in Nov 2016).

2.2 A revised governance arrangement is now in place to support the programme delivery:

- Joint benefits realisation reporting by the Transformation PMO and Finance Managers
- Weekly PMO meetings with the Corporate Director of T&R and the CFO
- Fortnightly Transformation Board meetings, incorporated into CLT meetings
- Highlight reporting re-scheduled to ensure the information available to the Transformation Board is the very latest position.

2.3 During the 2016/17 period a number of projects have successfully come to fruition. On 1st April, Trafford Council and Pennine Care NHS Foundation Trust signed a partnership agreement which set out the integrated working arrangements for an all age health and social care service in Trafford. Since April a number of significant operational developments have been put in place:

- A new senior management structure for the all age service
- The 'All Age Front Door' has been established for social care, bringing together the children's MARAT service and Adult Screening Team
- Ascot House has become an intermediate care facility
- Implementation of ICT applications and hardware which enable efficient practice and integrated working (agile working, Liquid Logic, ContrOCC and integrations with the Care Coordination Centre).

2.4 In order to further progress the all age model, the following is now underway:

- New ways of integrated working on a locality basis will be tested during a 'Proof of Concept' which will go live in the North neighbourhood in the Spring.
- A 'reshaping children and families programme' is being developed to manage the increasing demand and costs in LAC.
- Implementation of 'innovation sites' is underway to test the '3 conversation model' which is a new asset based delivery model in adult social care.

2.5 In addition, other service developments have also been delivered across the CFW directorate:

- Stabilise and Make Safe (SAMS)
- Aids and Adaptations
- Supported Living
- Public Health
- Rapid Response

2.6 Time is set aside on a monthly basis for a CFW Programme Leadership meeting which meets as required.

2.7 Supported by Trafford Council, Greater Manchester Police (GMP) embarked on a programme to transform its HR function to provide a more streamlined, cost effective and higher quality service to meet the needs of its officers and staff. A soft launch of the new service: Greater Manchester Shared Service with collocated staff at Trafford Town Hall went live Dec 2017. It is anticipated that the service will formally 'go-live' in March 2017.

2.8 Trafford Youth Trust (also known as Trust Youth Trafford) commenced operations in July 2016 with the management of Trafford Council youth service contracts becoming the responsibility of the trust's directors. The trust is currently governed by 11 directors, including 4 representatives from Trafford Council. To date the trust has awarded £210,000 funding, to deliver a mix of 7 targeted and universal services throughout the borough, managed by 6 providers. Young people living across each of the council's localities have access to one or more services. 2016/17 funding for youth provision has been commissioned through Trafford Council on behalf of the trust and future funding will be directly distributed through the trust.

2.9 The trust has received a total of £69,000 in donations from Trafford Housing Trust and Hotel Football.

2.10 The directors appointed Fiona Murray, as the trust's Chief Operating Officer, and she commenced employment in January 2017. Fiona's key responsibilities are to deliver against the trust's three objectives, primarily by:

- Leading the transition of the trust from a council-led to independent-led organisation, which can deliver a more coordinated youth offer for Trafford's young people
- Implementing effective strategies to increase investment in youth services across Trafford

- Efficiently deliver a robust outcomes-based fund management framework, which addresses the varying needs of Trafford's young people, whilst enhancing the capacity of the youth sector to deliver effective services
- Raise the profile of the trust and demonstrating the positive impact it delivers for Trafford's youth sector and Trafford's young people

2.11 Over the course of 2016/17 work has been undertaken by a group of senior officers to define the Council's strategy going forward. As a result, the Vision for 2031 has been drafted and is currently under review and consultation. It is envisaged that this would replace the Reshaping Trafford Programme, but formal governance processes will need to be followed to formally agree this.

3. Recommendation

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

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TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee** **Executive & Council Meetings**
Date:	**7 February 2017** **22 February 2017**
Report for:	**Decision**
Report of:	**The Executive Member for Finance and Chief Finance Officer**

Report Title

TREASURY MANAGEMENT STRATEGY 2017/18 – 2019/20

Summary

This report outlines the:-

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

Recommendations

That the Accounts & Audit Committee & Executive recommend to Council for approval the:

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

Contact person for access to background papers and further information:

Name: Graham Perkins
Extension: 4017

Background papers: None

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

Summary

The purpose of this report outlines the expected treasury management activities for the forthcoming three years and has been prepared in accordance with the Council's Financial Procedure Rules. Additional treasury management reports are produced during the course of the year reporting actual activity for the preceding year and a mid-year update.

Economic position (Appendix 2)

The World economic situation continues to be fragile and with several significant influences expected in 2017, Brexit exit terms to commence, Presidential elections in Holland, France & Germany and a new US President, the outlook is forecasted not to change from this position.

During 2016 the main economic headlines were:

- The UK's economy remains one of the strongest of the G7 nations, MPC cut the Bank Rate from 0.50% to 0.25% and at the same time increased quantitative easing by £60bn. Unemployment remained at 4.8% in October, its lowest level since July 2005;
- Italian & some German banks remain under capitalised and Spain has joined Greece in having to introduce highly unpopular austerity cuts;
- After a sluggish start to the year, the US continues to report strong positive growth and its unemployment rate fell to 4.6%, its lowest level since August 2007;
- China's reported the same quarterly growth rate for the first 3 quarters in 2016 of 6.7% leading some commentators to strongly suggest that figures are being massaged.
- Japan's growth rate remained fragile and deflation remains a major issue.

Debt (Section 3)

Borrowing interest rates are forecasted to continue at low levels during the next 12 months with only minor increases expected during this period. Any new external borrowing will be taken in order to (a) assist finance the Council's capital borrowing requirement as outlined in the 2017/20 Capital Programme report and (b) commence to address the current underborrowed position, with all associated costs being contained within the the Council's Medium Term Financial Plan.

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

Investments (See Section 5 and Appendix 3)

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

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

Prudential Indicators and limits (Section 7 and Appendix 3)

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

1. Background

1.1 The Council is required to operate a balanced budget, which means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 Another function of this service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans. On occasion any existing loans may be restructured to meet Council risk or cost objectives.

1.3 CIPFA defines treasury management as:

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

1.4 All transactions undertaken as part of the treasury management operation will comply with all the statutory requirements together with the DCLG Guidance, CIPFA Treasury Management Code of Practice which the Council has adopted. A brief outline of these has been provided at Appendix 1.

1.5 Members are required to receive, a minimum of 3 reports annually as follows;

- **Prudential and treasury indicators and treasury strategy** (February, this report) - The first, and most important report covers:
  - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time) and
  - the treasury management strategies (how the investments and borrowings are to be organised) including treasury indicators.
- **A mid-year treasury management report** – (November) - This will update members with the progress of the treasury management position, amending prudential indicators as necessary, and whether any policies require revision.
- **An annual treasury report** – This provides details of actual treasury operations undertaken in the previous year.

1.6 The above 3 reports are required to be adequately scrutinised before being recommended to the Council and this role is undertaken by the Accounts & Audit Committee.

1.7 The Council uses Capita Asset Services as its treasury management advisors who provide a range of services on all treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in employing external providers for this service in order to acquire access to specialist skills and resources and the provision of this service is subject to regular review.

1.8 Whilst the advisors provide support to the internal treasury management team, the Council recognises that the final decision on all treasury management matters remains with the organisation at all times.

1.9 The Council acknowledges the importance of ensuring that all members and staff involved in the treasury management function receive adequate training and are fully equipped to undertake the duties and responsibilities allocated to them.

1.10 In order to assist with this undertaking a member training event was provided on 30 January 2017 and access to further similar events when they occur will be made available. Officers will continue to attend courses / seminars presented by CIPFA, Advisors and any other suitable professional organisation, in accordance with Council policy on this issue.

1.11 Excluded from this report are the activities carried out by the Council's schools, which operate within separate criteria as stipulated by the Chief Finance Officer and in accordance with the Council's Financial Procedure Rules.

2. Economic & Interest Rate forecast

2.1 The general overall world economic position continues to remain in a delicate place and whilst both the UK & USA reported positive growth outturns for 2016, this has slowed during the latter part of the year in response to the decline of both China and India growth propects, uncertainty around Brexit and the new presidency of the USA.

2.2 Further details on the major economic events which occurred during 2016 and forecasts for 2017/18 are outlined at Appendix 2 for reference.

2.3 Capita produces interest rate projections periodically throughout the year and the current forecasts, up to March 2020, are highlighted in the table below;

	2016-17 Forecast %	2017-18 Forecast %	2018-19 Forecast %	2019-20 Forecast %
Bank Rate	0.28	0.25	0.25	0.63
Investment Rates (LIBID)				
3 month	0.33	0.20	0.38	0.70
1 Year	0.66	0.65	0.78	1.15
PWLB Loan Rates				
5 Year	1.17	1.10	1.20	2.25
25 Year	2.51	2.40	2.50	3.55

2.4 Over the next few years, the Council will continue to adopt a cautious approach to its treasury management activities in response to the uncertain direction the world economic situation will take and this course of action is in accordance with the guidance from Capita, the Council's treasury management advisors.

3. Debt Strategy 2017/18 – 2019/20

3.1 The Council has the powers to borrow new funds from other local authorities or the the Government using the Public Works Loan Board, (PWLB), dedicated publicly funded companies set up soley to lend funds to the public sector e.g. Salix, the Municipal Bond Agency which is currently still in the process of being set up or from financial institutions within the money market. All funds obtained will be taken in order to assist short term cash flow or finance longer term capital investment.

3.2 The table below shows the actual current levels of external debt, together with forward projections and compares this to the underlying capital borrowing need (the Capital Financing Requirement - CFR). In addition to this the Council's under-borrowing position is highlighted for reference.

	2016/17	**2017/18**	**2018/19**	**2019/20**
	Estimate £000	**Estimate £000**	**Estimate £000**	**Estimate £000**
Debt at 1 April	104,221	109,882	129,337	134,619
External Debt maturing	(3,747)	(3,624)	(3,518)	(4,160)
New External Debt	9,408	23,079	8,800	1,800
Debt at 31 March	109,882	129,337	134,619	132,259
Capital Financing Requirment at 31 March	144,664	166,100	171,484	170,111
Under borrowing at 31 March	34,782	36,763	36,595	37,852

3.3 It can be seen from the above table that the Council is currently maintaining an under-borrowed position arising from decisions taken previously not to finance capital spending from new external loans. Instead cash supporting the Council's reserves, balances and cash flow has been temporarily used to finance this requirement. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.4 The Chief Finance Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances within the 2017/18 treasury operations. Any new borrowing undertaken will be to (a) assist finance the Council's capital Investment programme and (b) start to replace funds previously used to finance capital spend (underborrowed position) and will be subject to favourable interest rates and budget provision being available permitting this course of action.

3.5 The Council holds £59m of Market loans and of these £40m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. On this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council has the option to either accept the new rate or to repay the loan at no additional cost. Although the Chief Finance Officer understands that lenders are unlikely to exercise their option in the current low interest rate environment, there remains a possiblity that this could occur. In accordance with the Chief Finance Officer's delegated authority, should an opportunity present itself to repay a LOBO loan at no cost, then this option will be taken and a decsion made about whether it is prudent to take a replacement loan from the PWLB. The remainder of Market loans, £19m are held at fixed rates of interest.

3.6 In addition to the borrowing undertaken directly, the Council is also responsible for a further £0.7m which is administered by Tameside Borough Council. This follows the conversion in February 2010 of loans previously held on behalf of Manchester International Airport into an equity rated instrument.

3.7 As short term borrowing rates are cheaper than longer term fixed interest rates, there may be potential opportunities in the future to generate revenue savings by switching from long term debt to short term debt. However the cost of premiums incurred, due to early repayment, will also need to be taken into account before any restructuring is undertaken.

3.8 The Council retains the flexibility to borrow funds in advance of requirement should market conditions unexpectedly change i.e. anticipate a sharp rise in interest rates, and any decision to borrow in advance will ensure that funds are taken within forward approved Capital Financing Requirement estimates.

3.9 Any borrowing in advance of requirement taken by the Chief Finance Officer will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period is to be obtained in this manner and
- borrowing only up to a maximum 12 months in advance of need.

3.10 The Council's debt maturity profile as at 31 March 2017 is provided at Appendix 4 for reference which also shows, in accordance with the Code of Practice, the potential first date the lending banks could amend the rate of interest for the market loans.

3.11 In accordance with the Code of Practice, no new borrowing will be taken in order to lend out to solely make a profit.

3.12 The Council is required to approve;

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

4. Minimum Revenue Provision Strategy

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

4.2 Previously within the Revenue Support Grant (RSG) there has been an element of contribution which was to finance MRP incurred on supported capital borrowing however due to austerity measures, this provision has been eroded. In response to this, the Council in 2015/16, reviewed the way it calculated its MRP for this element of debt and a more appropriately linked policy of using the average useful life of its assets was adopted and applied effective from 1 April 2015.

4.3 During 2016/17 further work has been undertaken to establish what the effect would be had this policy been adopted on this element of debt from 1 April 2007 and as a result it was established that the Council has, during the period 2007/08 to 2014/15, previously over-provided MRP by £9.93m.

4.4 The Council intends to phase the reduction of £9.93m to the annual MRP charge over the next four years with the unused MRP budget transferred to an earmarked reserve. This action will;

- ensure that a MRP provision on the Supported debt element within the CFR held during the period 2007/08 – 2014/15 is calculated using the same method as that applied in 2015/16;
- enable debt to be written off quicker than previously permitted i.e. debt incurred in 2007/08 will now be completely written off by 2059/60 rather than 2064/65,
- enable the local council tax payer to receive the benefit of this over-provision in today's cash values rather than at reduced value due the effects inflation will have on this over the next 50 years.

4.5 This action does not change the current MRP policy as approved by Council at its February 2016 meeting and no changes to this are proposed for 2017/18. Further detail on this aspect can be found on page 19 of this report.

4.6 Members are requested, as detailed at Appendix 3 to;

- approve the annual MRP statement and
- note the revised approach to the existing MRP policy.

5. Investment Strategy

5.1 The Council undertakes investments, from income temporarily available which has been received in advance of spend and from its balances and reserves which it holds. This function is undertaken with regard to the DCLG's Guidance on Local Government Investments together with the revised CIPFA Treasury Management in Public Services Code of Practice.

5.2 The primary principle governing the Council's investment criteria is the security of its investments, followed by liquidity whilst ensuring that a reasonable level of return is also achieved. In addition to these main principles, the Council maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and subsequent monitoring of them. These areas are set out in more detail for reference within the Specified and Non-specified investment sections at Appendix 3.

5.3 Whilst counterparty risk appears to have eased, the markets are still subject to periods of extreme volatility and as a consequence, returns from deposits continue to remain historically low. Whilst every endeavour will be taken by the Council's in-house treasury management team to ensure that the Council receives a reasonable rate of return on its investments, recent history and market warnings will not be ignored when searching for that extra return to ease revenue budget pressures.

5.4 To ensure that investments are only placed with strong creditworthy institutions, a counterparty list is produced and maintained based on credit ratings from two of the three independent rating agencies (Fitch, Moody's and Standard and Poor's) and these must meet the minimum levels required by the Council as shown at Appendix 3.

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

5.6 Whilst investment risk will never completely be eliminated, it can be minimised and in order to reduce the risk of an institution defaulting, the Chief Finance Officer recommends that the Council continues with the current practice of institutions only being included on the Council's lending list which have a minimum credit rating as follows;

- Short Term – Fitch F1 or equivalent
- Long Term – Fitch A- or equivalent.

5.7 A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 5.

5.8 Whilst Members are asked to approve these base criteria, the Chief Finance Officer may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

5.9 The Council's in-house treasury management team further recognises that ratings are not the sole determinant of the quality of an institution and it is important to continually assess and monitor each institution in relation to the economic and political environments in which they operate. For this purpose, the Council will with the assistance of its advisers, monitor market opinions, financial press, equity & credit default swap prices and overlay this information on top of the credit ratings. This additional market information is detailed for Members' reference at Appendix 5.

5.10 In addition to the Council's list of high quality investment institutions, further factors will also be used in order to reduce any potential exposure of its investments including time and value limits as explained in more detail at Appendix 3 together with how much in total can be placed in non-UK institutions, Groups and Sectors which is shown in more detail at Appendix 5.

5.11 Investments will continue to be placed into three categories as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank call accounts, money market funds and certificates of deposits being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and enhanced money market funds.
- Long-term – cash not required to meet any forthcoming cash flow requirements which can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund, after taking into consideration the forecasted interest rate yield curve.

5.12 The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator detailed at Appendix 3.

5.13 The level of the Council's investments together with the average interest rate, as at 31 December 2016, is provided for reference at Appendix 6.

5.14 The Council is requested to approve;

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

6. Investment Risk Benchmarking

6.1 The CIPFA Code of Practice and DCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to Members and these are explained in more detail in Appendix 5.

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

- Security - each individual year the security benchmark is:

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

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

- Liquidity – Weighted Average Life (WAL) - benchmark for 2017/18 is set at 6 months, with a maximum of 3 years for cash time deposits;

  Liquid short term deposits - at least £10m is available within a week's notice.

- Yield - Internal returns are required to achieve above the 7 day London Interbank Deposit (LIBID) rate.

7. Prudential Indicators

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

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

8. Related Treasury Issues

8.1 Local Authority Mortgage Scheme. Under this scheme, which is designed for first time buyers to be able purchase a property in the area, the Council placed funds totalling £3m with Lloyds bank for a period of 5 years to match the 5 year life of the indemnity. This scheme is now approaching its conclusion and these monies will be repaid back to the Council by Lloyds over the next 2 years.

8.2 Greater Manchester Pension fund. The Greater Manchester Pension Fund has been working with its local council partners concerning the prospect of councils making employer pension contributions of up to 3 years in advance into the Fund. As result of this action the Fund would be able to use these monies to generate a more favourable return which in turn will enable the Councils to receive a discount on the amount it is expected to pay over into the fund under this scheme. During 2017/18, the Council is expected to take advantage of this opportunity and make a payment for approximately £39m (net of discount of £2.5m) covering 3 years of employer pension contributions for the period 2017/18 to 2019/20.

8.3 Investment Properties. At its meeting on 19 December 2016, Members of the Executive approved a report which outlined proposals for a new approach to be adopted involving the acquisition of property which would generate an income stream. The Council's initial level of investment for this purpose would be approximately £20m.

8.4 Whilst the above 3 projects are policy related activities and therefore not deemed to be treasury management, their implementation will have an impact on the Council's cash flow as well as the investing and borrowing activities and it is this aspect which Members need to be aware of.

9. Recommendations

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

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

Other Options

This report has been produced in order to comply with Financial Procedure Rules and relevant legislation. It provides a plan of action for the period 2017/18 to 2019/20, which is flexible enough to take account of changes in financial markets. There are an almost infinite number of other options that the Council could consider as part of its treasury management activities. However, this report outlines a coherent and prudent approach which is recommended by the Chief Financial Officer to the Council.

Consultation

Advice has been obtained from Capita, the Council's external advisors.

Reasons for Recommendation

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

Key Decision

This will be a key decision likely to be taken in: February 2017

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

Finance Officer Clearance *…NB…*

Legal Officer Clearance *…MRJ.*

Director's Signature

Joanne Hyde

STATUTORY FRAMEWORK

Local Government Act 2003

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

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

CIPFA Code of Practice

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

Investment Guidance

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

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

MAIN ECONOMIC HEADLINES DURING 2016

UK -

- Annualised Gross Domestic Product (GDP) growth rates continues to be one of the strongest of the G7 countries at 2.2% y/y up to end of September 2016, this compares to 1.8% for 2015;
- Consumer Price Index (CPI) opened the year at 1.2% in January 2016 peaking at 1.5% before falling back to 1.2% in November 2016;
- Monetary Policy Committee (MPC) at its meeting 4 August 2016 reduced the Bank Rate from 0.50%, where it had been since March 2009, to 0.25%, its lowest level and increased the level of Quantitative Easing levels from £375bn to £435bn;
- The level of unemployment rate continues to fall from 5.1% in January 2016 to 4.8% in October, the lowest levels since July 2005;
- The outcome of the Brexit referendum delivered a leave result from which the Government must notify the European Council of its intention to leave in accordance with Article 50 of the Treaty on European Union which it plans to do by March 2017 after which there will be a 2 year negotiation leading to exit.

Eurozone –

- GDP continues to remain weak at 1.7% y/y up to the end of September 2016, which compares to 1.5% for 2015;
- CPI rose marginally during 2016 starting at 0.3% in January 2016 rising to 1.1% in December 2016;
- Unemployment rate fell from 10.4% in January 2016 to 9.8% in October 2016;
- Greece continues to cause a concern for the EU due to its reluctance to implement key reforms in order to make it more efficient and pay its way and following 2 inconclusive general elections in 2015 & 2016, Spain is also having to implement a package of highly unpopular austerity cuts required by the EU;
- Italian & some German banks remain under capitalised and this could become a major issue as national governments are forbidden by EU legislation from providing state aid to bail out any bank at risk;
- European Central Bank in March 2016 extended its €1.1 trillion programme of quantitative easing originally intended to run to September 2016 to December 2017 and cut its central policy rate from 0.05% to 0.00%.

US –

- GDP despite being sluggish for the first part of the year at 1.1%, however as a result of strong growth, quarter 3 ending September 2016 saw a rebound to 3.5% y/y;
- Following December 2015 there was an increase by the Federal Reserve in Bank rate from 0.25% to 0.50%. It was widely expected further increases would occur during 2016 however as a result of weak International growth

and the Brexit outcome, this increase was delayed until December 2016 when the Bank rate was increased from 0.50% to 0.75%;

- Unemployment levels continue to fall from 4.9% in January 2016 to 4.6% in November 2016, its lowest level since August 2007;
- CPI fell from its starting position at 2.2% in January, to 1.7% in November 2016;
- US remains the best positioned of the major world economies to make solid economic progress.

Other –

- China's Growth rate continues to slow from 6.8% in 2015 to 6.7% and this in turn impacts on those countries dependent on exporting raw material to it.
- Japan's economic growth remains fragile and deflation continues to remain a problem.

MAIN ECONOMIC FORECASTS FOR 2017

To be able to produce accurate economic forecasts is extremely difficult to do as so many external influences have an impact on them particularly Brexit and subsequent terms of exit, EU presidential elections scheduled for Holland, France & Germany and a new President in the US. Despite all of this forecasters are currently predicting the following levels of activity;

Indicator	UK	Eurozone	US	China
Growth Domestic Product	1.7%	1.4%	2.5%	6.6%
Consumer Price Index	1.9%	1.0%	2.3%	1.8%
Unemployment Rate	4.9%	9.8%	5.3%	4.3%
Bank Rate	0.25%	0.00%	1.25%	4.10%

Source - Trading Economics

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

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

The Accounts and Audit Committee and Executive are requested to recommend that Council approve these for the period 2017/18 – 2019/20 as detailed below.

TREASURY PRUDENTIAL INDICATORS AND LIMITS –

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

	2016/17 estimate £m	**2017/18 estimate £m**	**2018/19 estimate £m**	**2019/20 estimate £m**
Upper Limits – Fixed interest rate exposure	**3.6**	**4.2**	**4.4**	**4.2**
Upper Limits – Variable interest rate exposure	**2.6**	**2.8**	**2.8**	**2.8**
Upper Interest Limits – identifies the maximum limit for both fixed and variable interest rates exposure based upon the Council's debt position net of investments (debt interest payable less investment interest receivable).				
Authorised Limit for External debt				
-External debt (01.04)	130.0	150.0	155.0	155.0
-Other long term Liabilities (PFI)	6.0	6.0	5.5	5.5
Total	**136.0**	**156.0**	**160.5**	**160.5**
Authorised external debt limit - maximum level of external debt that the authority will require to cover all known potential requirements and includes headroom to cover the risk of short-term cash flow variations that could lead to a need for temporary borrowing. This limit needs to be set or revised by Council and is the statutory limit determined under section 3(1) of the Local Government Act 2003.				

	2016/17 estimate £m	2017/18 estimate £m	2018/19 estimate £m	2019/20 estimate £m
Operational Boundary for External debt				
-External debt (01.04)	115.0	135.0	140.0	140.0
-Other long term Liabilities (PFI)	6.0	6.0	5.5	5.5
Total	**121.0**	**141.0**	**145.5**	**145.5**
Operational boundary - calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year excluding any temporary borrowing and is not a limit.				
Upper limit for sums invested over 364 days	**90**	**90**	**90**	**90**
Upper Limit for sums invested for over 364 days – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment. Included within this limit are Manchester Airport Shares which at 31 March 2016 were independently valued at £39.6m and the Church Commissioners Local Authorities Property Investment Fund investment of £5m.				
Gross debt and Capital Financing Requirement				
-External debt (01.04)	115.0	135.0	140.0	140.0
-Other long term Liabilities (PFI)	6.0	6.0	5.5	5.5
Gross debt	121.0	141.0	145.5	145.5
-C.F.R.	144.7	166.1	171.5	170.1
Excess C.F.R.	**23.7**	**25.1**	**26.0**	**24.6**
Gross Debt and the Capital Financing Requirement – this indicator reflects that over the medium term, debt will only be for capital purposes. The Chief Finance Officer will ensure that all external debt does not exceed the capital financing requirement with any exceptions being reported to Council.				

Maturity structure of borrowing – 2017/18 to 2019/20	**Lower limit %**	**Upper limit %**
Under 12 months	0	70
12 months to 2 years	0	40
2 years to 5 years	0	40
5 years to 10 years	0	40
10 years to 20 years	0	40

Maturity structure of borrowing – 2017/18 to 2019/20 (cont.)	Lower limit %	Upper limit %
20 years to 30 years	0	40
30 years to 40 years	0	40
40 years and above	0	40

Maturity Structure of Borrowing – these gross limits are set to reduce the Council's exposure to large sums falling due for refinancing and this indicator reflects the next date on which the lending bank can amend the interest rate for the Lender Option Borrower Option loans.

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

MINIMUM REVENUE PROVISION - (no change)

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

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

<u>MINIMUM REVENUE PROVISION</u> – backdating of policy - (no change)

- A change to the MRP policy with regards to Supported Borrowing was approved by Council on 20th January 2016 and subsequently on 17th February 2016 as part of the 2016/19 Treasury Management Strategy Report.

- The approval enabled MRP on the Supported Borrowing element to be calculated on a straight line basis over the expected average useful life of the assets (50yrs).

- A further piece of work has been undertaken during 2016 which has now identified the opportunity to backdate the calculation of the MRP on the Supported Borrowing element, commencing from 2007/08 rather than 2015/16.

- The backdated calculation not only shows an over charge in previous years to the General Fund of £9.93 million on the Supported Borrowing element by 2015/16 but will enable the Council to completely repay this balance seven years earlier than previously calculated, at a recurrent cost of £0.50 million per annum.

- MRP is a statutory charge rather than a provision made under accounting standards and therefore the Council cannot simply restate the Statement of Accounts resulting in a £9.93 million credit back to the General Fund.

- In recognition of this the Council will phase a reduction of £9.93 million to the annual MRP charge over the next four financial years 2016/17 to 2019/20 with the unused MRP budget contained within the overall revenue budget being redirected to create an 'Investment Fund' Earmarked Reserve.

- The use of the 'investment Fund' Earmarked Reserve will be restricted to only being deployed on sustainable income generating or 'invest to save' i.e. revenue saving programmes or projects of work.

INVESTMENT CRITERIA – (change – Category 5)

Counterparty Selection

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

	Fitch (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 – • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must have an individual credit rating issued by Fitch, Moody's and Standard and Poor's of: Short Term – Fitch F1 or equivalent Long Term – Fitch A- or equivalent	AA to AAA A+ to AA- A- to A	£20m £10m £5m	3yrs 1yr 1yr
Category 2 – UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category1 above.	-	£20m	1yr
Category 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria.	-	n/a	1day
Category 4 – • Pooled Investment Vehicles – must be AAA credit rated – e.g. Money Market Funds, Enhanced Money Market Funds etc. • UK Government (including treasury bills, gilts and the DMO) • Local Authorities • Supranational Institutions	-	£20m	3yrs
Category 5 – • Local Authority Property Investment fund	-	£30m (Current limit £10m)	10yrs

Specified and Non Specified Investments – (no change)

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

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

Instruments & Maximum period

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

Specified Investments

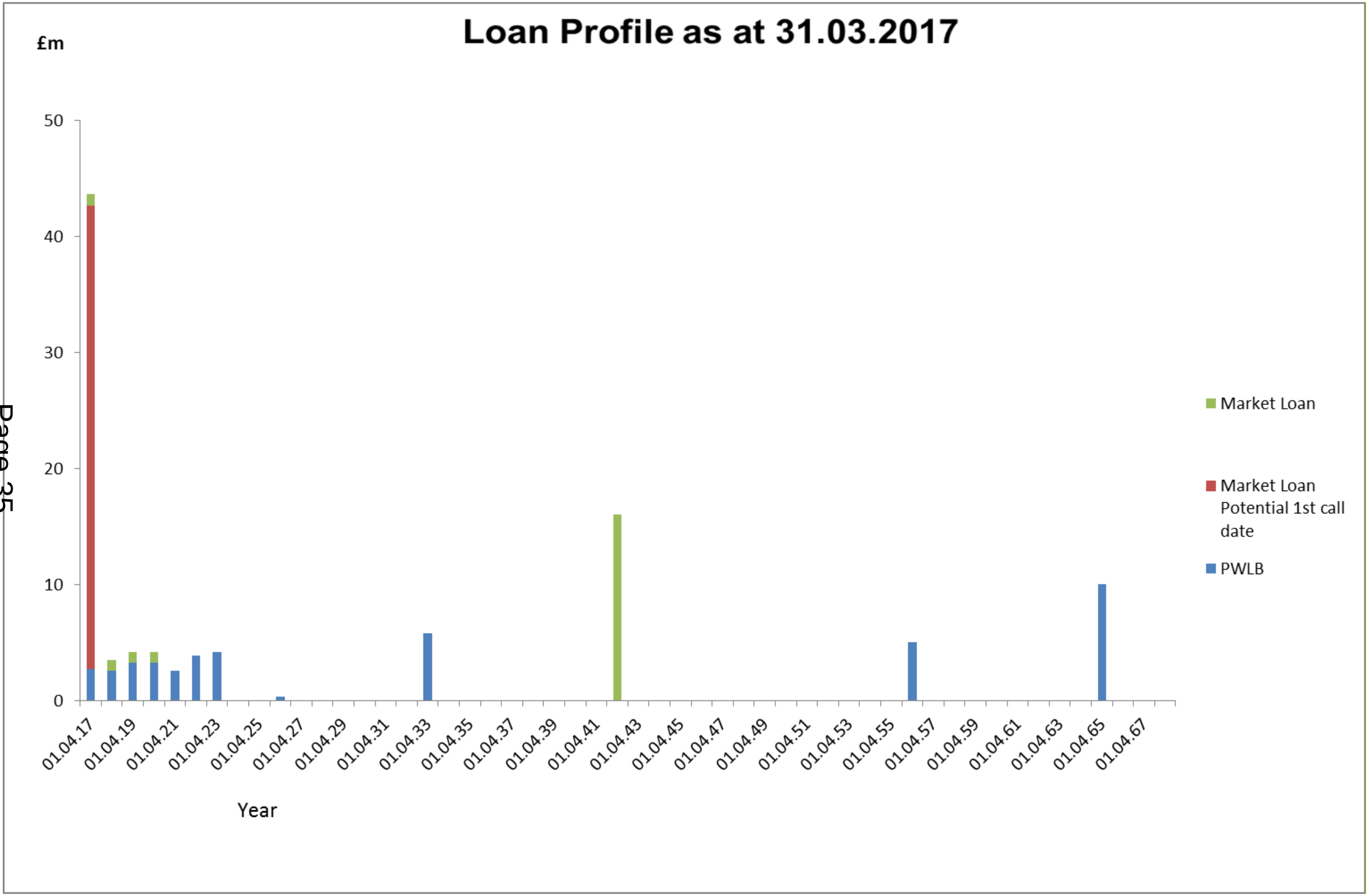
Investment	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. European Investment Bank)	1 Year
Pooled investment vehicles that have been awarded a AAA credit rating by Fitch, a credit rating agency,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

Non-Specified Investments

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

The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria detailed in Appendix 3, for deposits with a maturity of greater than one year (including forward deals in excess of 1 year from inception to repayment).	3 Years
The UK Government including Local Authorities and Debt Management Office.	3 Years
Any non-rated subsidiary of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to being guaranteed from the parent company and is included for clarity and transparency purposes.	3 Years
Share capital or loan capital in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. It is envisaged this facility will apply to the Manchester Airport share-holding which the Council holds at a historical value of £39.6m as reported in the 2015/16 Statement of Accounts. It is not envisaged that this type of investment will be undertaken in the future.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years

APPENDIX 4



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INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

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

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

Investment Institution information.

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

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

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

Investment Limits

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

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

Investment Risk benchmarking

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

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

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

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

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

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

INVESTMENT & EXTERNAL DEBT POSITION AS AT 31.12.2016

	Principal £m	Average Rate %
DEBT		
Fixed rate:		
- PWLB	45.5	6.10
- Market	24.8	4.06
Sub-total	70.3	5.38
Variable rate:		
- PWLB	0.0	0.0
- Market	35.0	6.08
Sub-total	35.0	6.08
Total debt	**105.3**	**5.61**
INVESTMENTS		
- Fixed rate	(76.7)	0.72
- Variable rate	(14.4)	1.74
Total Investments	**(91.1)**	**0.88**
NET ACTUAL DEBT / (INVESTMENTS)	**14.2**	

TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee**
Date:	**7 February 2017**
Report for:	**Information / Approval**
Report of:	**Audit and Assurance Manager**

Report Title

Annual Governance Statement 2016/17 – Approach / Timetable

Summary

The preparation and publication of an Annual Governance Statement is necessary to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015. This report sets out the action plan / timetable to ensure compliance with the production of an Annual Governance Statement for 2016/17.

In facilitating the production of the Annual Governance Statement, the Audit and Assurance Service will use the guidance issued by CIPFA/SOLACE in April 2016 as a reference point during the process.

Recommendation

The Accounts and Audit Committee is asked to

(a) Note the timetable / action plan;

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

Contact person for access to background papers and further information:

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

Background Papers: None

1. Introduction

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

1.2 The Regulations require Councils to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which include the arrangements for the management of risk.

1.3 In addition, the Regulations require the Council to conduct a review at least once in a year of the effectiveness of its systems of internal control. Following the review the Council must approve an **Annual Governance Statement** which then accompanies its Statement of Accounts. This assurance statement is made by the Chief Executive and Leader of the Council.

1.4 The Annual Governance Statement (AGS) should be prepared in accordance with "proper practices". Proper practices relate to guidance set out in the CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" and supporting guidance associated with this. (referred to in section 2 of this report).

1.5 The deadline for completing the AGS is 30 September in line with the deadline for approval of the accounts. In addition, in accordance with best practice, a full draft version of the AGS is prepared to accompany the draft statement of accounts by the end of June. (It should be noted that for the accounts relating to the 2017/18 financial year onwards, the statutory deadline for approval of the final accounts will be the end of July and therefore timescales for approval of the final version of the Annual Governance Statement will also be brought forward from September to July in 2018).

1.6 This report sets out further detail regarding the Council's approach and timetable for producing its AGS for 2016/17. It should be noted that it is expected that the Council will receive further guidance from CIPFA on the AGS process in 2017. If applicable, any changes to information set out in this report will be reflected in future updates regarding the AGS.

2. Governance

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

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

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

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

2.2 The CIPFA/SOLACE framework provides a structure to assist authorities with their approach to governance and the production of the AGS. The framework and supporting guidance was updated for 2016/17 and in producing the 2016/17 AGS, the guidance will be taken into account through the process.

2.3 Authorities are required to review their governance arrangements against the principles contained in the Framework. The Framework, as to be applied for the 2016/17 AGS, adopts seven core principles that must be considered when defining good governance:

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

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

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

2.5 Trafford Council's Corporate Governance Code (last updated in June 2016) reflects the core principles outlined in the CIPFA Framework and states the arrangements in place to ensure governance arrangements are reviewed annually and reported on through the AGS. The Code will be updated to reflect the updated CIPFA/SOLACE guidance comprising the principles set out in 2.3.

3. The Process to Support the Annual Governance Statement

3.1 The Audit and Assurance Service is currently responsible for facilitating the production of the AGS which is the Authority's statement on its governance processes and will continue to provide this role for the 2016/17 AGS. (Practice across the country varies with some Internal Audit sections leading on collation whilst others are less involved but may have input in reviewing the Statement. It should be noted that responsibilities for this role are to be reviewed with the aim that Legal and Democratic Services will assume the lead in collating the 2017/18 AGS).

3.2 The proposed timetable for producing the AGS reflects input from Members and Officers to the process.

3.3 The following arrangements are in place to enable the production of the AGS in 2016/17:

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

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

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

- Mapping systems / processes in relation to which assurance is required in accordance with the existing CIPFA framework.

- Identifying existing sources of assurance to confirm that key controls / risks are operating / managed effectively. Sources include:

  - **Management Controls** including legal compliance, performance management, and risk and financial reporting functions operating at corporate and directorate level;
  - **Internal assurance** including Internal Audit, other compliance functions and internal review work;
  - **External assurance** e.g. External auditor and other inspectorates, partner's compliance functions etc.

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

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

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

b) Production and Approval of the Annual Governance Statement

- Input from Members and Officers to produce and approve the 2016/17 AGS. This includes:

    - Directors and senior managers, with co-ordination from the Audit and Assurance Service to contribute to the content of the Statement.
    - CLT, Directors and senior managers to review the adequacy/robustness of the Statement.
    - Chief Executive and Leader to agree the draft AGS.
    - Draft Annual Governance Statement to be shared with the Accounts and Audit Committee.
    - Draft Annual Governance Statement to accompany the draft accounts to be provided to the External Auditor.
    - Accounts and Audit Committee to approve the final version of the AGS, which is signed by the Chief Executive and Leader, and accompanies the Council's final accounts.

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

4. Benefits of the Process

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

Appendix

Action Plan to enable the production of the Annual Governance Statement for 2016/17

Actions Required	Completion date
• CLT / Accounts and Audit Committee to receive report outlining the Authority's approach to the Annual Governance Statement for 2016/17.	February 2017
• Obtain assurance on risk management processes / management of strategic risks – final update of Strategic Risk Register for 2016/17 to be agreed by CLT and reported to the Accounts and Audit Committee.	March 2017
• Production of the Annual Head of Internal Audit Report and opinion – based on work completed by the Audit and Assurance Service during 2016/17 providing assurance relating to key systems, procedures and controls in place across the Council.	May 2017
• Review and evaluation of the Authority's actual position in relation to its Corporate Governance Code. Complete collation of evidence to support the production of the draft Statement.	May 2017
• Production of a first draft of the Annual Governance Statement and updated Corporate Governance Code for review by / comment from senior officers (co-ordinated by the Audit and Assurance Service in consultation with CLT).	May 2017
• Updated Corporate Governance Code and completed Draft Annual Governance Statement for 2016/17 to be agreed by the Chief Executive and Leader and shared with the Accounts and Audit Committee and External Auditor.	May/June 2017
• Final Annual Governance Statement 2016/17, signed by the Chief Executive and Leader, to be submitted to accompany the final accounts and approved by the Accounts and Audit Committee.	September 2017

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Grant Thornton

Accounts and Audit Committee
Trafford Council
Progress Report and Update
Year ended 31 March 2017

January 2017

Mark Heap
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Introduction

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

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

- CFO Insights – reviewing council's 2015/16 spend (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- New laws to prevent fraud may affect the public sector (November 2016); http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/
- Brexit: local government – transitioning successfully (December 2016) http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Progress at January 2017

2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	yes	We issued the fee letter for 2016/17 in April 2016, with no change to the fee proposed. This was presented to the Accounts and Audit Committee in June 2016.
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	March 2017	Not started	We will present this to the Accounts and Audit Committee in March 2017
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	January to March 2017	In progress	We will agree a detailed timeframe for our work with finance officers. We have invited finance officers to our local government Chief Accountants' Workshop to be held in February and March 2017, free of any charge to the Council. .

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Progress at January 2017

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2016/17 work	Planned Date	Complete?	Comments
Final accounts audit Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	June - August 2017 (timing to be agreed)	Not started	We have held early discussions with finance officers on some key technical areas of account and will agree a detailed timeframe for the 2016/17 audit . We will report the findings from our final accounts work to the Accounts and Audit Committee prior to the statutory deadline.
Value for Money (VfM) conclusion The scope of our work is unchanged from 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be considered when determining the overall conclusion are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	From Jan - August 2017	Not started	We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. Our focus will be around risks in respect of the financial position and longer term financial sustainability. We will report our work in the Audit Findings Report and give our value for money conclusion by the deadline of 30 September 2017.
Other areas of work: Housing benefit subsidy claim 2015/16 We are required to review and certify the claim by 30 November 2016.	November 2016	Yes	We are completed our work on the claim and met the deadline of 30 November 2016. Our summary findings are included in this report.

Certification work for Trafford Council for year ended 31 March 2016

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

23 January 2017

Dear Nicola

Certification work for Trafford Council for year ended 31 March 2016

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Public Sector Audit Appointments (PSAA) has a statutory duty to make arrangements for certification by appointed auditors of annual housing benefit subsidy claims from local authorities to the Department for Work and Pensions (DWP).

We have certified the housing benefits subsidy claim for the financial year 2015/16 relating to subsidy of £63 million. This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We issued a qualification letter to the DWP reporting on misclassification of Rent Allowance eligible overpayments which has been a recurring issue reported on in recent years.

The detail of the claim certified is set out in the table below.

The scale fee set by the Audit Commission for the Council for the certification of 2015/16 claims is £15,963.

Yours sincerely
Helen Stevenson

For Grant Thornton UK LLP

Claim or return	Value	Amended ?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£63,289,821	No	Nil	Yes	We issued a Qualification Letter to the DWP reporting on misclassification of overpayments.

Technical Matters

Highways network asset accounting update

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset ('HNA') at depreciated replacement cost in local authority financial statements for 2016/17. This is due to delays in obtaining updated central rates information that was required for the valuations.

CIPFA/LASAAC will issue an Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom to confirm this decision once it has completed the full due process before publication. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18 and will consider whether central rates and the central assurance processes will be delivered in a timely manner to allow successful implementation. It expects that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

In August, CIPFA published the 'Code of Practice on the Highways Network Asset (2016 Edition)' and additional guidance to aid the implementation process.

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

Sector issues and developments

National Audit Office reports

Below is a selection of reports issued during 2016 which may be of interest to Audit Committee members. Please see the website for all reports issued by the NAO.

Overview: Local government

This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Published: 9 Nov 2016

Sector(s): Local services

Performance Improvement area(s): Departmental Overviews, Local service delivery

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https://www.nao.org.uk/report/overview-local-government/

The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Published: 18 Oct 2016

Sector(s): Community and society, Local services

https://www.nao.org.uk/report/the-troubled-families-programme-update/

Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. Thee are available on the website:

http://www.local.gov.uk/publications

Department for Communities and Local Government

Provisional LG Finance Settlement for 2017/18

12 January 2017

The LGA has published its responses to the DCLG consultation on proposals for the local government finance settlement for 2017 to 2018 and for the approach to future local government finance settlements.

http://www.local.gov.uk/documents/10180/8150261/Local+Government+Finance+Settlement+1718+LGA+response.pdf/dd8d32e1-ec9f-4314-8121-7aae2195f89f

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A councillor's workbook on neighbourhood and community engagement

11 January 2017

Neighbourhood and community engagement has a rightful place as one of the key processes involved in planning and decision making. As such, it should not be viewed d as an additional task, but as a core part of the business

Building our homes, communities and future: The LGA housing commission final report

22 December 2016

The Local Government Association (LGA) Housing Commission was established to help councils deliver their ambition for places. It has been supported by a panel of advisers and has engaged with over 100 partners; hearing from councils, developers, charities, health partners, and many others. All partners agree that there is no silver bullet, and all emphasise the pivotal role of councils in helping provide strong leadership, collaborative working, and longer-term certainty for places and the people that live there.

Local Government Association

Below is a selection of reports issued recently which may be of interest to audit committee members. Thee are available on the LGA website:

http://www.local.gov.uk/publications

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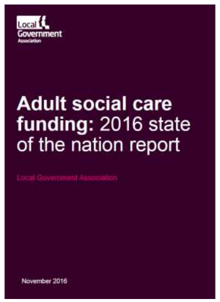
Business Plan December 2016/November 2017

30 December 2016
Britain's exit from the EU means that we are reshaping the way our country is run. Our vision is one of a rejuvenated local democracy, where power from Westminster and from the EU is significantly devolved to local level and citizens feel they have a meaningful vote and real reason to participate in civic life and their communities.

Stronger together: shared management in local government

29 November 2016
Around 45 councils across England share a chief executive and senior management team in about 20 different partnerships. Most also share at least some services. These councils have already delivered savings of at least £60 million through greater efficiencies and the other benefits of collaboration, with more savings planned



Adult social care funding: 2016 state of the nation report

2 November 2016
Adult social care is an absolutely vital public service that supports some of our most vulnerable people and promotes the wellbeing and independence of many more

Grant Thornton

Integrated Reporting

Grant Thornton publications

Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

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Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as *"enhancing the way organisations think, plan and report the story of their business."*

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

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They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders.*

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

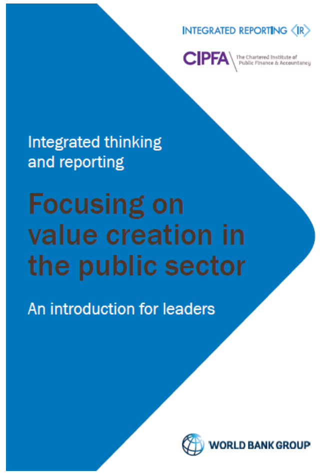
- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications

Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



Off-payroll working in the public sector

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The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of "*consistency, certainty and simplicity*"

When the proposals were originally made, the public sector was defined as those bodies that are subject to the Freedom of Information rules. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

Impact

- Increased costs
- Responsibility moved to the engager
- Increased risks for the engager
- Consider current arrangements in place

Areas / risks to consider

- Interim and / or temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
-

Salary Sacrifice Arrangements-Autumn Statement

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

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Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them

What should you be thinking about?

- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Grant Thornton update

Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

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After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a "Repeal Act" (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

Brexit

Grant Thornton update

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

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Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

For regular updates on Brexit, please see our website:

http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/

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TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2017
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Audit and Assurance Report for the Period October to December 2016.

Summary

The purpose of the report is:

- **To provide a summary of the work of Audit and Assurance during the period October to December 2016.**
- **To provide ongoing assurance to the Council on the adequacy of its control environment.**

Recommendation

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

Contact person for access to background papers and further information:

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

Background Papers: None

Audit and Assurance Service Report October to December 2016

Date: **7 February 2017**

1. Purpose of Report

This report summarises the work of the Audit and Assurance Service between October and December 2016 and highlights progress against the 2016/17 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 2016/17.

2. Planned Assurance Work

Key elements of the 2016/17 Work Plan include:

- Fundamental Financial Systems reviews.
- Governance review work and completion of the Annual Governance Statement for 2015/16.
- Continued input to risk management arrangements and provision of guidance.
- Review of corporate procurement and value for money arrangements.
- ICT audit reviews.
- Anti fraud and corruption work.
- Ongoing advice to services and input / advice in respect of key projects across the Council.
- School audits and other establishment audit reviews.
- Grant claim certification work
- Audit reviews of other areas of business risk.

3. Main areas of focus – Q3 2016/17

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

- Completion of a number of fundamental financial systems reviews.
- Completion of a number of establishment audit reviews including schools, a library and a children's centre.
- Completion of reviews covering contracts monitoring (Parking Enforcement and Home to School Transport).
- Submission of data to the Cabinet Office required as part of the National Fraud Initiative.

4. Summary of Assurances for 3rd Quarter 2016/17

There were 15 internal audit opinion reports issued in the quarter, 11 final reports and 4 at draft stage. 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 all 11 reviews. For all final reports issued, where applicable, agreed action plans are in place to implement the recommendations made. In addition, 4 draft reports were issued in the quarter which will be issued as final reports in Quarter 4 and reported within the 2016/17 Annual Head of Internal Audit Report.

Good progress has been made in implementing previous recommendations made as part of a number of audits originally undertaken in the previous year (See Section 7).

Work was also in progress across a number of other audit reviews which will continue in quarter four with further reports to be issued. (See Section 9 for areas of focus in the next quarter and Appendix 2 for the listing of Audit Opinion reports planned to be issued).

5. Summary of Audit & Assurance Opinions Issued – Q3: 2016/17
(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
FINAL REPORTS		
Level 4 Reports:		
Treasury Management (T&R) / (Finance)	**High (GREEN)** (10/11/16)	A high level of assurance has been maintained and no formal recommendations were made as part of the audit.
Income Control (T&R) / (Finance)	**Medium/High (GREEN)** (7/11/16)	Overall, it was found that effective systems and controls are in place. A separate review specifically covering cash income control has been reported separately (detailed in the Quarter Two update).
Housing Benefits and Council Tax Reduction Scheme (T&R) / (Finance)	**High (GREEN)** (28/11/16)	A high level of assurance has been maintained and no formal recommendations were made as part of the audit.
IT Applications - Access Controls Follow Up Review (T&R) / (Transformation and Resources)	**Medium/High (GREEN)** (21/10/16)	The original audit was undertaken by the External Auditor, Grant Thornton. The follow up audit found that a number of controls have either been introduced or enhanced by the Council to reduce the key business risks relating to the applications under review, with further work in progress. Out of the 6 recommendations originally made, 2 have been implemented and four have been partially met and/ or are ongoing. (A further internal audit review will be undertaken in the first quarter of 2017/18 to further review the issues raised in this report).
Level 2 Reports :		
Parking Enforcement (EGEI) / (Economic Growth, Environment and Infrastructure)	**Medium (GREEN)** (7/10/16)	Systems and controls were found to be adequate across most areas covered. Improvements in controls were recommended in respect of record keeping for monitoring purposes in respect of complaints and cancellation of penalty charge notices and also in evidencing the authorisation of any variations to the parking enforcement contract.
Client finances follow up (CFW) / (Finance and Adult Social Services & Community Wellbeing)	**Medium * (GREEN)** (3/10/16)	This review followed up recommendations made in a previous audit review. At the time of the follow up, a Client Finances policy was in the process of being drafted and also the introduction of new software to manage client finances was being considered. Therefore, of the 15 recommendations previously made, 4 had been fully implemented, 9 in progress with the remaining recommendations to be considered with the implementation of a new system.
Home to School Transport (CFW) / (Children's Services)	**Medium/High (GREEN)** (3/11/16)	Overall it was found that effective systems and controls were in place. A small number of recommendations were made relating to the review and update of some existing policies and also retention of records.
Level 1 Reports:		
Stretford Library (T&R) / (Transformation and Resources)	**Medium/High (GREEN)** (18/11/16)	Overall, effective controls were in place across most areas reviewed. Some recommendations were made in relation to record keeping in relation to petty cash, income and the inventory.
Stretford Children's Centre (CFW) / (Children's Services)	**Medium (GREEN)** (7/10/16)	Systems and controls were found to be adequate in the majority of areas covered. Recommendations included the financial administration of income including recording and banking procedures.
Springfield Primary School (CFW) /	**Medium * (GREEN)**	This review followed up recommendations made in a previous audit review. Of the 16 recommendations previously made, 6 have been

(Children's Services)	(10/11/16)	implemented or no longer apply, 4 have been progressed and a further 6 require to be implemented. An agreed action plan is in place to implement the remaining recommendations.
Urmston Infant School (CFW) / (Children's Services)	**Medium (GREEN)** (17/10/16)	Systems and controls were found to be adequate across most areas covered. This included the need to ensure a number of school policies have been approved by the Governing Body. A number of recommendations were also made in relation to security issues which covered cash, IT and other assets.
DRAFT REPORTS		**(Final reports to be issued in Quarter 4)**
Accounts Payable		
Liquid Logic / ContrOCC		
Direct Payments (Adults)		
Out of Borough School Placements		
		**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*
		.

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:

There has been ongoing work such as the provision of advice; conducting investigation work and co-ordinating the update of the Council's Strategic Risk Register which will be reflected in the Annual Head of Internal Audit Report for 2016/17. Work undertaken during Q3 included:

- Continuing to work with the Information Governance team and within the Information Security Governance Board (ISGB) to progress actions to support developments in relation to Information Governance as part of the ISGB Action Plan.
- Submission of data to the Cabinet Office in October 2016 as required as part of deadlines set for the National Fraud Initiative.
- Internal Audit input to an ongoing investigation in relation to an alleged cash theft.
- Working with the Counter Fraud and Enforcement Team to raise awareness of details on the Council website for reporting fraud.
- Working with Legal Services to raise awareness of guidance to staff in relation to Gifts and Hospitality.
- Updating of the strategic risk register with a report presented to CLT and the Accounts and Audit Committee in November 2016.

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

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

Acceptance of Recommendations

From the final audit opinion reports issued during the quarter (as listed in Section 5), all 74 recommendations made were accepted .In the year to date, all 139 recommendations made have been accepted.

Implementation of Audit Recommendations

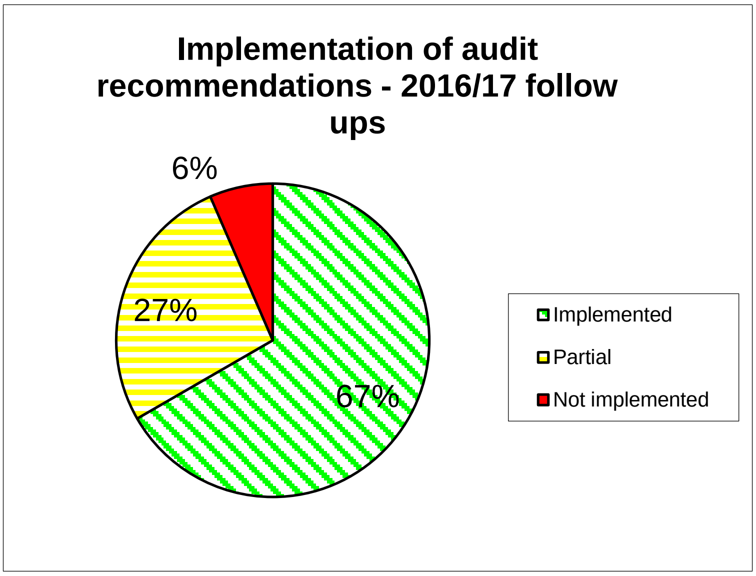
Final audit reports are followed up to assess progress in implementing improvement actions identified through audit recommendations. Recommendations made by the Audit and Assurance Service are followed up by a number of means.

As listed under final reports in Section 5, follow up audits were completed of the IT Application Access Controls review (following up on previous work by External Audit); Client finances (CFW); and Springfield Primary School.

In respect of three other audits previously completed, managers were requested to provide an update on progress in implementing recommendations made as follows:

- Development Management, EGEI (formerly Planning Control) - All 8 recommendations previously made had been implemented.
- Lostock College - Progress has been made with all recommendations with 21 fully implemented and 6 in progress.
- St. Hilda's C of E Primary School – Progress has been made with all recommendations with 16 fully implemented or alternative controls in place and 3 in progress.

An overall analysis of audit recommendations followed up in 2016/17 (up to 31 December 2016) 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 2016/17 Operational Internal Audit Plan

As at the end of quarter three, 726 audit days were spent to date against 714 planned allocated days for up to quarter two.

As part of the Internal Audit Plan, a target of 35 audit opinion reports was set to be issued during 2016/17. As at the three-quarter year stage, 28 opinion reports were issued to final or draft stage with a further 14 reviews in progress or planned where reports are expected to be issued by the end of the financial year to draft or final stage (as listed in Appendix 2). Reports from the remaining reviews due to be planned or commencing in Quarter 4 will be issued in 2017/18. Details of work carried forward will be reflected where appropriate in the 2017/18 Internal Audit Plan. Work completed by the end of the year will be reflected in the 2016/17 Annual Head of Internal Audit Report.

9. Planned Work for Quarter 4, 2016/17

Areas of focus include :

- Progression of planned internal reviews including the issue of audit reports in Quarter 4 as listed in Appendix 2.
- Commencement of review of data matches from the latest National Fraud Initiative exercise, which are due to be released in early 2017.
- Completion of the updated Risk Management Policy and Strategy for review by CLT and the Accounts and Audit Committee.
- Completion of the updated Anti-Fraud and & Corruption Policy and Strategy for review by CLT and the Accounts and Audit Committee.
- Setting out the agreed approach and timetable for completion of the 2016/17 Annual Governance Statement.
- Continue to work with the Information Governance team to provide support in relation to progression of the Information Security and Governance Board Action Plan and in relation to the audit by the Information Commissioner's Office in January 2017.
- Update of the Strategic Risk Register with a report to be issued in March 2017.

APPENDIX 1

2016/17 Operational Plan: Planned against Actual Work (as at 31 December 2016)

Category	Details	Planned Allocated Days 2016/17	Planned Days (up to 31/12/16)	Actual Days (as at 31/12/16)
Fundamental Systems	**Completion of fundamental financial systems reviews:** (**See Appendix 2** for opinion reports issued and planned to be issued).	230	165	164
Governance	**Corporate Governance Review / Collation of supporting evidence and production of the 2015/16 Annual Governance Statement (AGS)** Corporate Governance Code updated in June 2016 and 2015/16 AGS completed in September 2016. **Development of approach for 2016/17 AGS and ongoing advice / assurance gathering in respect of governance issues both across Council and partnership arrangements which will assist in informing 2016/17 AGS.** Production of 2016/17 approach/timetable in progress at the end of quarter 3 (to be completed by January 2017) and commencement of work to update the Corporate Governance Code and start work to compile the 2016/17 AGS to commence in Quarter 4.	50	42	21
Corporate Risk Management	**Facilitating the updating of the Council's strategic risk register and other actions to support the Council's Risk Management Strategy:** - Strategic Risk update reports issued in July and November 2016 with further update due in March 2017. - Risk management guidance on intranet updated in September 2016. - Updated Risk Management Policy and Strategy to be presented for review in March 2017.	30	21	21
Anti-Fraud and Corruption	**Investigation of referred cases:** (Summary of work completed to be set out in Annual Head of Internal Audit Report). **Work in co-ordinating the reporting of the Council's NFI data matching exercise:** Liaised with services to ensure the required data for NFI was submitted in October 2016 as planned with matches to be reviewed from January 2017. **Work to review the existing Anti- Fraud and Corruption Strategy and Policy, including where applicable, raising awareness of supporting guidance to promote measures to prevent, deter or detect instances of fraud and corruption:** Work completed in liaison with Counter Fraud team	140	98	69

	in respect of awareness raising re fraud reporting. Updated Anti-Fraud and Corruption Policy and Strategy to be presented for approval in March 2017.			
Procurement / Contracts/ Value for money	**Review of procurement / contract management arrangements across the Council including systems in place and associated arrangements to secure value for money. (This will include liaison with the STAR Procurement Service and partner authority auditors).** **See Appendix 2** for work undertaken/planned.	70	45	50
ICT Audit	**Audit reviews to be completed in line with the ICT audit plan.** **See Appendix 2** for work undertaken/planned.	60	42	31
Schools	**Support the Council in working with schools to adhere to the Schools Financial Value Standard (SFVS).** **Undertake School Audit reviews (Issue of at least 15 Audit Opinion Reports)** **- see Appendix 2** for audit opinion reports issued and planned. (7 final reports issued, 5 reports currently in progress with a further 4 planned in quarter 4).	170	120	144
Assurance – Other Key Business Risks	**Selected on the basis of risk from a number of sources including senior managers' recommendations, risk registers and internal audit risk assessments. Reviews will include authority wide issues and areas relating to individual services, establishments and functions.** - **See Appendix 2** for audit opinion reports issued and other work completed / planned.	180	120	157
Grant claims checks / Data Quality	**Internal audit checks of grant claims / statutory returns as required.** **Checks completed to date have covered:** -Stronger Families Programme -Payroll / Greater Manchester Pension Fund -Local Growth Fund -Public Health -Cycling Ambition Grant Phase 1 -Integrated Transport and Highways Maintenance. **To complete in Q4:** -Cycling Ambition Grant Phase 2.	30	20	36
Service Advice / Projects	**General advice in respect of control, risk and governance across council services, projects etc.** Ongoing advice across Council services. Provision of guidance including update of Audit intranet site. Membership of Information Security Governance Board (ISGB) and support in progressing the ISGB Action Plan.	60	41	32
TOTAL		**1020**	**714**	**726**

APPENDIX 2

Audit Opinion Reports Issued and Planned 2016/17 (as at 31 December 2016)

Category	Audit Opinion Reports	Status	Plan for Quarter 4
Fundamental Systems	-Payroll (T&R) -Income Control (T&R) -NDR (T&R) -Council Tax (T&R) -Benefits/Council Tax reduction (T&R) -Treasury Management (T&R) -Cash Expenditure Control (T&R) -Cash Income Control (T&R) -Insurance (T&R) -Accounts Payable (T&R) -Liquid Logic/ContrOCC system (CFW) -Direct Payments (CFW) -Budgetary Control (T&R/Authority-Wide) -Accounts Receivable & Debt Recovery (T&R) -Let Estates (EGEI) (Note work also completed as planned supporting Finance in respect of work re the Highways Assets Valuation).	Final report issued 29/6/16 Final report issued 7/11/16 Final report issued 28/4/16 Final report issued 7/4/16 Final report issued 28/11/16 Final report issued 10/11/16 Final report issued 12/5/16 Final report issued 30/6/16 Final report issued 7/7/16 Draft report completed Draft report completed Draft report completed In progress Not started Not started	- - - - - - - - - Final report to issue Q4. Final report to issue Q4. Final report to issue Q4. Draft report to issue Q4. Delayed at service request (to commence in Q4). Start date to be agreed in Q4 as planned.
Procurement /Contracts /Value for money	- Parking Enforcement Contract (EGEI) - Review of Social Value in Procurement (STAR authorities) (T&R) - One Trafford Partnership - Governance/monitoring (EGEI) (Note work also undertaken with regular liaison with Audit Sections of STAR partners including input to STAR audit reviews undertaken - 2 Follow up final audit reports issued by Stockport Council in April 2016 – STAR Governance review and STAR Contracts Register review).	Final report issued 7/10/16 In progress Planning stage	- Final report to issue Q4 Start date to be agreed in Q4 as planned.
ICT Audit	-IT Governance and Security in Schools follow up audit review (CFW&T&R) - IT Applications: Access Controls Follow Up Review (T&R) - Liquid Logic/ContrOCC system IT review (CFW) - IT Change Management (T&R) - Cyber Security follow up review (T&R) (Note: -IT Disaster Recovery - position to date will be reflected in Business Continuity follow up review / further planned audit work to be considered. -Information Governance (see Appendix	Final report issued 11/5/16 Final report issued 21/10/16 Draft report completed (Findings issued in same report as respective financial system review above). In progress Not started	- - Final report to issue Q4. Final report to issue Q4. Start date to be agreed in Q4 as planned.

	1 - Service Advice).		
Schools	-Springfield Primary School follow up -All Saints Catholic Primary School follow up -Moss Park Junior School -St.Joseph's Catholic Primary School -Brentwood School -Blessed Thomas Holford Catholic College -Urmston Infant School -Tyntesfield Primary School -Woodheys Primary School -Victoria Park Infant School -Stamford Park Junior School -Well Green Primary School -Brooklands Primary School -Our Lady of the Rosary RC Primary School -Wellfield Infant and Nursery School -Wellfield Junior School (Note other work completed includes follow up of previous opinion reports through school self-assessments: -Lostock College -St.Hilda's C of E Primary School).	Final report issued 10/11/16 Final report issued 20/7/16 Final report issued 22/4/16 Final report issued 6/7/16 Final report issued 11/7/16 Final report issued 5/9/16 Final report issued 17/10/16 In progress In progress In progress In progress In progress Planning stage Planning stage Not started Not started	- - - - - - - Final report to issue Q4. Final report to issue Q4. Final report to issue Q4. Final report to issue Q4. Final report to issue Q4. Draft report to issue Q4. Draft report to issue Q4 Draft report to issue Q4. To commence Q4.
Assurance – Other Key Business Risks	-Coppice Avenue Library (T&R) -Stretford Library (T&R) -Stretford Children's Centre (CFW) -Home to School Transport (CFW) -Client Finances (CFW/T&R) -Out of Borough Placements (CFW) -Housing Options (EGEI) - Section 106 Planning Agreement / Community Infrastructure Levy (EGEI) -Sale Waterside Arts Centre follow-up review (T&R) -Planning Enforcement (EGEI) -Corporate Health and Safety (T&R/Authority-wide) -Business Continuity (T&R/Authority-wide) -Taxi Licensing follow-up review (EGEI) -Schools catering follow–up review (T&R) -Aids and Adaptations (CFW) (Note other work completed includes follow ups of previous opinion reports through manager self assessments: -Registrars Income -Section 17 Payments (Children's Act 1989) -Development Management).	Final report issued 30/8/16 Final report issued 18/11/16 Final report issued 7/10/16 Final report issued 3/11/16 Final report issued 3/10/16 Draft report completed In progress In progress In progress Not started Not started Not started Not started Not started Not started	- - - - - Final report to issue Q4. Draft report to issue Q4. Draft report to issue Q4 Draft report to issue Q4 Start date to be agreed in Q4 as planned. Start date to be agreed in Q4 as planned. Start date to be agreed in Q4 as planned. Start date to be agreed in Q4 as planned. Start date to be agreed in Q4 as planned. Start date to be agreed in Q4 as planned.

APPENDIX 3

POINTS OF INFORMATION TO SUPPORT THE REPORT:

Audit Opinion Levels (RAG reporting) :

Opinion – General Audits

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

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

Report Status:

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

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

Breadth of coverage of review (Levels 1 to 4)

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

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

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TRAFFORD COUNCIL

Report to: **Executive**
Date: **23 January 2017**
Report for: **Discussion**
Report of: **The Executive Member for Finance and the Chief Finance Officer**

Report Title:

Budget Monitoring 2016/17 – Period 8 (April to November 2016).

Summary:

The purpose of this report is to inform Members of the current 2016/17 forecast outturn figures relating to both Revenue and Capital budgets. It also summarises the latest forecast position for Council Tax and Business Rates within the Collection Fund.

Recommendation(s)

It is recommended that:

a) the Executive note the report and the changes to the Capital Programme as detailed in paragraph 19.

Contact person for access to background papers and further information:

David Muggeridge, Finance Manager, Financial Accounting Extension: 4534

Background Papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial	Revenue and Capital expenditure to be contained within available resources in 2016/17.
Legal Implications:	None arising out of this report
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	Not applicable
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Other Options

Not Applicable

Consultation

Not Applicable

Reasons for Recommendation

Not Applicable

Finance Officer Clearance *……NB…………*
Legal Officer Clearance *………MJ……*

CORPORATE DIRECTOR'S SIGNATURE: Joanne Hyde

REVENUE BUDGET

Budget Monitoring - Financial Results

1. The approved budget agreed at the 17 February 2016 Council meeting is £147.32m. In determining the budget an overall gap of £22.64m was addressed by a combination of additional resources of £6.26m, including projected growth in business rates, council tax and use of general reserve and £16.38m of service savings and additional income.
2. Based on the budget monitoring for the first eight months, the year end forecast is showing an underspend figure of £670k.
3. The summary details of service variances against budget are shown in Table 1 and Table 2 below.

Table 1: Budget Monitoring results by Service	**2016/17 Budget (£000's)**	**Forecast Outturn (£000's)**	**Forecast Variance (£000's)**	**Percent-age**
Children's Services	29,484	31,873	2,389	8.1%
Adult Services (Inc. Public Health)	46,929	47,309	380	0.8%
Economic Growth, Environment & Infrastructure	32,225	31,831	(394)	(1.2)%
Transformation & Resources	17,067	16,170	(897)	(5.3)%
Total Service Budgets	**125,705**	**127,183**	**1,478**	**1.2%**
Council-wide budgets	21,615	19,467	(2,148)	(9.9)%
Forecast outturn (period 8)	**147,320**	**146,650**	**(670)**	**(0.5)%**
Dedicated Schools Grant	**119,410**	**119,902**	**492**	**0.4%**
Public Health	**13,334**	**13,347**	**13**	**0.1%**

Main variances, changes to budget assumptions and key risks

4. Historically service variances at year end have been moved into service earmarked reserves and the current balances on those are detailed in Paragraph 12. A number of firm commitments already exist on those reserves largely to support transformational projects which limit the ability to absorb the full extent of the in-year pressures, particularly in CFW. It is proposed that where any in-year overspend cannot be funded from that particular service reserve then it will be met from the in-year underspend of the other directorates.

5. The significant demand led pressures being placed on the Children's Service placement budget are being addressed in the current year predominantly through the use of one off savings within Council-wide budgets and brought forward service earmarked reserves. However, the recurrent nature of the pressures is likely to continue into 2017/18 and the implications of this are being considered as part of the budget process for 2017/18.

6. The main variances contributing to the projected underspend of £670k, any changes to budget assumptions and associated key risks are highlighted below:

Table 2: Main variances	Forecast Variance (£000's)	Explanation/Risks
Children's Services	2,389	The variance in the children in care placements budget in part relates to the following factors: • The Placements Budget continues to be a demand led budget and the continued incremental increase in the number of children in care translates directly to an increase in demand for placements. In August 2015 there were 324 children in care, this figure has increased annually and incrementally, with 331 children at 31st March 2016 and at the end of November there were 370 children in care (356 at the end of September 2016). • The complexity of the presenting needs of children, who enter care, has translated into a demand for placements that require high levels of supervision and longer placement periods. In particular there are currently 3 children who are placed in high cost secure children's homes. The collective costs of these placements are £516k. The above has resulted in an increase in the number of placements in external homes (8 whole time equivalents), agency foster care (11.34 whole time equivalents) and secure homes (0.71 whole time equivalents). This is expected to cost £2.1m. The Placement budget also accommodates the social care cost of placements made out of borough for CYP with an Education, Health and Care (EHC) plan. The number and cost of these placements has increased since the EHC reforms came in to place. Extension of leaving care duties and the introduction of Staying Put placements has also led to an increase in Placement costs. The authority has 6 Unaccompanied Asylum Seeking young people currently looked after, with limited additional funding. Action has been taken to mitigate against the continued increase in the placement budget, including: • a further foster care recruitment campaign, "You Can Foster" which will run for 6 months. Trafford has been a very successful recruiter of foster carers thus, despite the increase in the numbers of children in care, only 10% of all LAC have been placed with independent fostering agencies. It is predicted that this 6 months marketing campaign will increase internal fostering

		capacity by 5 to 8 foster carers for older children and children with complex needs. • Monthly monitoring meetings chaired by the Director of Safeguarding monitor every placement ensuring that predicted end dates are on target and considers options for cost reduction strategies for each placement. • The task of commissioning placements was transferred to the Commissioning Team and through improved commissioning practices they aim to reduce unit costs of placements and review high cost placements looking for alternative, cost effective placement solutions – to date this has realised savings of £29k. • All in house placement resources continue to be used to full capacity and both of Trafford's children's homes are, in the main, at full occupancy level. Whilst all management action will be taken to address the forecast overspend, given the additional number of children in care already at month 8, the budget will not be brought back to balance by year end.
Adult Services / Public Health	380	This forecast overspend is mainly as a result of a combination of higher levels of care being needed and the number of new entrants being higher than was anticipated for the year. This situation has been exacerbated by the Greater Manchester initiative which is currently underway to reduce the number of delayed discharges from hospital.
Economic Growth, Environment & Infrastructure	(394)	The projected underspend, which has increased by £115k since the last report, includes income from Oakfield Road car park remaining open until the start of the Altair development in January 2017 £171k; increased income from planning above expectations £136k; an underspend on staffing of £295k after taking account of agency costs and additional income from backdated rents on investment properties £78k. These are offset by a shortfall in building control income £87k, an increase in the waste disposal levy of £48k based on latest figures from GMWDA and other reductions in income and increased running costs of £151k.
Transformation & Resources	(897)	The projected underspend, which has increased by £197k since the last report includes: £735k underspend from staff vacancies after taking account of agency costs, which is a £173k increase since P6. This equates to 3.6% of the total staffing budget and is lower than the levels experienced in 2015/16, which were in excess of 6%, and reflects the ongoing efforts to fill outstanding vacant posts; £52k underspend from cost control of running expenses (a fall of £27k since the last

		report); £146k from higher levels of income (an increase of £51k since the last report), and includes government grant related budgets in Exchequer Services; other minor adverse variances £36k.
Council-wide budgets	(2,148)	The 2016/17 Interim Dividend from Manchester Airport Group (MAG) of £1.52m was received in December 2016 bringing the total received in year to £4.01m, which is £1.41m above budget. However, the underspend of £1.41m will be transferred to the MAG earmarked reserve and is therefore not included in the projected outturn figure. It is proposed to use £1.38m of this to support the deficit on business rates as previously reported (see paragraph 17 below). A further favourable movement of £358k over the previous period relating to the housing benefit budget, resulting in a year end projected outturn of £1.16m below budget. The projected variance relates to the continued success in the recovery of previous years' housing benefit overpayments, coupled together with a higher in-year percentage of subsidy being reclaimed from the Government. The latter, relates to a lower in-year overpayment error rate being identified. Previous years' overpayment recovery is one off in nature and should reduce as recovery tapers off. A projected saving of £499k in the levy payable on business rate growth which is forecast to be lower than anticipated due to unexpected business rate appeals (see paragraph 17). A review of our balance sheet, usually undertaken at year end, was completed early and a one-off amount of £190k has been identified which has been released, relating to historic balances for goods received but not invoiced. Also a number of Council-wide contingencies and provisions relating to pensions auto-enrolment, transformation savings not being achieved and doubtful debts have been reviewed and it is considered appropriate at this stage of the year to release 50% of these totaling £448k. An estimated £57k under budget is expected to be achieved, relating to overpayment recovery of previous year's Council Tax Benefit; this is a small improvement of £8k from Period 6. A number of final grant notifications have been received giving a projected overspend of £38k. Additional costs on treasury management of £166k in respect of an up-front investment in the pension fund, now expected to be made in April 2017.

Dedicated Schools Grant	492	The projected overspend, which has reduced by £675k since the last report, continues to relate mainly to pressure within the High Needs Block, albeit this has reduced significantly following an in-year review of all High Needs expenditure. The £675k favourable movement includes savings in: • SEN and Special School placements both within the borough and out of borough £541k; • Additional savings identified within the High Needs and Early Years blocks £134k. The level of DSG reserve is now projected to be £295k at year end.

Progress against Locality Plan

7. A key element of the Health and Social Care devolution agenda is the submission of a Locality Plan setting out the Council and CCG vision for the greatest and fastest possible improvement in the health and wellbeing of our residents by 2020. This improvement will be achieved by supporting people to be more in control of their lives by having a health and social care system that is geared towards wellbeing and the prevention of ill health; access to health services at home and in the community; and social care that works with health and voluntary services to support people to look after themselves and each other.

8. Work is ongoing on the locality plan and it is anticipated that further work will be required in the coming months to understand how any budget gaps will be addressed. Financial performance against the locality plan is highlighted below (note budgeted figures are shown gross and inclusive of specific grants).

Table 3: Locality Plan Update	2016/17 Budget (£000's)	Forecast Outturn (£000's)	Forecast Variance (£000's)	Percent-age
Public Health	13,334	13,347	13	0.1%
Adult Social Care	52,874	53,241	367	0.7%
Children and Families	29,911	32,300	2,389	8.0%
Total	**96,119**	**98,888**	**2,769**	**2.9%**

MTFP Savings and increased income

9. The 2016/17 budget was based on the achievement of permanent base budget savings and increased income of £16.38m. At Executive in March 2016 there was a decision to amend the policy on social care transport impacting on the overall savings programme. The savings target was subsequently reduced to £16.10m, with the adverse impact of this change being included in the overall

CFW monitoring position. Full details are included in the latest Transformation Programme Board Report.

10. The latest forecast indicates that total savings of £15.93m have been or are projected to be delivered by 31 March 2017. This represents an underachievement against target of £167k, which relates mainly to the Corporate (treasury) savings targets, and is included in the overall projections in Table 1 above.

RESERVES

11. The General Reserve balance brought forward is £7.89m, against which there are planned commitments up to the end of 2016/17 of £1.89m leaving the balance at £6m which is the approved minimum level.

Table 4 : General Reserve Movements	**(£000's)**
Balance 31 March 2016	**(7,894)**
Commitments in 2016/17: - Planned use for 2016/17 Budget - Planned use for one-off projects 2016/17	 1,850 44
Balance 31 March 2017	**(6,000)**

12. Service balances brought forward from 2015/16 were a net £5.95m and are largely allocated to support transformation projects in 2016/17 and later years. A detailed review has been completed and identified £5.70m of firm commitments against the brought forward figure.

Table 5: Service balances	**b/f April 2016 (£000's)**	**Firm Commitments (£000's)**	**Est Balance (£000's)**
Children, Families & Wellbeing	(1,837)	1,590	(247)
Economic Growth, Environment & Infrastructure	(1,740)	1,740	0
Transformation & Resources	(2,372)	2,372	0
Total (Surplus)/Deficit	**(5,949)**	**5,702**	**(247)**

13. It is proposed that no further commitments are made against the CFW service reserve given the current projected outturn position within CFW. A further review of all service commitments will be undertaken before year end.

COLLECTION FUND

Council Tax

14. The 2016/17 surplus on the Council Tax element of the Collection Fund is shared between the Council (84%), the Police & Crime Commissioner for GM (12%) and GM Fire & Rescue Authority (4%).

15. As at November 2016 the end of year surplus balance is forecasted to be £2.07m. The Council's share of this is £1.73m, and is planned to support future budgets in the MTFP. This is no change on that previously reported.

16. Council Tax collection rate as at 30 November 2016 was 77.57%, which is above the targeted collection rate of 77.34%.

Business Rates

17. The 2016/17 budget included anticipated growth in retained business rates and related S31 grants of £4.51m. Latest forecasts of business rate income indicate a potential one-off shortfall in retained business rate income of £1.38m caused by an unexpected increase in the level of appeals. Whilst this has a benefit in that it reduces the overall levy payable on growth (See comments on the Council-wide budget in Table 2) it means there will be a deficit on the collection fund. This position will be monitored during the remainder of the year but if the deficit position remains then it will need to be financed and therefore it is proposed to earmark reserves to cover this, including the MAG earmarked reserve (see Table 2 above).

18. Business Rates collection rate as at 30 November 2016 was 72.67% compared to a targeted collection rate of 73.86%. This shortfall is mainly due to ongoing legal cases. It is known that the final court hearings will not take place until later in 2017 and therefore it is likely that the collection rate will remain below the target during the rest of this financial year.

CAPITAL PROGRAMME

19. The value of the indicative 2016/17 Capital Programme reported in the P6 monitor report was £42.55m. Taking into account re-phasing and new external contributions the budget is currently estimated at £42.42m. The changes to the budget are detailed below and are summarised as follows:

Table 6 - Capital Investment Programme 2016/17	**P6 Programme (£'000's)**	**Changes (£'000's)**	**Current Programme (£'000's)**
Service Analysis:			
Children, Families & Wellbeing	13,283	(448)	12,835
Economic Growth, Environment & Infrastructure	25,975	428	26,403
Transformation & Resources	3,287	(103)	3,184
Total Programme	**42,545**	**(123)**	**42,422**

- **Virement - £400k from CFW to EGEI**
  - An investment opportunity has arisen to purchase a property at the Claremont Centre, Sale at an estimated cost of £400k. The costs of this can be contained within the Capital Programme through a virement from the Social Care Investment budget (scheme Ref 2582 - this budget has been previously reported as uncommitted. Any requirements for future investment in this area will be included in forthcoming budget reports).
- **Rephasing to 2016/17 and 2017/18 - £(90)k**
  - Adult Social Care Grant: £30k. - The budget for work to a client's home was originally phased to 2017/18, work has now been completed and the budget accelerated accordingly;
  - Integrated Transport Works: £(32)k – Due to ongoing design and consultation a small number of schemes are now not expected to complete until 2017/18;
  - CRM Upgrade: £(88)k - The expected completion date is now August 2017. As a result £88k of the budget has been re-profiled to 2017/18.
- **Changes to existing budgets - £(33)k**
  - Schools – Additional Places: £(60)k. A reduced school contribution for the scheme at Brentwood School replaced by an allocation of Devolved Formula Capital;
  - Altrincham Crematorium – Office refurbishments : £21k. Further works are required to bring the public areas of the office to an acceptable standard. The additional costs can be financed from a contribution from the accumulated income within the crematorium revenue budget;

- Play Area Refurbishments - Pickering Lodge : £6k – Additional costs have been covered by the application of a S.106 contribution.

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

Table 7 - Capital Investment Resources 2016/17	**P6 Programme (£'000's)**	**Changes (£'000's)**	**Current Programme (£'000's)**
External:			
Grants	15,504	(58)	15,446
Contributions	7,947	(86)	7,861
Sub-total	**23,451**	**(144)**	**23,307**
Internal:			
Receipts	7,624	-	7,624
Borrowing	11,008	-	11,008
Reserves & revenue	462	21	483
Sub-total	**19,094**	**21**	**19,115**
Total Resourcing	**42,545**	**(123)**	**42,422**

Status and progress of projects

21. Since the budget was set in February 2016 reports detailing planned projects covering schools, highways, greenspace and corporate landlord to be undertaken during the year have been agreed. These plans provide the basis on which the Capital Programme is monitored for both financial and physical progress.

22. As part of the monitoring process a record of the "milestones" reached by each project is kept to show the progress of the scheme from inclusion in the Programme through to completion. The table below shows the value of the programme across the milestone categories.

Table 8 - Status on 2016/17 Projects	**Current Budget (£m)**	**Percentage of Budget**
Already complete	9.0	21%
Underway	24.5	58%
Programmed to start later in year	8.2	19%
Not yet programmed	0.7	2%
Total	**42.4**	**100%**

23. The first three categories give a good indication as to the level of confirmed expenditure to be incurred during the year. As can be seen £41.71m (98%) of the budget has now been spent, committed or is programmed to start in the year.

24. Schemes with a value of £717k are classed as “Not yet programmed” and relates to budgets where specific projects have not yet been agreed or budgets that have yet to have a start date planned. Priority will be placed on progressing schemes as soon as possible. Major areas Included in this category are:

- **Leisure Services Assets: Improvement Programme - £451k**. This budget will be committed in line with the priorities in the Leisure Strategy.

- **ICT projects - £266k**. A number of projects currently remain on hold until the full effect of the reshaping agenda and its impact on the Council’s ICT infrastructure requirements is known.

25. The table below provides a more detailed analysis by service area.

Table 9 - Status by Service Area	Already complete	Under-way	Programmed	Not yet Programmed
Children, Families & Wellbeing	56%	38%	6%	0%
Economic Growth, Environment & Infrastructure	6%	85%	7%	2%
Transformation & Resources	6%	78%	8%	8%

Summary

26. The monitoring undertaken during the period has resulted in projected outturn expenditure of £42.42m. Whilst there is a total £41.71m of schemes for which there are known milestone dates there may be issues arising which could affect delivery between now and year-end. Also there are projects where delivery is outside of the council’s control (e.g. Metrolink extension: £5m – The Traffic Works Act Order has now been approved and first payments are anticipated to be made to TfGM this financial year). All schemes will continue to be monitored and any change in expected delivery will be included in future reports.

Issues / Risks

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

Recommendations

28. That the Executive note the report and the changes to the Capital Programme as detailed in paragraph 19.

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2017
Report for: Approval
Report of: Chief Finance Officer

Report Title

Options for Appointment of External Auditor – Recommended Action

Summary

The Local Audit and Accountability Act 2014 at Section 7 states that a "relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year." Current auditor contracts have been extended for 12 months, therefore, for Trafford Council, the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.

The Accounts and Audit Committee was provided with a report on options available in terms of the process for the future appointment of the external auditor at its meeting on 23 November 2016. This report provides the updated position on this issue and makes a recommendation as to the proposed approach.

Recommendation

That the Accounts and Audit Committee recommends to Council that the future process for appointing the external auditor, to be completed by December 2017, is undertaken via the use of the Sector Led Body, Public Sector Audit Appointments Limited (PSAA).

Contact person for access to background papers and further information:

Name: Nikki Bishop – Chief Finance Officer
Extension: 4238

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

Background Papers:
None

Options for Appointment of External Auditor – Recommended Action

1. Introduction

1.1 This report provides the Accounts and Audit Committee with a further update in respect of the review of options being considered for the future appointment of the Council's external auditors (to commence for an agreed period from the financial year 2018/19). Based on a review of each option, the report includes the proposed approach for the Accounts and Audit Committee to recommend to Full Council.

2. Background

2.1 The Local Audit and Accountability Act 2014 brought the Audit Commission to a close, and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for Communities and Local Government determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

2.2 The current external auditor for Trafford Council is Grant Thornton, this appointment having been made under a contract which was originally let by the Audit Commission.

2.3 Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State for Communities and Local Government. When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to a local appointment of its auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities.

2.4 Current audit fees are based on discounted rates offered by the firms in return for a substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

2.5 The scope of the audit will still be specified nationally by the National Audit Office (NAO) which is responsible for writing the Code of Audit Practice. All firms appointed to carry out the Council audit must follow these requirements.

2.6 Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process is in progress and so the number of eligible and interested firms is not known at this stage but it is reasonable to expect that the list may include the top 10 or 12 firms in the country, including the Council's current external auditor. It is unlikely that small local independent firms will meet the required eligibility criteria.

2.7 The procurement option chosen must be ratified by Full Council.

3. Options for Local Appointment of External Auditors

3.1 As previously advised to the Accounts and Audit Committee, there are three broad options open to the Council under the Act and new appointments for auditors need to be made by December 2017 regardless of which option is chosen. The options are set out below, together where applicable with comments in respect of respective strengths and risks of respective approaches.

Option 1: Make a stand-alone appointment

3.2 To make a stand-alone appointment, the Council will need to establish an independent Auditor Panel (See section 4). The Panel must be made up of a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees – for the Council this excludes all current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input into the process for the assessment and appointment of the firm of accountants to provide the Council external audit. A newly established and independent Auditor Panel would be responsible for selecting the auditor.

3.3 This option allows the Council to have local input to the decision; however, recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and allowances throughout the life of the contract. In addition the Council would not benefit from reduced fees that may be available through joint or national procurement contracts.

Option 2: Local joint procurement arrangements

3.4 The Act enables the Council to join with other authorities to establish a joint independent Auditor Panel which would need to be constituted and made up of a majority, or of wholly independent members.

3.5 Greater Manchester Treasurers (representing the ten GM Councils, GMCA, TfGM, GMPCC, GMP, GMFRS and GM Waste) have worked together to consider the possibility of such an approach for GM authorities. It was initially thought this might be a suitable approach given the level of collaboration, joint working and similar core functions within the organisations. At present, eight of the ten GM councils are audited by Grant Thornton and two are audited by KPMG.

3.6 There would still be a requirement to set up an Auditor panel, run the bidding exercise and negotiate the contract plus maintain the arrangement over the life of the contract although costs would be lower as shared across a number of authorities. As referred to in section 4, there would still also be a requirement that the Auditor Panel consists of a majority of independent members i.e. independent of all the participating organisations.

3.7 A key risk for this option is that accountancy and audit firms may decline to bid for a package of GM external audit work due to independence issues. Any firm that was successful would be unable to undertake any advisory work within Greater Manchester, as to do so would be in contravention of professional standards, independence safeguards and terms of appointment established by the PSAA. There are therefore likely to be a limited number of bidders if this option was chosen and the price obtained is likely to be less competitive. The GM authorities have also been advised that any firm that has any connection to an Elected Member within GM (e.g. an elected Member who worked for that firm) would also be unable to bid for the work.

Option 3: Opt-in to a sector led body

3.8 In response to the consultation on the new arrangement, the LGA successfully lobbied for councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. This body had been confirmed as Public Sector Audit Appointments Limited (PSAA). PSAA will have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

3.9 Under this approach, the costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities and by offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation. Any conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon.

3.10 The appointment process would not be ceded to locally appointed independent members but by a separate body set up to act in the collective interests of the 'opt-in' authorities.

3.11 This approach would result in better value than the other options without the need to convene a local auditor panel.

3.12 In considering this option, GM Treasurers sought assurance from the PSAA that Social Value factors would be taken into account as part of the procurement process. Following discussions, although the level of weighting was not as high as hoped by the GM Authorities, it was agreed by PSAA that Social Value would be included as a specific measure within the tender process (The weightings within the tender evaluation model are expected to be as follows: Audit Quality 45%, Social Value 5% and Price 50%).

3.13 In order to take up this option, Trafford Council would have to "opt in" by 9th March 2017.

4. Auditor Panel

4.1 If selecting options 1 or 2, there will be a requirement to establish an independent Auditor Panel, either specifically for the Council or in collaboration with partners. The Auditor Panel role is different to that of the Audit Committee. Its functions are to advise the Authority on:

- Selection and appointment of the auditor
- Resignation or proposals to remove the auditor
- Adoption of a policy on non-audit services
- Maintenance of independent relationship with the auditor
- Any proposals to enter into limited liability agreements.

4.2 A key challenge for the Auditor Panel is to ensure appropriate appointments that meet the requirements of the Act. It is required that the Panel have at least three members but the majority, including the Chair, should be independent of the Council (and all participating authorities if a joint auditor panel was set up). It is permissible for Council elected members to be represented on the panel, but the majority of members and Chair are required to be independent. The definition of independence in the Act and supporting CIPFA guidance is explicit and allows little option other than through the advertisement and appointment of specific, external, independent members. Panel members will also be required to have the requisite skills and experience, which may not be readily identifiable or available given the specialist nature of the external audit contract and procurement processes.

4.3 The issues above would not apply if option 3 were selected.

5. Recommended Approach

5.1 The Chief Finance Officer has liaised with her counterparts in the other nine GM Councils, GMCA, TfGM, GMPCC, GMP, GMFRS and GM Waste to review the various options. Given the factors taken into account above, it is concluded that Option 3 (Sector Led appointment) should be the recommendation to the Council to progress the appointment of the external auditors. This is also seen as the favoured approach across GM Authorities.

6. Next Steps

6.1 The Council has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by Spring 2017 in order that the contract negotiation process can be carried out during 2017.

6.2 The Council will then need to take action to implement new arrangements for the appointment of external auditors from April 2018.

Recommendation

The Accounts and Audit Committee is asked to recommend to Full Council that Option 3 is selected i.e. the Council opts in to the national arrangement with PSAA for the appointment of the external auditors. In order to meet the 9th March 2017 deadline a decision to take option 3 needs to be taken at the February 2017 Council Meeting.

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TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 7 February 2017
Report for: Information
Report of: Audit and Assurance Manager

Report Title

Accounts and Audit Committee – Work Programme – 2016/17

Summary

This report sets out the updated work plan for the Committee for the 2016/17 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 2016/17 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**
28 June 2016	Agree Committee's Work Programme for 2016/17 (including consideration of training and development). Training & Development/Presentation (June) - Draft accounts (provided outside Committee)					
	- 2015/16 Head of Internal Audit Annual Report	- Audit Progress Report	- Update on Strategic Risk Issue (Loss / retention of Senior Managers)	- Review 2015/16 draft Annual Governance Statement - Accounts and Audit Committee 2015/16 Annual Report to Council		- Pre-audited 2015/16 accounts - 2015/16 Revenue Budget Monitoring Outturn and Capital Investment Programme Outturn reports -Treasury Management update (including Annual Performance Report 2015/16) - Insurance Performance Report 2015/16.
29 September 2016	Business Rates presentation.					
	- Q1 Internal Audit Monitoring Report	- Audit Findings Report		- 2015/16 Annual Governance Statement (final version)	- Counter Fraud Team Update (including 2015/16 Benefit Fraud Investigation) - Office of Surveillance Commissioners – outcome of inspection. (Covered under an Exclusion Resolution).	- Approval of Annual Statement of Accounts 2015/16 - Budget Monitoring Report.

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**
23 November 2016						
	- Q2 Internal Audit monitoring report	- Annual Audit Letter - Audit Update - Options for Appointment of External Auditor.	- Strategic Risk Register Monitoring Report		- Fraud reporting update – awareness raising	- Treasury Management : mid-year performance report - Budget Monitoring Report
7 February 2017	Training and Development : Treasury Management (to be undertaken in advance of the Committee meeting)					
	- Q3 Internal Audit monitoring report	- Audit Update (including Grant Claims summary) - External Auditor Appointment Process		- Report on arrangements for 2016/17 Annual Governance Statement. - Consider improvement actions taken in 2016/17 in respect of a 2015/16 governance issue : Reshaping Trafford		- Treasury Management Strategy - Budget Monitoring Report
21 March 2017						
	- 2017/18 Internal Audit Plan - Internal Audit Charter and Strategy /Public Sector Internal Audit Standards update	- Audit Plan / update	- Strategic Risk Register Monitoring Report - Risk Management Policy and Strategy		- Anti-Fraud and Corruption Update: Anti-Fraud and Corruption Policy and Strategy).	- Budget Monitoring Report.