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29 January 2019

Dear Sir/Madam

AUDIT AND MEMBER STANDARDS COMMITTEE

A meeting of the Audit and Member Standards Committee has been arranged to take place on **WEDNESDAY, 6TH FEBRUARY, 2019 at 6.00 PM IN THE COMMITTEE ROOM** District Council House, Lichfield to consider the following business.

Access to the Committee Room is via the Members' Entrance.

Yours faithfully

Neil Turner BSc (Hons) MSc
Director of Transformation & Resources

To: Members of Audit and Member Standards Committee

Councillors Tittley (Chairman), Hoult (Vice-Chair), Mrs Boyle, Marshall, Mosson, Rayner, Strachan, Mrs Tranter and Mrs Woodward

AGENDA

AUDIT AND MEMBER STANDARDS COMMITTEE

14 NOVEMBER 2018

PRESENT:

Councillors Tittley (Chairman), Hoult (Vice-Chair), Mrs Boyle, Marshall, Mosson, Rayner, Strachan, Mrs Tranter and Mrs Woodward

Observer: Councillor Spruce (Cabinet Member for Finance & Democratic Services)

Officers In Attendance: Mr N Turner, Miss W Johnson, Ms B Nahal and Mr A Thomas

Also Present: Mr John Gregory (Grant Thornton UK LLP) (External Auditor) and Ms Laurelin Griffiths (Grant Thornton UK LLP) (External Auditor)

12 APOLOGIES FOR ABSENCE

There were no apologies for absence.

13 DECLARATIONS OF INTEREST

There were no Declarations of interest.

14 MINUTES OF THE PREVIOUS MEETING

The Minutes of the Meeting held on 25 July 2018, as printed and previously circulated, were taken as read and approved as a correct record.

15 MID-YEAR TREASURY MANAGEMENT REPORT

Mr Anthony Thomas (Head of Finance & Procurement) delivered a Presentation on the Mid-Year Treasury Management Report and explained why we prepare the report and went through the treasury management activities including the projections for the current financial year and the projected prudential indicators.

Mr Thomas explained the Capital Programme performance comparing the Original and Revised Budgets with an increase in Budget of £2,326,500. Spend was projected to be £3,544,000 lower than the Approved Revised Budget. The reasons for the variance to the Approved Revised Budget were also shown in a graph which illustrated £3,000,000 Property Investment Strategy which was approved by Council on 16 October 2018 and Mr Thomas said at present the Council is in the process of recruiting an estates management team that will be integral to the delivery of this strategy. Capital Receipts were projected to be higher than budget due to Disabled Facilities grant repayments and the Council's share of Bromford Right to Buy Receipts. Capital Funding would reflect the projected Capital Programme performance and therefore borrowing would be lower than the Revised Approved Budget.

It was queried if there was to be a review of the Capital Programme as the only capital for Burntwood seemed to be Sankey's Corner Environmental Improvements and it did not seem equitable, could the Burntwood equitable share be looked at as there is a lot of money in Lichfield City Centre. Mr Thomas advised that the Strategic (O&S) Committee would be considering the Draft Capital Programme and Capital Bids at their meeting on 22 November 2018.

The Balance Sheet Projections reflect lower spend on the Property Investment Strategy together with lower borrowing. The projected year-end balance of investments was 322,186,000 compared to the Budget of £20,911,000.

Borrowing need and its financing reflected the lower projected spend on the Property Investment Strategy.

At 30 September 2018 the Council had £31m of investments with the value of the Property Investment now showing a "book loss" of £90,930 compared to the projected balance on the Earmarked Reserve of £95,083.

Mr Thomas stated that at the end of the financial year last year there was a difference of opinion between ourselves and the External Auditors although this would be overcome through a statutory override. The statutory override has been provided by MHCLG for a 5 year period although CIPFA are still advocating a permanent override.

The yield of our investments compared to other Authorities demonstrated that we are slightly lower than other districts and more spread than others and the evidence shows we are much more secure.

Mr Thomas explained the new requirements of the Treasury Management Code and Prudential Code which states it will be possible to delegate responsibility for detailed Treasury Management Policies to this committee and the updated Prudential Code requires the completion of a Capital Strategy that will need to be approved by Full Council with scrutiny by this committee. Discussion took place around the Capital Strategy content and it was questioned if this document would sit with the MTFS and therefore go to Strategic (O&S) Committee. Mr Thomas said he was happy to do this and offered to look at this with the Chairman of Strategic (O&S) Committee.

The risks associated with the Capital Strategy were discussed and it was deemed that this should be a corporate risk on the risk register.

RESOLVED:- (1) The Report was reviewed and noted;
(2) The projected 2018/19 prudential indicators contained within the report were noted; and
(3) The requirement to produce a Capital Strategy that will need to be approved by Full Council was also noted.

16 AUDIT & MEMBER STANDARDS COMMITTEE PRACTICAL GUIDANCE

Mr Thomas briefed Members on the revised CIPFA Audit Committee Practical Guidance 2018 edition which replaced the previous 2013 Position Statement. Discussions took place around the content. The Committee were asked to consider the requirement for an independent member for non-standards issues as well as the standards issues which we currently have. Members did support the inclusion of independent members as it was agreed it would assist with transparency and add real questioning and rigor which is needed on a productive Audit Committee. However, it was felt to be quite a specialist committee and an independent member would need to be trained appropriately and from the correct background which may be challenging for us to find someone appropriate. The Chairman asked the Committee if they knew anyone who they would recommend as an independent member to let himself, Ms Nahal and Mr Thomas know. Ms Nahal - Head of Legal, Property & Democratic Services reminded the committee members that there are restrictions for independent members. She suggested that Council be asked for recommendations now for the next municipal year and this was agreed. In the meantime Committee members did support additional/refresher training for everyone as the purpose of an Audit Committee was to provide governance and independent assurance and this did include the adequacy of the risk management framework which could focus on the Capital Strategy.

The common areas of difficulty for Audit Committees was highlighted in the Report and the fact that limited knowledge and experience of members had been one of the top three barriers facing both Local Authority and Police Audit Committees.

RESOLVED:- (1) The Committee noted the updated practical guidance for Audit Committees published by CIPFA;
(2) The Committee considered the requirement of an independent member for non-standards issues as well as standards issues and all Members of the Council would be asked to recommend suitable candidates to the Chairman, Ms Nahal and Mr Thomas (Head of Finance & Procurement) for the new municipal year;
(3) Members considered additional/refresher training was a good idea for Members of the Committee in the new municipal year.

17 INTERNAL AUDIT PROGRESS REPORT

Members considered the Internal Audit Progress Report April 2018 to August 2018 and Mr Thomas presented the Audit Manager's Report on behalf of Mrs Struthers. The Audit Manager's opinion statement is at Appendix 1.

The report on Audit work carried out during April 2018 to August 2018 was summarised as the Internal Audit progress to the end of August 2018 shows that Internal Audit had started/completed 29% of the planned audits for 2018/19 which has evolved due to an Audit Apprentice being taken on in January 2018 and then left in June 2018 creating a vacancy. This vacancy gap is currently being provided by contracted staff to achieve the audit plan and a new post of Trainee Internal Audit Assistant is due to start in December.

Nine audits had been finalised during the period April 2018 to August 2018 with a total of 30 recommendations made with 27 of them being accepted by management. The table at Appendix 2 detailed the reviews finalised and their assurance levels and the limited assurances for TIC/Tourism and Section 106/CIL agreements were clarified by the Head of Service and Managers:-

Mr Craig Jordan, Head of Economic Growth introduced Ms Lisa Clemson, Tourism Manager to the Committee. Ms Clemson said she had joined Lichfield District Council 12 months ago and had welcomed this audit with it being conducted so soon after her starting the role as it highlighted the key areas that were in need of addressing at the tourist information office. The staffing levels and lack of leadership within the office had been the first area of concern. Ms Clemson said she had restructured the team at the tourist information office, which included moving one of the tourism team to be based at the tourist information office on a full-time basis to oversee the day to day operation. These changes have eradicated the need to use as many casual staff, provided more consistency and a more harmonious working environment. The salary costs are now in line with budget. All the tourism information office staff are now on the TMS system and Ms Clemson has also looked at the banking process taking advice from the finance team. New procedures have been put in place including dual signing when dealing with cash to the bank for a more secure operation. A new operations manual is currently being written by the tourist information team which will be finalised once the move to St Mary's has taken place and the team have settled in. As the tourism information office is currently in the library the office is closed on a Sunday – this was questioned by members as Sundays are usually very busy for Cities like Lichfield. Ms Clemson said the Visit Lichfield website contained lots of information for visitors and is kept up to date.

The tours were discussed and members were interested in how much the tours actually cost us and questioned the income generated. Ms Clemson advised that she had completed a cost analysis on all of the tours that had gone out over the last 18 months, from this analysis, new procedures have been put into place and prices have increased. Ms Clemson said currently they don't have enough guides to meet the demand for tours. An Open Day is being held on 20 November to recruit new guides, she welcomed anyone to come along and she had put together a training programme to train the new guides.

The Chairman thanked Ms Clemson for her attendance and the clear explanations and members were happy to hear of her vision for the tourism office. The Chairman invited Ms Clemson to return to the meeting in 6 months to update and this was agreed. In the meantime he agreed to write to the Chairmen of both Economic Growth, Environment & Development (O&S) Committee and Leisure, Parks & Waste Management (O&S) Committee as it was felt to be a very important area for the Lichfield District which could be much better. It was queried whether we had sought contributions from other authorities for financial support for tourism (i.e. Lichfield City Council/Lichfield Discover are we connected to them)?

It was agreed that this was not the scope for an Audit & Member Standards Committee but there was scope for another committee to scrutinise the performance of the Tourist Information Centre. Mr Jordan confirmed that this was on the wider economic growth agenda and that the correct committee would be the Economic Growth, Environment & Development (O&S) Committee rather than the Leisure, Parks & Waste Management (O&S) Committee. Mr Turner agreed and said this could be something the O&S Co-ordinating Group look at. Discussions then followed about there being a definite cross over as tourism fits both committee's work programmes and the Chairman agreed to write to both O&S Chairmen.

Mr Craig Jordan, Head of Economic Growth introduced Mr Ashley Baldwin, Spatial Policy and Delivery Manager to the Committee and Mr Baldwin explained that Lichfield District Council had adopted CIL in 2016. This adoption created an additional burden for the team. Mr Baldwin said the audit had highlighted a problem with the integration of the two systems used for s106 and CIL. Mr Baldwin explained that the s106 system was paper based and traditional. The CIL system utilised is a system called Exacom which is a software based system. The system is automated and will assist in meeting assurance levels. It had therefore been necessary to bring s106 historical information on to this new software system. This process enables the establishment of automated monitoring triggers could be set up.

In addition, since the audit, resources had been assessed. Following this the team were successful in securing an officer to solely look at the integration and large strategic sites predominantly. This means that the systems in planning, local plan, CIL, s106 can now work together whereas this was not previously happening. The process of implementing this post is ongoing but significant progress has been made.

Mr Baldwin explained that an item was going to December's Council meeting to remove the charging on domestic extensions which had been a big burden for Lichfield District Council and would free up officer time for bigger developments. This will also free up officer time to more effectively deal with the other areas of work relating to the CIL/s106.

The procedure for the formal process for spending and distributing CIL and s106 monies had also shown up in the audit and Mr Baldwin said a process was now in place. However, the first round of CIL bidding required to working group to consider its approach to ensure bidding applications are of a suitable standard.

The Chairman thanked Mr Baldwin for his explanations and members felt the issues were actually national problems which have occurred since CIL was set up. It was asked if anything had been done through the Local Government Association or the National Framework or if we were lobbying with others about the problems. Mr Baldwin said we do as an authority submit comments on any change. In addition officers sit on a National Forum convened by the Planning Officers' Society who lobby government on behalf of its members. There is also a local forum which includes the Black Country Authorities/Cannock and Birmingham City who discuss national issues regularly. Mr Baldwin said the two areas picked up by the audit are inherently complex and there is enormous scope for user error and he assured the Committee that he had taken the steps to streamline the systems now, specifically the team who are implementing the bolt-on to Exacom to bring on the s106 agreements.

The Chairman thanked Mr Baldwin again and said he would like to look at it again in 6 months as the systems are money earners for the Lichfield District Council.

RESOLVED:- The Committee noted the Performance Report and issues were discussed.

18 RISK MANAGEMENT UPDATE TO INCLUDE RISK MANAGEMENT POLICY AND CORPORATE RISK REGISTER

Members considered the Risk Management Update which included the Risk Management Policy and Corporate Risk Register. Mr Thomas (Head of Finance & Procurement) in the absence of the Author, Angela Struthers (Audit Manager) explained that there had been 8 risks identified that could potentially have an impact on the Council's ability to deliver its Strategic Plan – See Appendix 2.

Mr Thomas highlighted the two projects which carried significant risks:-

1) End of the ICT Support Contract – Mr Thomas explained that this should disappear now as the successful implementation of the in-house service had occurred; and

2) The Friary Grange Leisure Centre.

It was queried why the Property Investment Strategy was not a corporate risk on the risk register. This was noted and it was agreed that the Chairman of this Audit & Member Standards Committee would write to the Chairman of the Strategic (Overview & Scrutiny) Committee highlighting this.

RESOLVED: The Committee:

(1) Approved the revised Risk Management Policy;
(2) Noted the work undertaken to ensure the risk Management policy is adhered to and the actions taking place to manage the Council's most significant risks;
(3) Noted that the corporate project risk can be removed following the successful insourcing of the Information and Communications Technology support contract.

19 THE ANNUAL AUDIT LETTER FOR LICHFIELD DISTRICT COUNCIL

Mr John Gregory from Grant Thornton presented the Annual Audit Letter for Lichfield District Council and explained that this will be his last Audit & Member Standards Committee meeting as he is switching his responsibilities and will no longer be our Engagement Lead at Grant Thornton and will be replaced by Mr Phil Jones who is actually a resident of Lichfield and another very experienced Engagement Lead. (Mr Gregory said Ms Laurelin Griffiths would still remain our Engagement Manager).

The Annual Audit Letter for Lichfield District Council was presented and Mr Gregory explained that it actually repeats the Audit Findings Report for Lichfield District Council for the year ended 31 March 2018. This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders and to highlight issues that we wish to draw to the attention of the public, in preparing this Letter.

No questions arose and the Chairman on behalf of the Committee thanked Mr Gregory for all his support and professionalism throughout the years whilst being Lichfield District Council's Engagement Lead.

20 AUDIT COMMITTEE LDC PROGRESS REPORT AND UPDATE - YEAR ENDED 31 MARCH 2019

Ms Laurelin Griffiths introduced the Audit Progress Report and Sector Update for year ended 31 March 2019 and said this provided the Committee with a report on the progress in delivering their responsibilities as Lichfield District Council's External Auditors. Ms Griffiths highlighted the audit deliverables set out on page 191 and asked for questions.

RESOLVED: The Committee noted the Audit Progress Report and Sector Update for year ended 31 March 2019.

21 CERTIFICATION WORK FOR LICHFIELD DISTRICT COUNCIL FOR YEAR ENDED 31 MARCH 2018

Ms Griffiths, External Auditor advised the Committee that she was just completing the Report on the Certification Work for Lichfield District Council for year ended 31 March 2018 and there were only a few minor amendments like last time. She agreed to table the full report at the next meeting.

22 WORK PROGRAMME

A revised Work Programme was circulated and the Chairman asked for any additions/alterations to the programme. There were none.

(The Meeting closed at 7.50 pm)

CHAIRMAN

Agenda Item 4

The Treasury Management Strategy Statement (TMSS) 2019/20

Report of the Cabinet Member for Finance and Democratic Services

Date:	6 February 2019
Agenda Item:	4
Contact Officers:	Anthony Thomas
Tel Number:	01543 308012
Email:	anthony.thomas@lichfielddc.gov.uk
Key Decision?	**YES**
Local Ward Members	Full Council

Lichfield district council
www.lichfielddc.gov.uk

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

Introduction

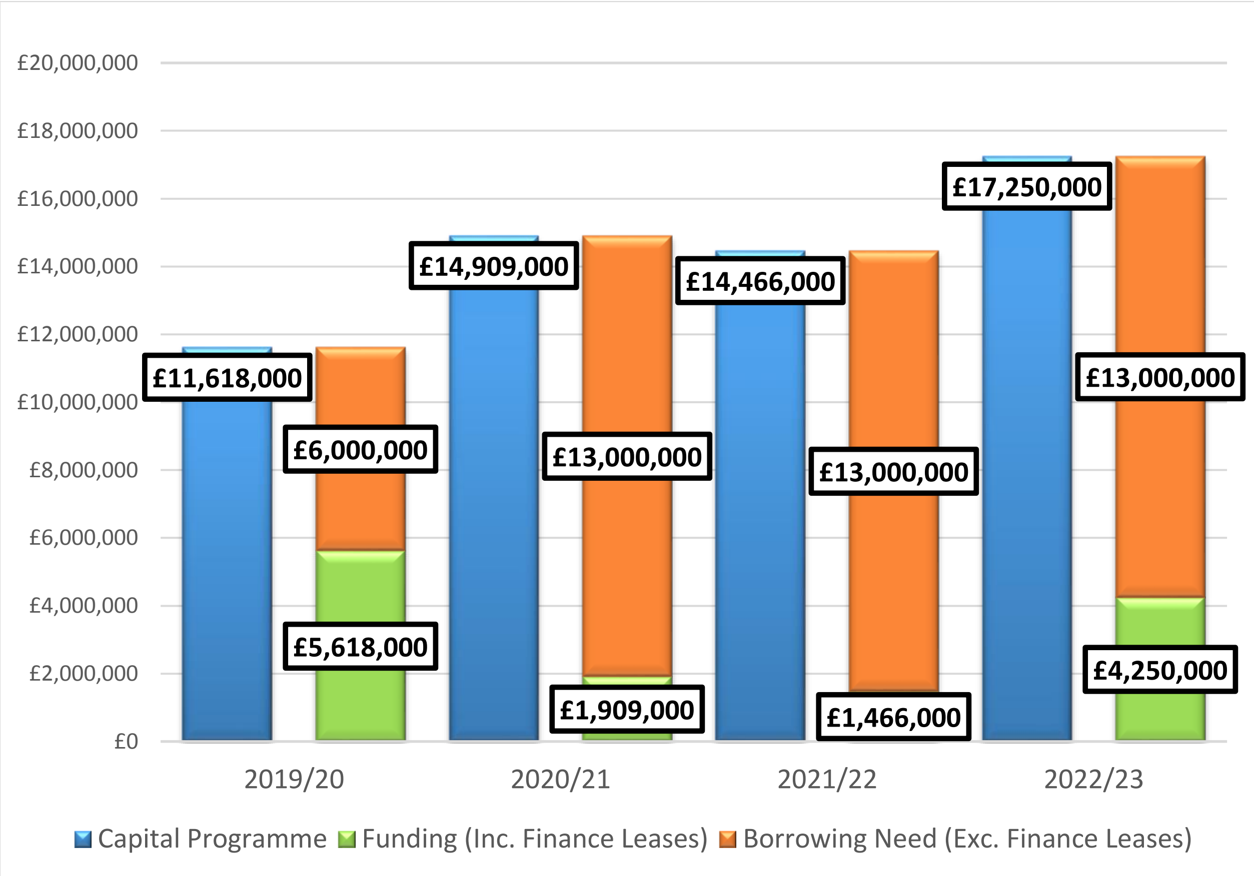
1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2018 Edition (the CIPFA) Code which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Ministry of Housing, Communities and Local Government MHCLG Guidance.

The Capital Strategy and Capital Programme

1.3 The Capital Programme shows longer term investment for our **Lichfield District Council Strategic Plan 2016-20** and beyond.

1.4 The Capital Strategy required by the Prudential Code is outlined at **APPENDIX A** and the draft Capital Programme is outlined in **APPENDIX B** and below:



Treasury Management

1.5 The Treasury Management Strategy Statement incorporates the Annual Investment Strategy and it covers the financing and investment strategy for the forthcoming financial year.

1.6 The purpose of this paper is, therefore, to review:

- The Capital Strategy and Capital Programme, outlined in **APPENDICES A** & **B.**
- Minimum Revenue Provision Statement 2019/20 **(APPENDIX C).**
- Treasury Management Strategy Statement for 2019/20 **(APPENDIX D).**
- Treasury Investments and their Limits **(APPENDIX D)**.
- The Investment Strategy Report for 2019/20 (**APPENDIX E**) as required under Statutory Guidance in January 2018.
- The Capital and Treasury Prudential Indicators 2018-23 in the financial implications section.

1.7 All treasury activity will comply with relevant statute, guidance and accounting standards.

2. Recommendations

That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:

2.1 The Capital Strategy and Capital Programme, outlined in **APPENDICES A** & **B**.

2.2 The Minimum Revenue Provision Statement 2019/20, at **APPENDIX C**, which sets out the Council's policy of using the asset life method as the basis for making prudent provision for debt redemption.

2.3 Treasury Management Strategy Statement for 2019/20 including proposed limits (**APPENDIX D)**.

2.4 The Investment Strategy Report (**APPENDIX E**) including the proposed limits for 2019/20.

2.5 The Capital and Treasury Prudential Indicators for 2018-23 in the financial implications section.

2.6 The Authorised Limit Prudential Indicator shown within the financial implications section.

3. Background

The Capital Strategy

3.1 The Capital Strategy at **APPENDIX A** sets out the Council's framework for managing the Capital Programme including:

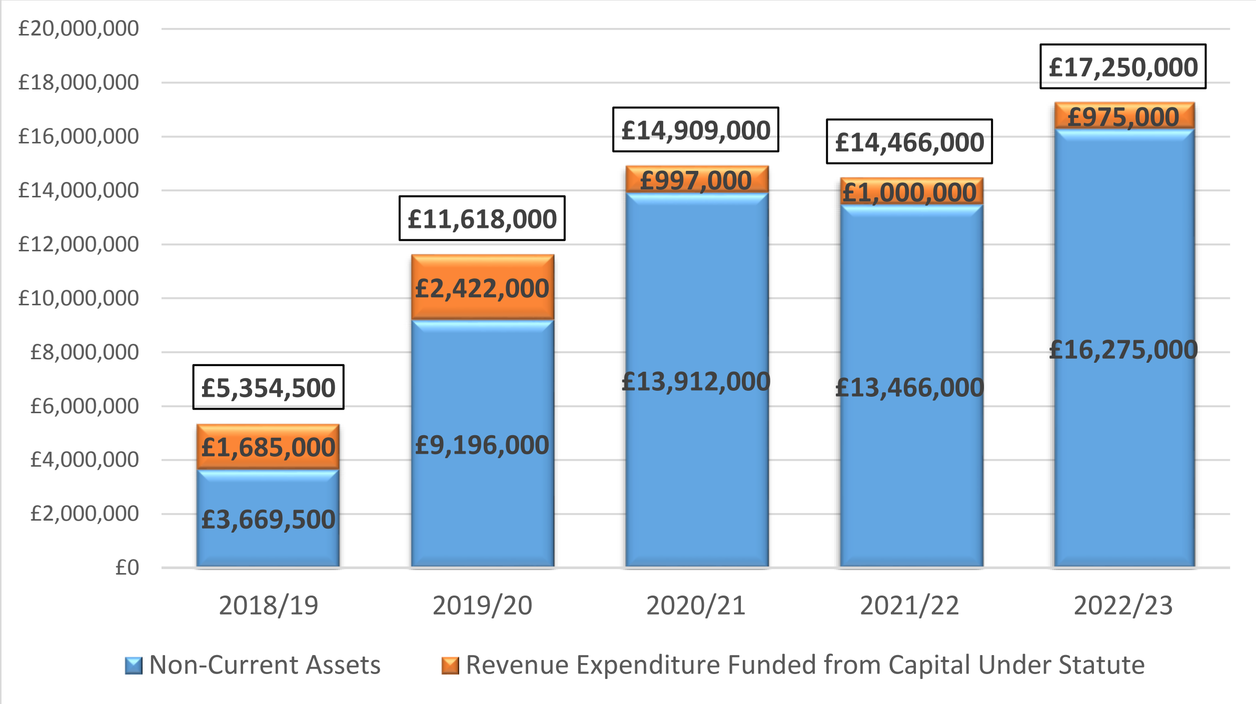
- **Capital expenditure**, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
- **Debt and borrowing and treasury management**, including projections for the level of borrowing, capital financing requirement (Borrowing Need) and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority's approach to treasury management.
- **Commercial activities**, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
- **Other long-term liabilities**, such as financial guarantees.
- **Knowledge and skills**, including a summary of that available to the authority and its link to the authority's risk appetite.

3.2 The key risks associated with the Capital Strategy are principally related to the Property Investment Strategy and its funding given this is planned to be funded through borrowing.

3.3 The Council's Chief Financial Officer has assessed the current risk as **material (yellow)**.

The Capital Programme

3.4 The Draft Capital Programme (Revenue Expenditure Funded from Capital under Statute relates to projects such as Disabled Facilities Grants) is shown in detail at **APPENDIX B** and below:

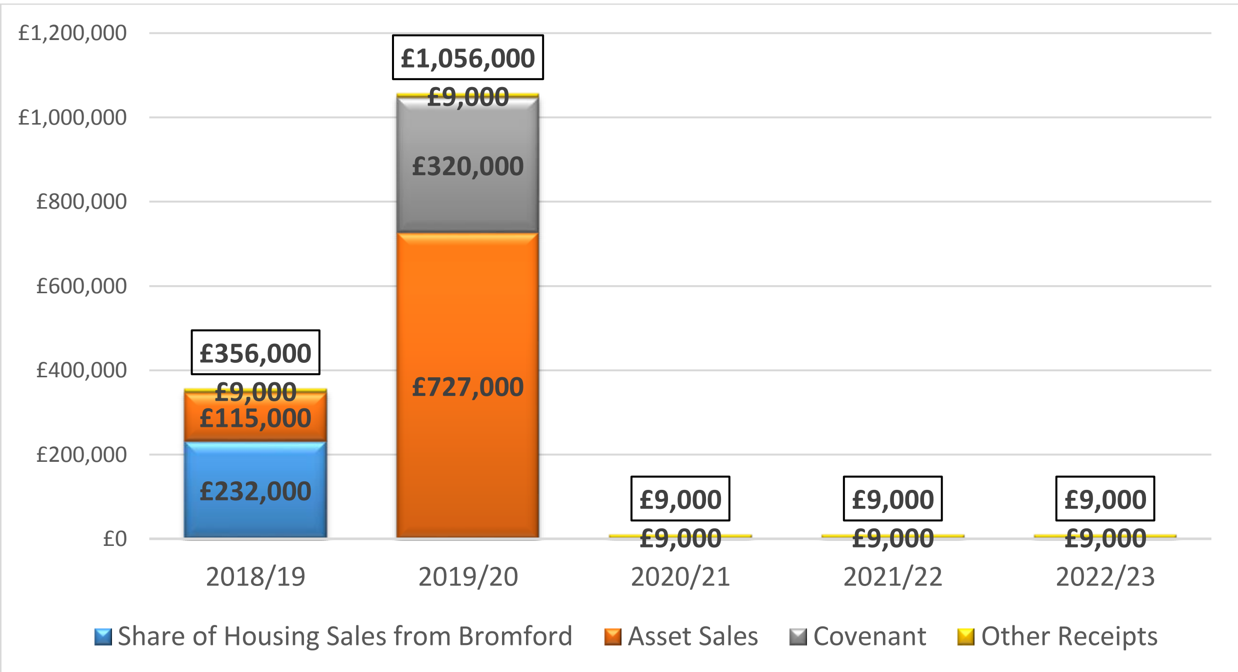


3.5 As an interim measure pending a detailed planning exercise to agree a longer term re-development plan for the Birmingham Road site, the District Council will shortly be seeking the necessary consents to carry out works to parts of the existing site. This scheme will allow the Council to address issues relating to some of the existing structures (former police station, bus station buildings and the bus station itself) and the quality of the environment and provide for a more presentable form of development within the townscape whilst more substantial and comprehensive plans are worked up.

3.6 The approved and recommended additional budgets for the Birmingham Road Site together with the Birmingham Road Site earmarked reserve are shown in detail at **APPENDIX B**.

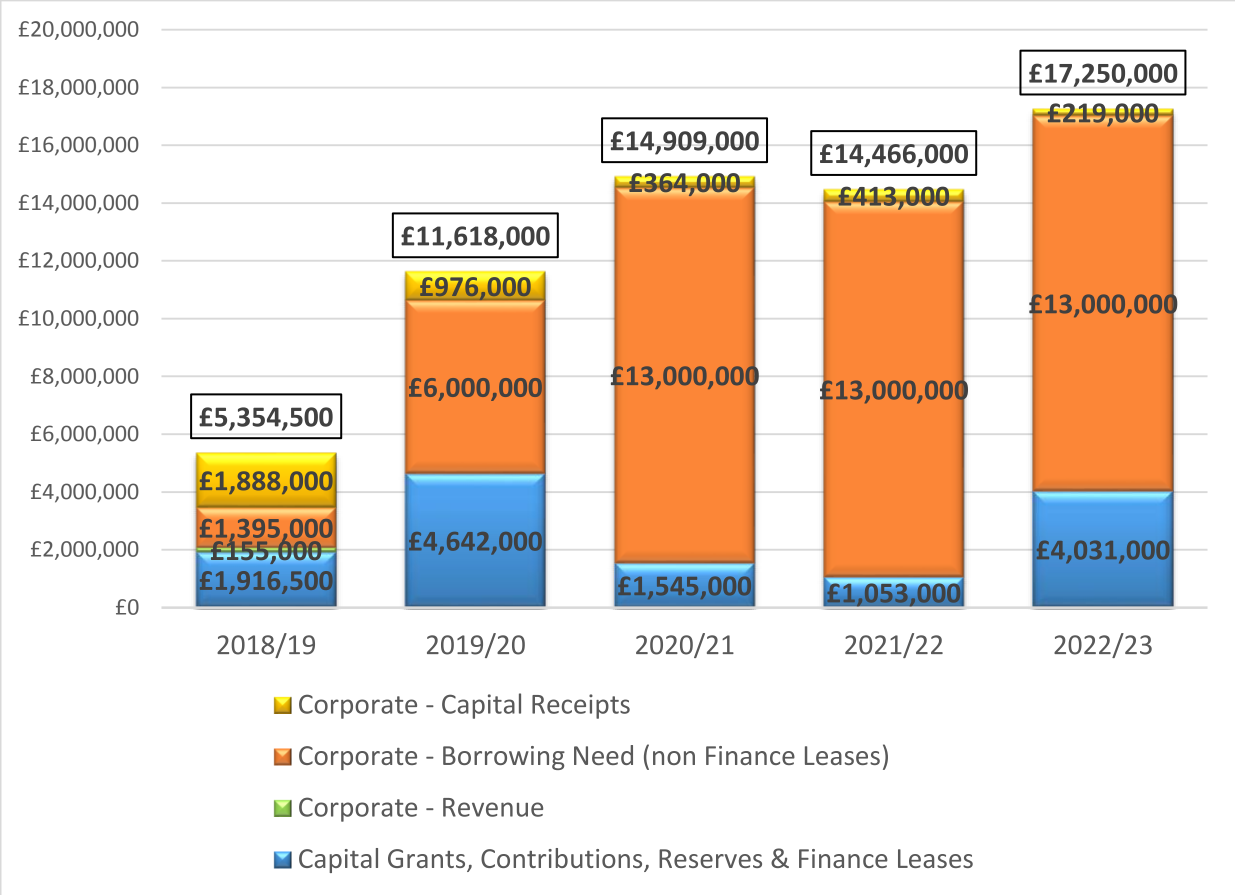
<u>Capital Receipts</u>

3.7 The projected Capital Receipts included in the Medium Term Financial Strategy (although not all are currently used to finance capital expenditure) are shown below:



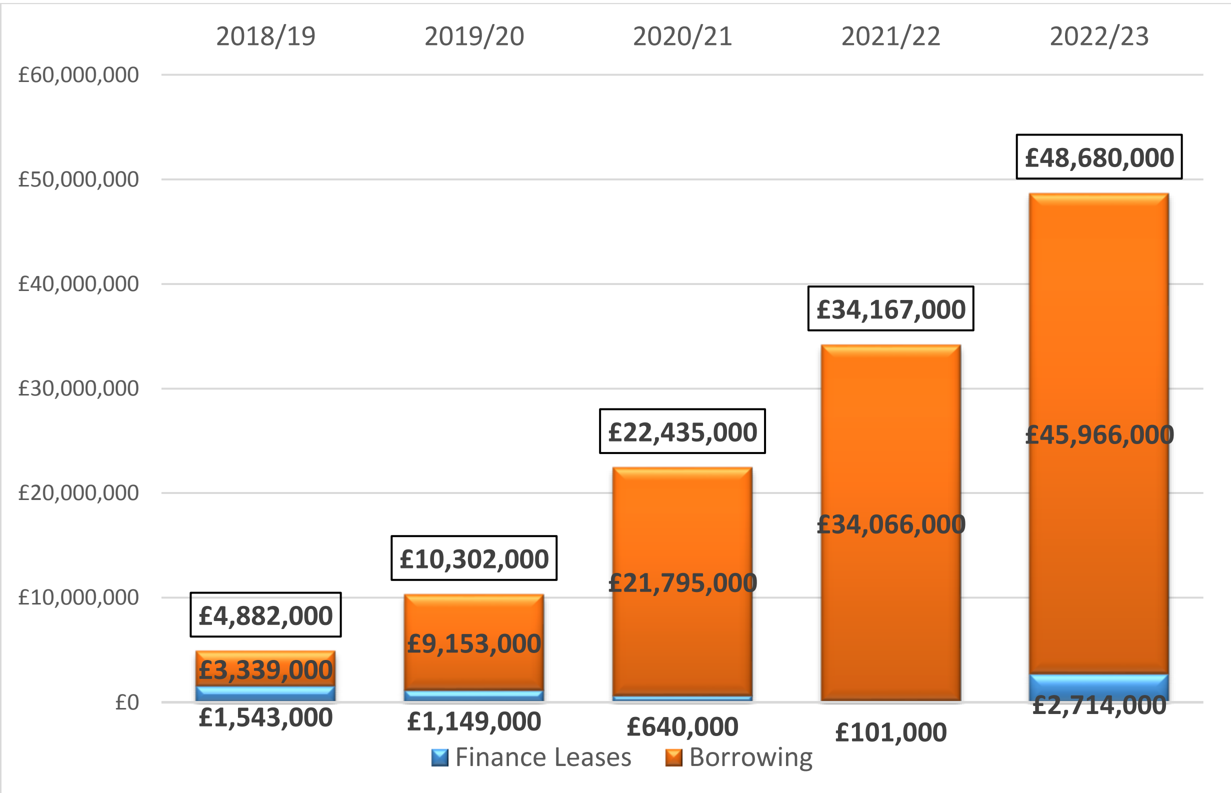
The Funding of the Capital Programme

3.8 The funding of the Draft Capital Programme including the element funded by the corporate sources of capital receipts, borrowing and revenue is shown at **APPENDIX B** and below:

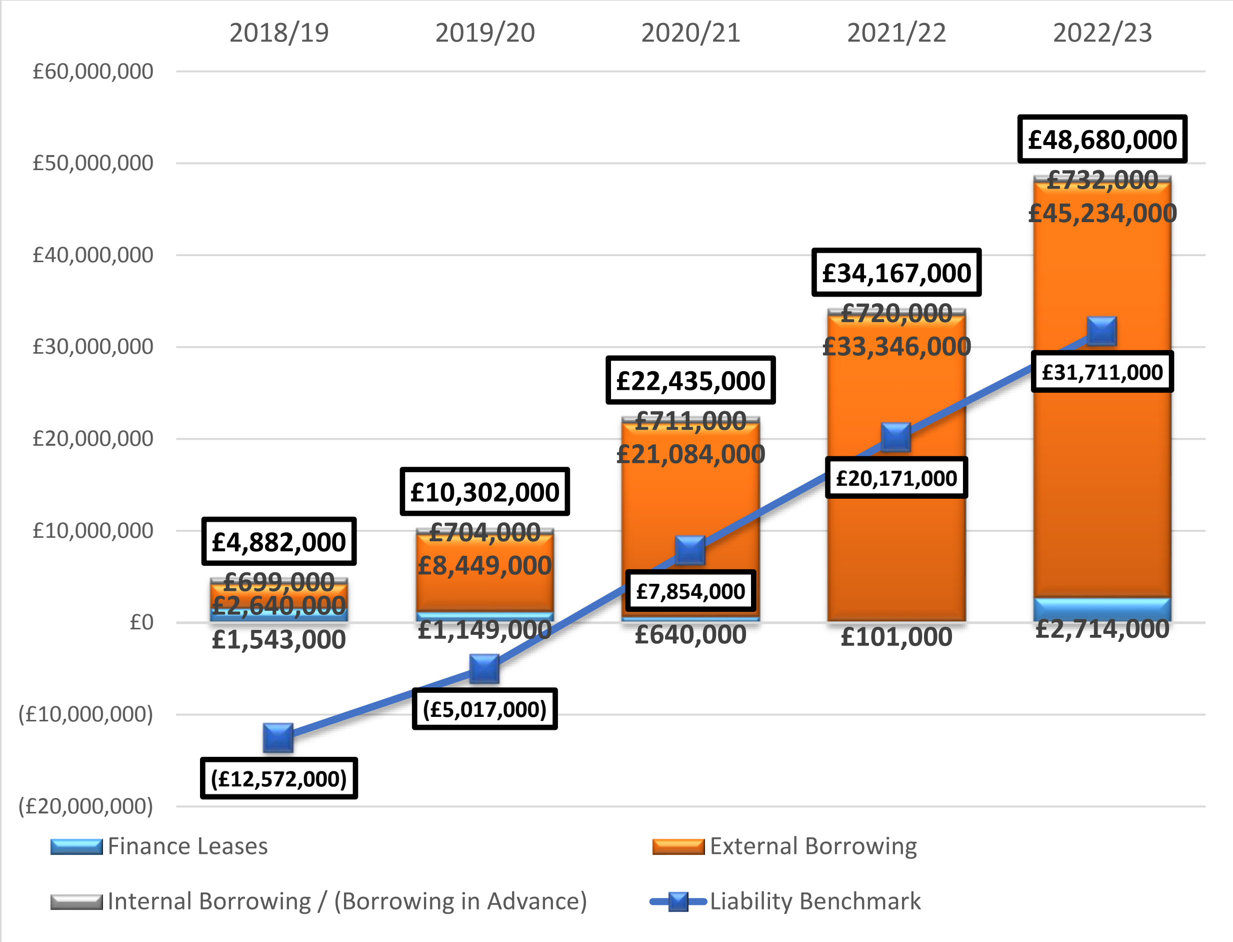


The Capital Financing Requirement (Borrowing Need) and its Financing

3.9 The projected Cumulative Borrowing Need related to the Draft Capital Programme is shown in detail at **APPENDIX B** and below:



3.10 The projected financing of this Cumulative Borrowing Need is shown at **APPENDIX B** and below:

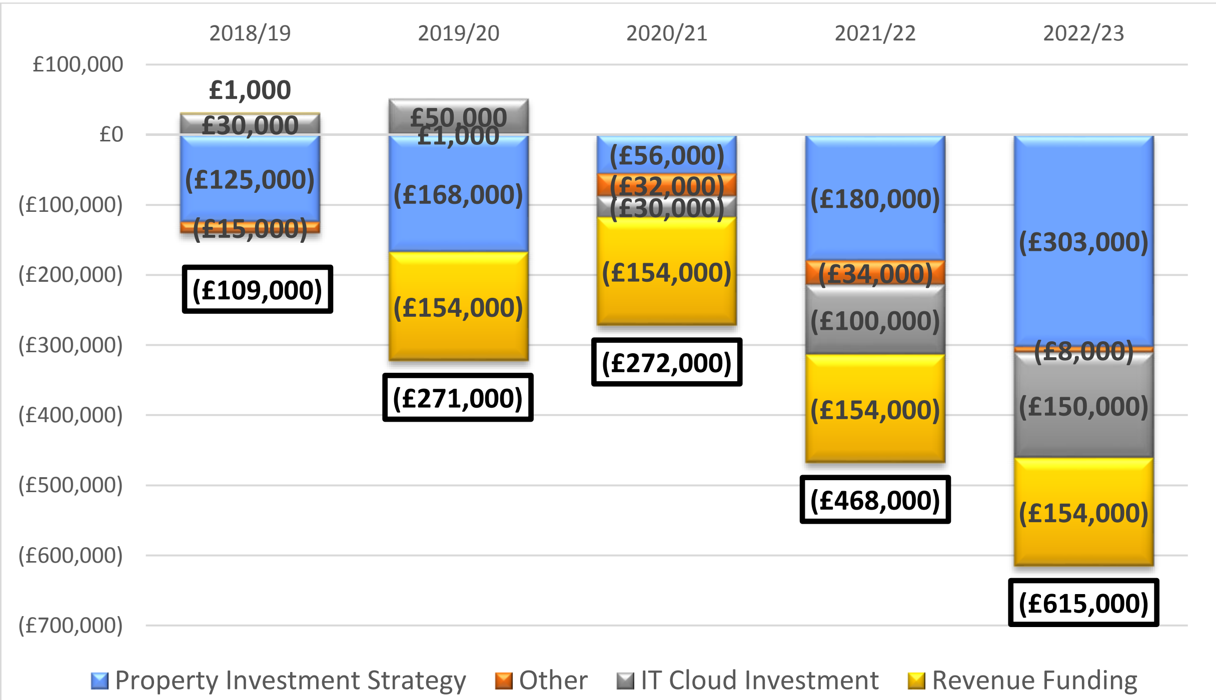


3.11 The **liability benchmark** is the lowest risk level of borrowing determined by keeping cash and investment balances to a minimum level at the end of each year (**£10m** in 2018/19) to maintain liquidity but minimise credit risk.

3.12 The chart above indicates that based on current Balance Sheet projections the Council can reduce external borrowing by circa **£12m** through the use of internal borrowing and this approach will be considered as part of the financing strategy.

<u>Current Revenue Implications of the Capital Programme</u>

3.13 The Revenue Implications compared to the Approved Budget are at **APPENDIX A** and below:



Treasury Management

3.14 CIPFA has defined Treasury Management as :

"the management of the organisation'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."

3.15 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

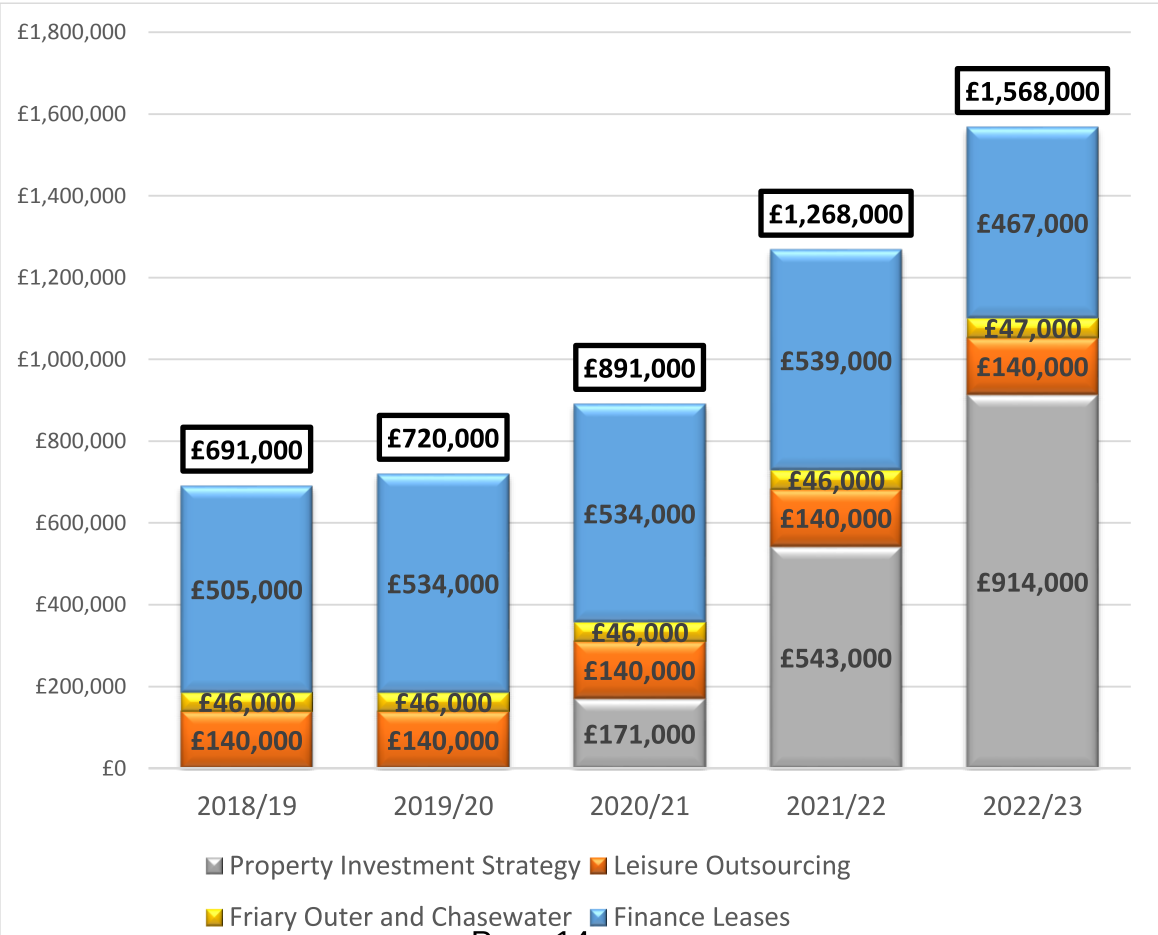
- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

3.16 The Strategy also takes into account the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

3.17 **Minimum Revenue Provision Statement 2019/20**

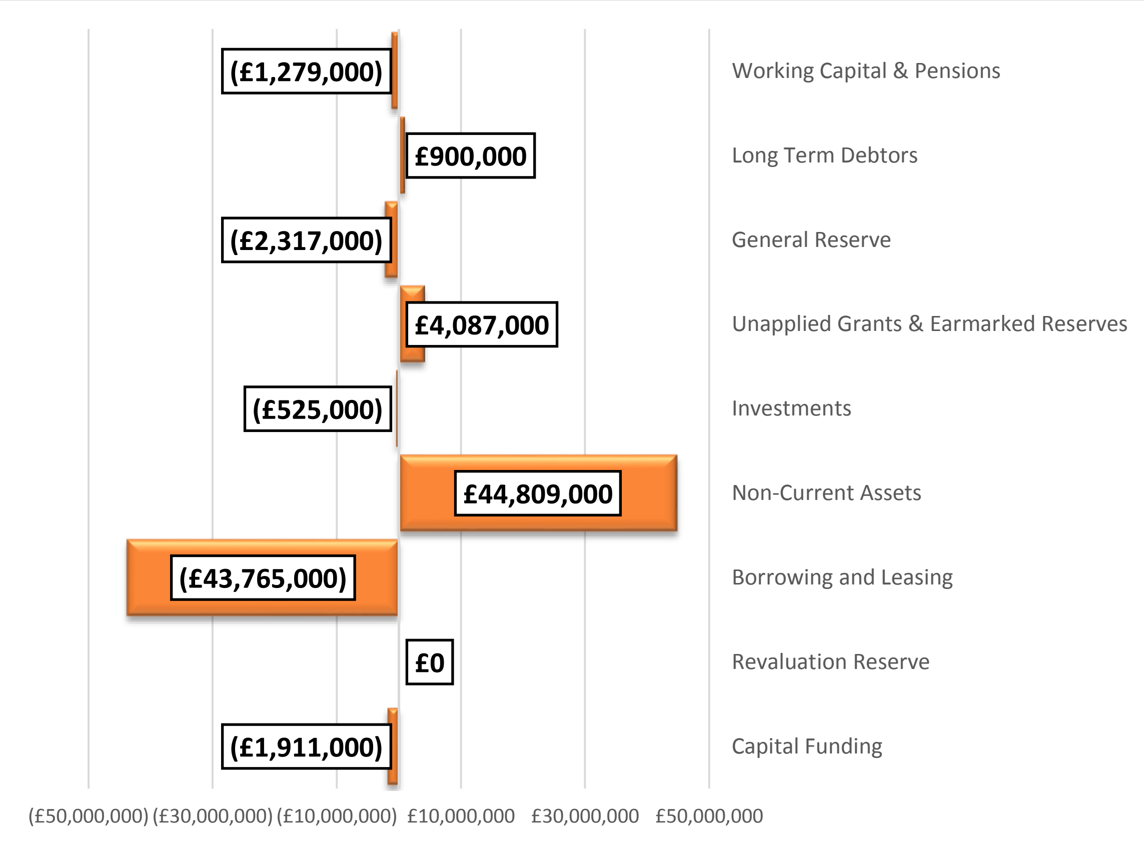
- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision (MRP)) and each year the Council must approve its MRP statement and this will include an allowance for finance leases that appear on the Council's Balance Sheet.

- As in previous years, the Council proposes to base its MRP on the estimated life of the asset **(APPENDIX C)**. The estimated MRP chargeable during the Medium Term Financial Strategy is shown below:



3.18 **Balance Sheet Projections**

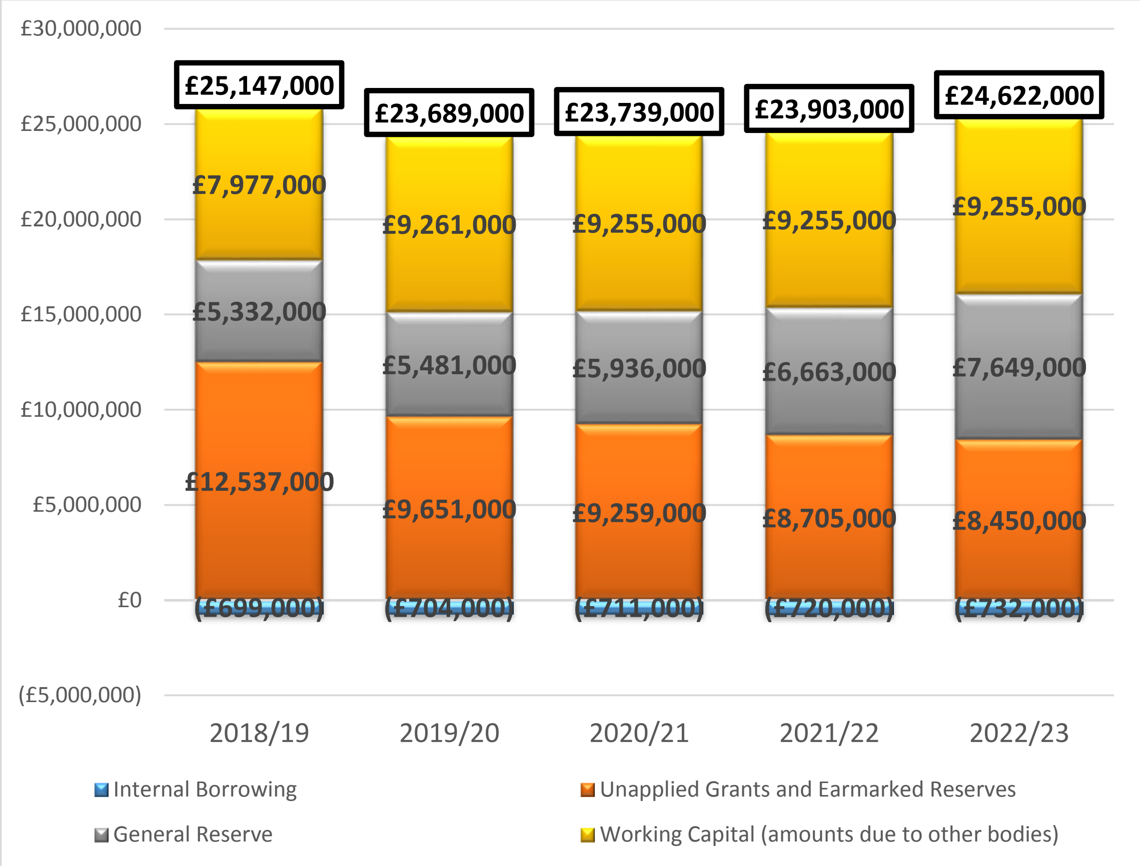
- We prepare integrated Revenue Budgets and a Capital Programme. These budgets together with the actual Balance Sheet from the previous financial year are used to also prepare Balance Sheet projections.
- These Balance Sheet projections (**APPENDIX D**) are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and our Investment Strategy. The projected changes in the Balance Sheet over the Strategy period 2018/19 to 2022/23 are summarised below:



- The reasons for these projected changes are explained below:

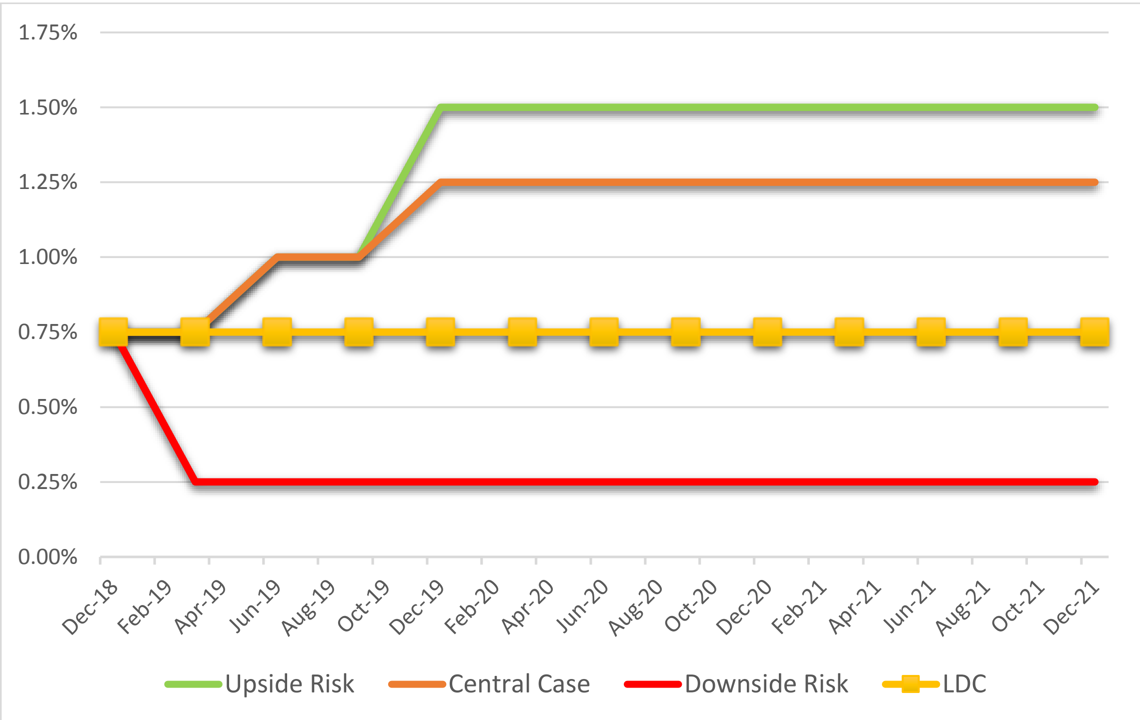
1. **Working Capital & Pensions** – no significant change is projected. However the Pension Fund Actuary will provide an up to date assessment at 31 March 2019 and a three year Pension Fund Revaluation will take place for 2020/21 to 2022/2023 and these both could result in material changes.
2. **Long Term Debtors** – Council agreed on 16 October 2018 a loan of up to **£900,000** to the Local Authority Company for a period of 5 years (repayment is assumed in 2023/24 as a capital receipt).
3. **General Reserve** – there will be an increase as a result of the contributions in 2018/19 and 2019/20 together with the transfer of projected New Homes Bonus in excess of the 'cap'.
4. **Unapplied Grants and Earmarked Reserves** - the value is projected to reduce as capital receipts, grants, contributions and reserves are used to fund the Capital Programme, are used to fund projects in the Revenue Budget and are paid to others.
5. **Investments** – the value is projected to reduce as capital receipts, grants, contributions and reserves are used to fund the Capital Programme.
6. **Non-Current Assets** – Non Current Assets will significantly increase with the delivery of the Property Investment Strategy.
7. **Borrowing and Leasing** – the capital investment in Non-Current Assets will predominantly be financed through an increase in external borrowing.
8. **Capital Funding** – this will increase as a result of the use of grants, contributions and capital receipts to fund capital investment.

- The Balance Sheet Projections (**APPENDIX D**) also show the projected year end investment levels and the sources of cash:



3.19 **Treasury Management Advice and the Expected Movement in Interest Rates**

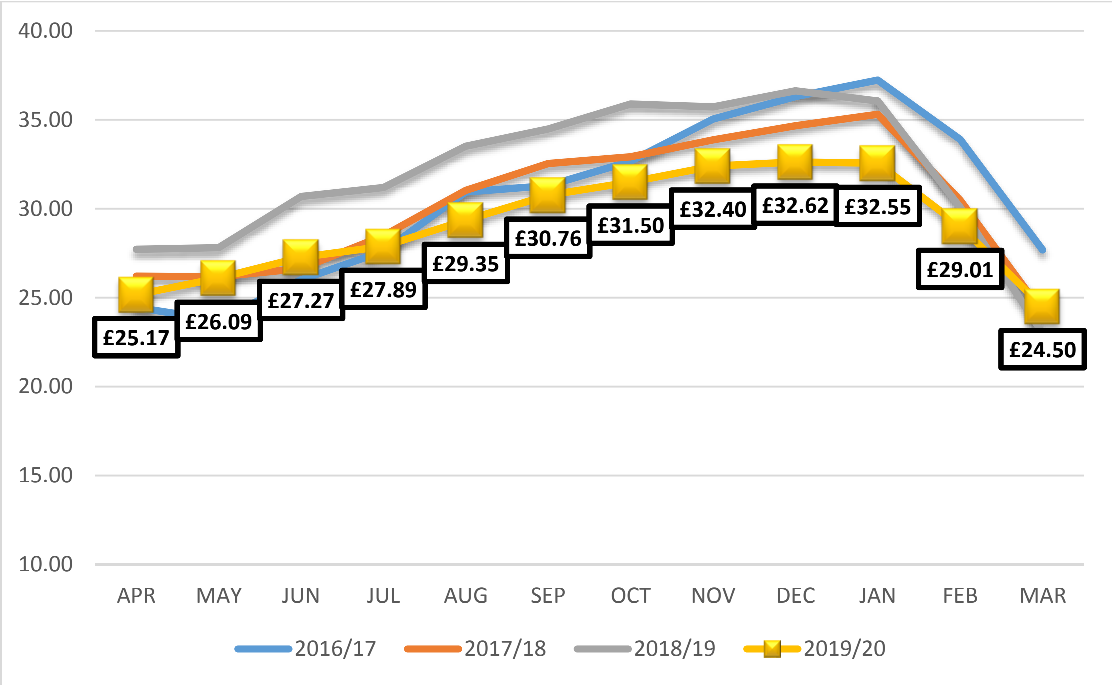
- The Official Bank Rate outlook provided by the Council's Treasury Advisor, together with the Council's assumption where interest rates remain at the current level of **0.75%** is shown below:



- The Council assumption is based on BREXIT uncertainty and the possible monetary policy responses including the level of interest rates. The Council assumptions has been used as the basis for preparation of the investment income and borrowing budgets for 2019/20 and future years.

3.20 Cash Flow Forecast

- Treasury Management includes the management of the Council's cash flows as a key responsibility. The cash flow forecast takes account of the income the Council receives including Housing Benefits Grant, Council Tax and Business Rate income and expenditure such as payments to precepting bodies, employee costs and Housing Benefit payments.
- The graph below shows average investment levels throughout the financial year with a significant reduction in February and March due to minimal Council Tax income being received.



- The planned monthly cash flow forecast for the 2019/20 financial year has been used to calculate the investment income budget. The key components of this calculation are the average level of investment balances and the rate or yield achieved.
- The Treasury Management estimates for 2019/20 for both investment income and borrowing are shown in the table below:

Treasury Management	**2019/20**	
	Investment Income	**Borrowing**
Average Balance	£27.28M	£5.54M
Average Rate	1.00%	2.36%

Investment Income	(£230,000)	
CCLA Transfer to Reserves	£30,000	
External Interest		£56,000
Internal Interest		£4,000
Minimum Revenue Provision		£186,000
Total	**(£200,000)**	**£246,000**
	£46,000	

- The gross interest receipts have been estimated as **(£230,000)** (this equates to **9%** of The Council's income from Retained Business Rates of **£2,525,800** in **2019/20**), transfers to the Property Reserve of **£30,000** and therefore Net Investment income is **(£200,000).**

3.21 **Treasury Management Strategy Statement and the Annual Investment Strategy**

- The Treasury Investments and their limits are shown in detail at **APPENDIX D** with proposed changes shown in red.
- The proposed changes for 2019/20 compared to those approved for 2018/19 are:
  1. The majority of Money Market Funds are domiciled in Luxembourg or Ireland and therefore to provide contingency up to and following BREXIT, a new category of UK Domiciled Pooled Funds has been created with a limit of **£5m per fund** (there are currently two and the Council has accounts with both).
  2. As part of the move to greater diversification, a new category of Corporates (excluding the Council Company) has been created with a limit of **£250,000 per Company**. Loans to unrated Companies will only be considered following an external credit assessment.
  3. A new investment limit for Real Estate Investment Trusts of **£5m**.

3.22 **Investment Strategy Report for 2019/20**

- This investment strategy is a new report for 2019/20 (**APPENDIX E**), meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on how the Authority invests its money to support local public services and earns investment income from commercial investments.

Alternative Options	There are no alternative options.

Consultation	This Committee and the Strategic (Overview and Scrutiny) Committee.

Financial Implications

Prudential and Local Indicators (PIs)

The Prudential and Local Indicators are shown below:

Capital Strategy Indicators							
Prudential Indicators							
Indicators	**2017/18 Actual**	**2018/19 Original**	**2018/19 Revised**	**2019/20 Original**	**2020/21 Original**	**2021/22 Original**	**2022/23 Original**
Capital Investment							
Capital Expenditure (£m)	£2.608	£10.242	£5.355	£11.618	£14.909	£14.466	£17.250
Capital Financing Requirement (£m)	£4.177	£10.552	£4.881	£10.301	£22.435	£34.167	£48.680
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£3.418)	(£10.142)	(£4.183)	(£9.598)	(£21.725)	(£33.448)	(£47.949)
Borrowing in Advance - Gross Debt > Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£3.991	£21.377	£15.082	£21.598	£34.787	£47.435	£59.481
Operational Boundary (£m)	£3.991	£13.122	£7.197	£13.006	£25.641	£37.903	£49.791
Proportion of Financing Costs to Net Revenue Stream (%)	5%	7%	5%	6%	11%	18%	24%
Local Indicators							
Indicators	**2017/18 Actual**	**2018/19 Original**	**2018/19 Revised**	**2019/20 Original**	**2020/21 Original**	**2021/22 Original**	**2022/23 Original**
Replacement of Debt Finance (£m)	(£0.616)	(£0.699)	(£0.691)	(£0.720)	(£0.891)	(£1.268)	(£1.568)
Capital Receipts (£m)	(£0.426)	£0.000	(£0.356)	(£1.056)	(£0.009)	(£0.009)	(£0.009)
Liability Benchmark (£m)	£13.242	£2.345	£12.572	£5.017	(£7.854)	(£20.171)	(£31.711)
Treasury Investments (£m)	£24.519	£20.911	£25.147	£23.689	£23.739	£23.903	£24.622

Treasury Management Indicators

Prudential Indicators

	Lower Limit	Upper Limit
Refinancing Rate Risk Indicator	0%	100%
Under 12 months	0%	100%
12 months and within 24 months	0%	100%
24 months and within 5 years	0%	100%
5 years and within 10 years	0%	100%
10 years and within 20 years	0%	100%
20 years and within 30 years	0%	100%
30 years and within 40 years	0%	100%
40 years and within 50 years	0%	100%
50 years and above	0%	100%

Investment Income - Interest Rate Exposure (excluding property and Diversified Income funds)		
	2019/20	2020/21
Budget - Investment Income	(£230,000)	(£232,000)
Budget - Interest Rate Exposure	**(£150,000)**	**(£92,000)**
Budget with a 1% fall	(£80,000)	(£140,000)
Budget with a 1% rise	(£481,000)	(£452,000)

External Borrowing - Interest Rate Exposure		
	2019/20	2020/21
Budget - External Interest	£56,000	£226,000
Budget - Interest Rate Exposure	**£0**	**£174,000**
Budget with a 1% fall	£56,000	£162,000
Budget with a 1% rise	£56,000	£282,000

Indicators	2017/18 Actual	2018/19 Original	2018/19 Revised	2019/20 Original	2020/21 Original	2021/22 Original	2022/23 Original
Principal Sums invested for periods longer than a year (£m)	£2.000	£6.000	£6.000	£6.000	£6.000	£6.000	£6.000

Local Indicators

Indicators	2017/18 Actual	2018/19 Original	2018/19 Revised	2019/20 Original	2020/21 Original	2021/22 Original	2022/23 Original
	£m	£m	£m	£m	£m	£m	£m
Balance Sheet Summary and Forecast							
Borrowing Capital Financing Requirement	£2.129	£8.975	£3.338	£9.152	£21.794	£34.065	£45.965
Internal (over) Borrowing	£0.759	£0.410	£0.698	£0.703	£0.710	£0.719	£0.731
Investments (or New Borrowing)	(£24.519)	(£20.910)	(£25.147)	(£23.689)	(£23.739)	(£23.903)	(£24.622)
Liability Benchmark	(£13.242)	(£2.345)	(£12.572)	(£5.017)	£7.854	£20.171	£31.711

	Target
Security	
Portfolio average credit rating	A-
Liquidity	
Temporary Borrowing undertaken	£0.000
Total Cash Available within 100 days (maximum)	90%

Contribution to the Delivery of Lichfield District Council's Strategic Plan	The report directly links to overall performance and especially the delivery of Lichfield District Council's Strategic Plan 2016-20 and beyond.

Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan 2016-20.

Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan 2016-20.

GDPR/Privacy Impact Assessment	None identified in this report.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Planned Capital Receipts are not received.	The budget for capital receipts will be monitored as part of The Council's normal budget monitoring procedures.	Green - Tolerable
B	Achievement of The Council's key Council priorities.	Close monitoring of performance and expenditure; maximising the potential of efficiency gains; early identification of any unexpected impact on costs including Central Government Policy changes, movement in the markets, and changes in the economic climate.	Green - Tolerable
C	The affordability and risk associated with the Capital Strategy (see specific risk assessment in the Capital Strategy).	Recruit an estates management team to provide professional expertise and advice in relation to the Property Investment Strategy and to continue to take a prudent approach to budgeting.	Yellow - Material

Background documents:

- CIPFA Code of Practice for Treasury Management in the Public Services.
- The Prudential Code for Capital Finance in Local Authorities.
- Money Matters: Medium Term Financial Strategy (Revenue and Capital) 2017-22 – Cabinet 13 February 2018.
- Money Matters: 2017/18 Review of Financial Performance against the Financial Strategy – Cabinet 12 June 2018.
- Money Matters: 2018/19 Review of Financial Performance against the Financial Strategy – Cabinet 4 September 2018.
- The Medium Term Financial Strategy (Revenue and Capital) 2018-23 (MTFS) – Cabinet 9 October 2018.
- Money Matters: 2018/19 Review of Financial Performance against the Financial Strategy – Cabinet 4 December 2018.

Relevant web link:

Capital Strategy

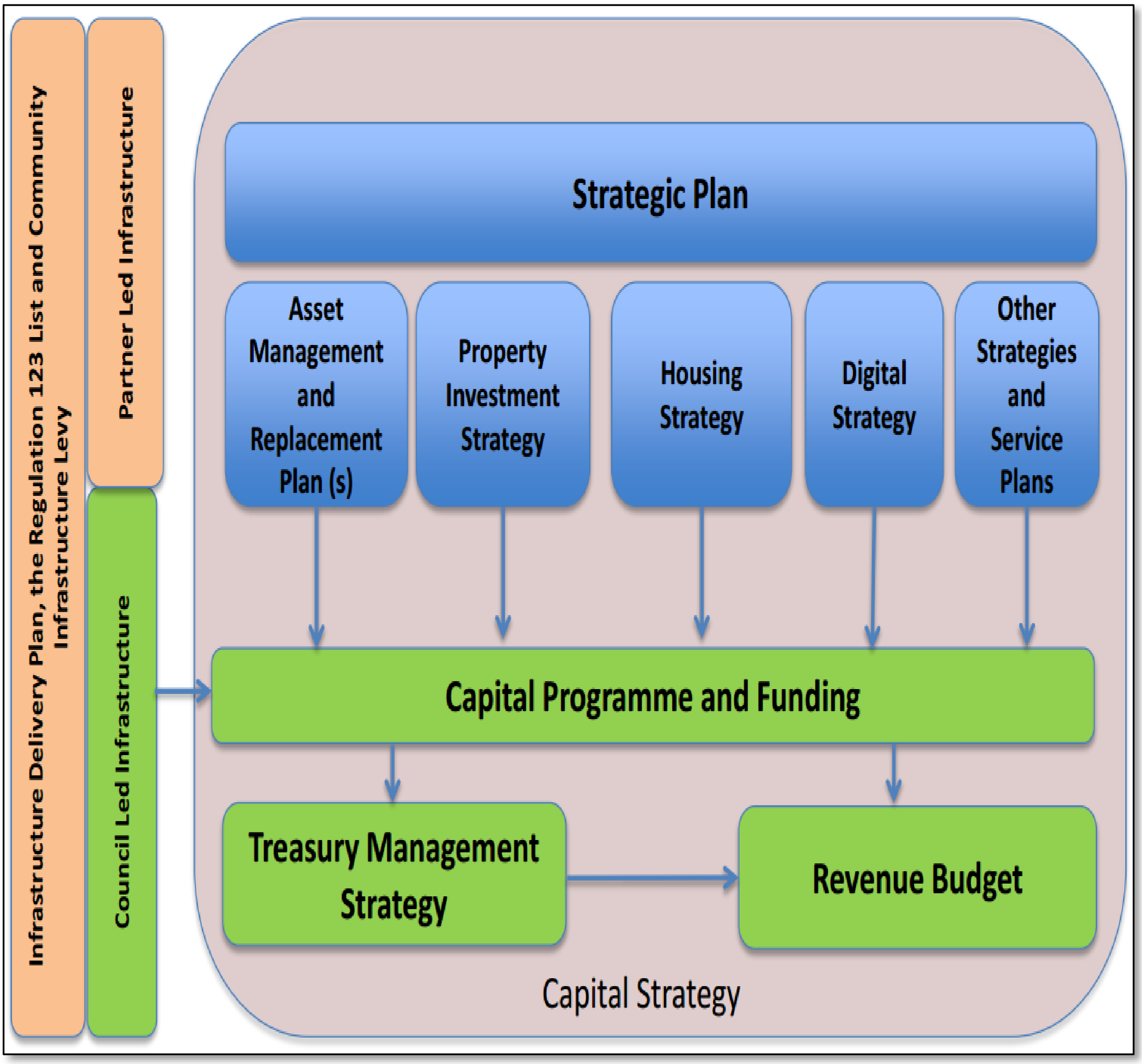
1. Introduction

1.1. The updated Prudential Code requires the completion of a Capital Strategy that will need to be approved by Full Council.

1.2. The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

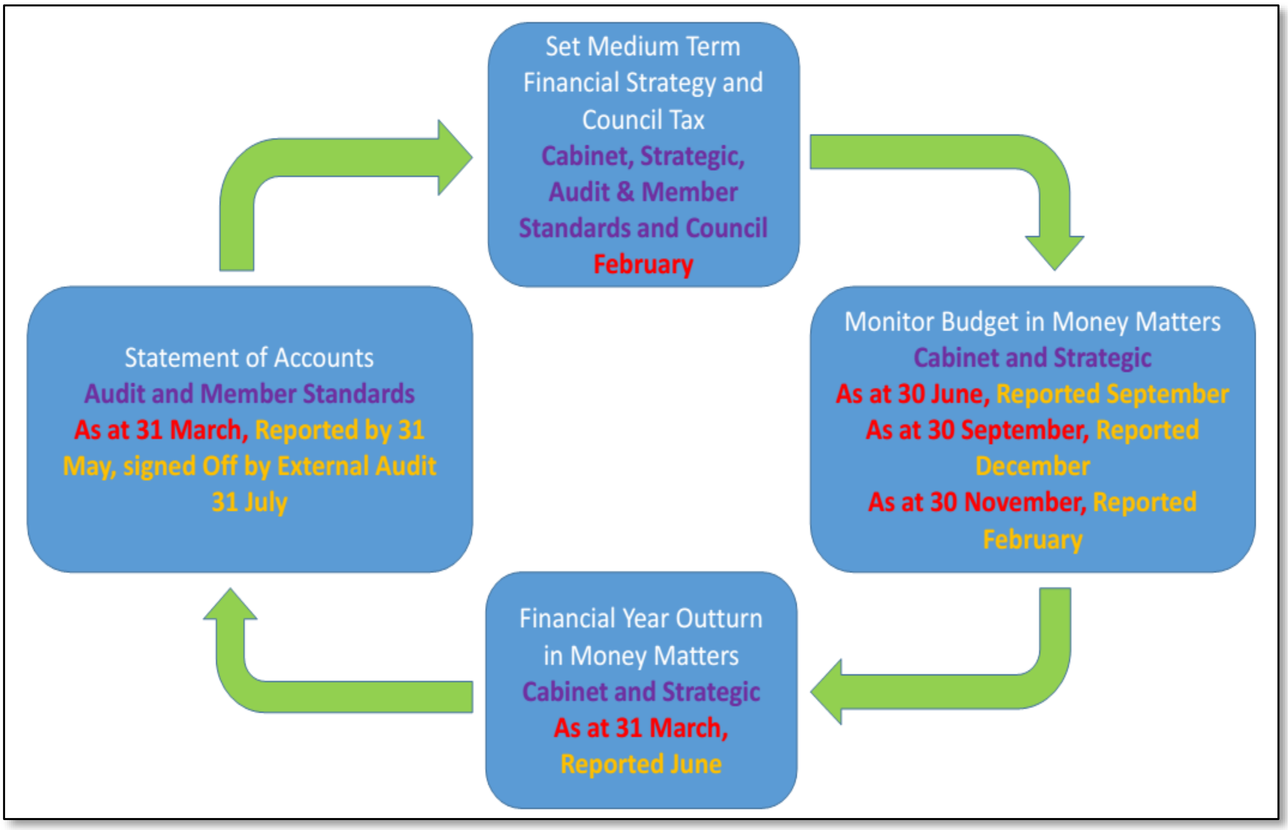
1.3. It will form part of the Councils integrated revenue, capital and balance sheet planning. The Council already undertakes elements of the new requirements although some areas such as Asset Management Planning will need further development.

1.4. The Prudential Code now requires all of this information to be all brought together in a single place as shown below:



2. The Capital Programme

2.1. The financial planning process including the Capital Programme and its Governance is shown below:



The Capital Programme Process

2.2. Capital Programme Bids and their revenue implications are identified by Leadership Team annually in August/September, together with changes to resources such as new disposals, to inform the process for compiling the Medium Term Financial Strategy.

2.3. Where capital investment exceeds the resources available then a prioritisation process is applied.

Planning Obligations - Section 106 and Community Infrastructure Levy (CIL)

2.4. As part of the planning process planning obligations including the Community Infrastructure Levy are received from new developments. The vast majority is spent directly on infrastructure works or will be spent in line with the Infrastructure Delivery Plan (IDP).

2.5. There is however an element of contributions, which afford an element of discretion on how they are allocated. These contributions towards social and community facilities are linked to the development proposed.

2.6. Whilst some of these financial contributions are very specific in terms of the projects on which they must be spent, a proportion is to be allocated towards appropriate social and community schemes that result in time from the proposed development.

2.7. The Council's Capital Programme includes a number of projects that are to be funded by Section 106 and will begin to include projects funded by CIL; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

2.8. The **Capital Programme** and its **funding** covering the period 2018/19 to 2022/23 by Strategic Priority to be approved by Council on 19 February 2019 is summarised below:

Project	Capital Programme 2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000	Corporate £000
Healthy & Safe Communities	2,914	2,376	975	975	975	8,215	352
Clean, Green and Welcoming Places to Live	80	2,158	616	332	3,100	6,286	351
A Vibrant and Prosperous Economy	2,089	673	0	0	0	2,762	2,197
A Council that is Fit For the Future	272	6,411	13,318	13,159	13,175	46,335	1,115
Grand Total	**5,355**	**11,618**	**14,909**	**14,466**	**17,250**	**63,598**	**4,015**

Funding Source	Capital Programme 2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000	
Usable Capital Receipts	1,888	976	364	413	219	3,860	
Revenue	155	0	0	0	0	155	
Corporate Council Sources	**2,043**	**976**	**364**	**413**	**219**	**4,015**	
External Grants and Contributions	1,281	1,863	1,358	931	931	6,364	
Section 106	264	906	43	25	0	1,238	
Earmarked Reserves	365	1,498	119	97	20	2,099	
Sinking Fund	7	235	0	0	0	242	
Finance Leases	0	140	25	0	3,080	3,245	
Grand Total	**3,960**	**5,618**	**1,909**	**1,466**	**4,250**	**17,203**	**63,598**
In Year FUNDING GAP (Borrowing Need)	**1,395**	**6,000**	**13,000**	**13,000**	**13,000**	**46,395**	
Cumulative FUNDING GAP (Borrowing Need)	**3,338**	**9,151**	**21,793**	**34,064**	**45,964**	**45,964**	
Available Capital Receipts	**(1,538)**	**(1,618)**	**(1,263)**	**(859)**	**(649)**	**(649)**	

2.9. The Revenue implications are shown below (excluding contributions to or from earmarked reserves):

Revenue Implications	Capital Programme 2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Leisure Outsourcing						
Income	(218)	(218)	(218)	(218)	(218)	(1,090)
Minimum Revenue Provision	139	139	140	139	140	697
External Interest	12	22	20	18	15	87
Sub Total	**(67)**	**(57)**	**(58)**	**(61)**	**(63)**	**(306)**
Property Investment Strategy						
Income	0	(180)	(750)	(1,530)	(2,310)	(4,770)
Management and External Interest	0	180	523	808	1,094	2,605
Minimum Revenue Provision	0	0	171	542	913	1,626
Sub Total	**0**	**0**	**(56)**	**(180)**	**(303)**	**(539)**
Digital Strategy	**30**	**50**	**(30)**	**(100)**	**(150)**	**(200)**
Chasewater and Friary Outer etc.						
Minimum Revenue Provision	47	47	47	47	47	235
Loss of Investment Income	5	6	7	10	9	38
External Interest	35	34	32	30	29	160
Sub Total	**88**	**87**	**86**	**87**	**85**	**432**
Revenue Budget	155	0	0	0	0	155
Capital Programme	**205**	**80**	**(58)**	**(254)**	**(431)**	**(458)**
Change to Approved Budget	**(109)**	**(271)**	**(272)**	**(468)**	**(615)**	**(1,735)**

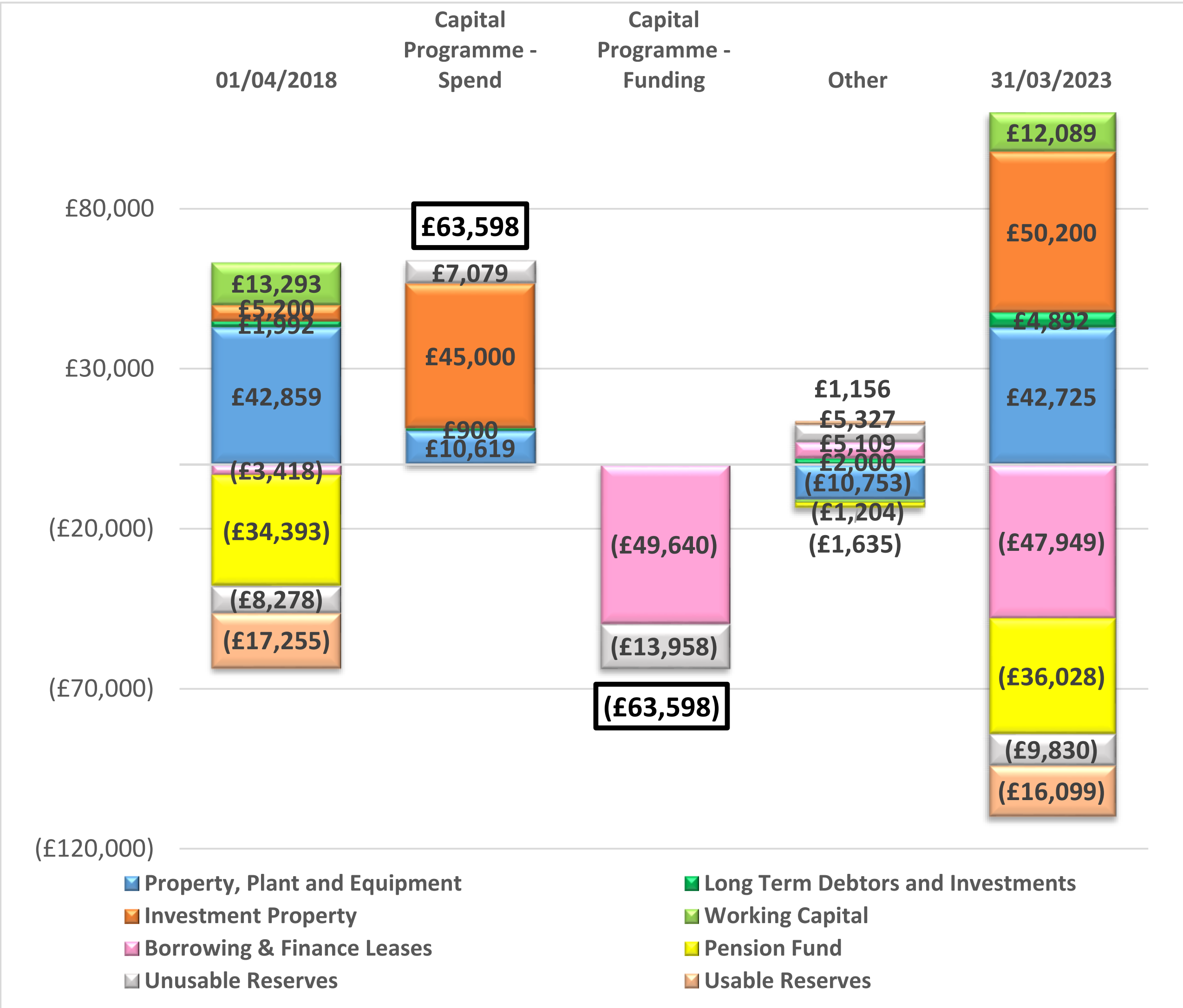
2.10. Planned disposals (and grant repayments) resulting in capital receipts and their use in funding the Capital Programme are shown in the table below:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Opening Balance	**(3,070)**	**(1,538)**	**(1,618)**	**(1,263)**	**(859)**	**(3,070)**
Sale of Mill Lane Link, Fazeley	(115)	0	0	0	0	(115)
Sale of Beacon Cottage*	0	(200)	0	0	0	(200)
Sale of land at Netherstowe and Leyfields*	0	(527)	0	0	0	(527)
Right to Buy Receipts	(232)	0	0	0	0	(232)
Release of Covenant Guardian House*	0	(320)	0	0	0	(320)
Other Receipts	(9)	(9)	(9)	(9)	(9)	(45)
Utilised in Year	1,888	976	364	413	219	3,860
Closing Balance	**(1,538)**	**(1,618)**	**(1,263)**	**(859)**	**(649)**	**(649)**

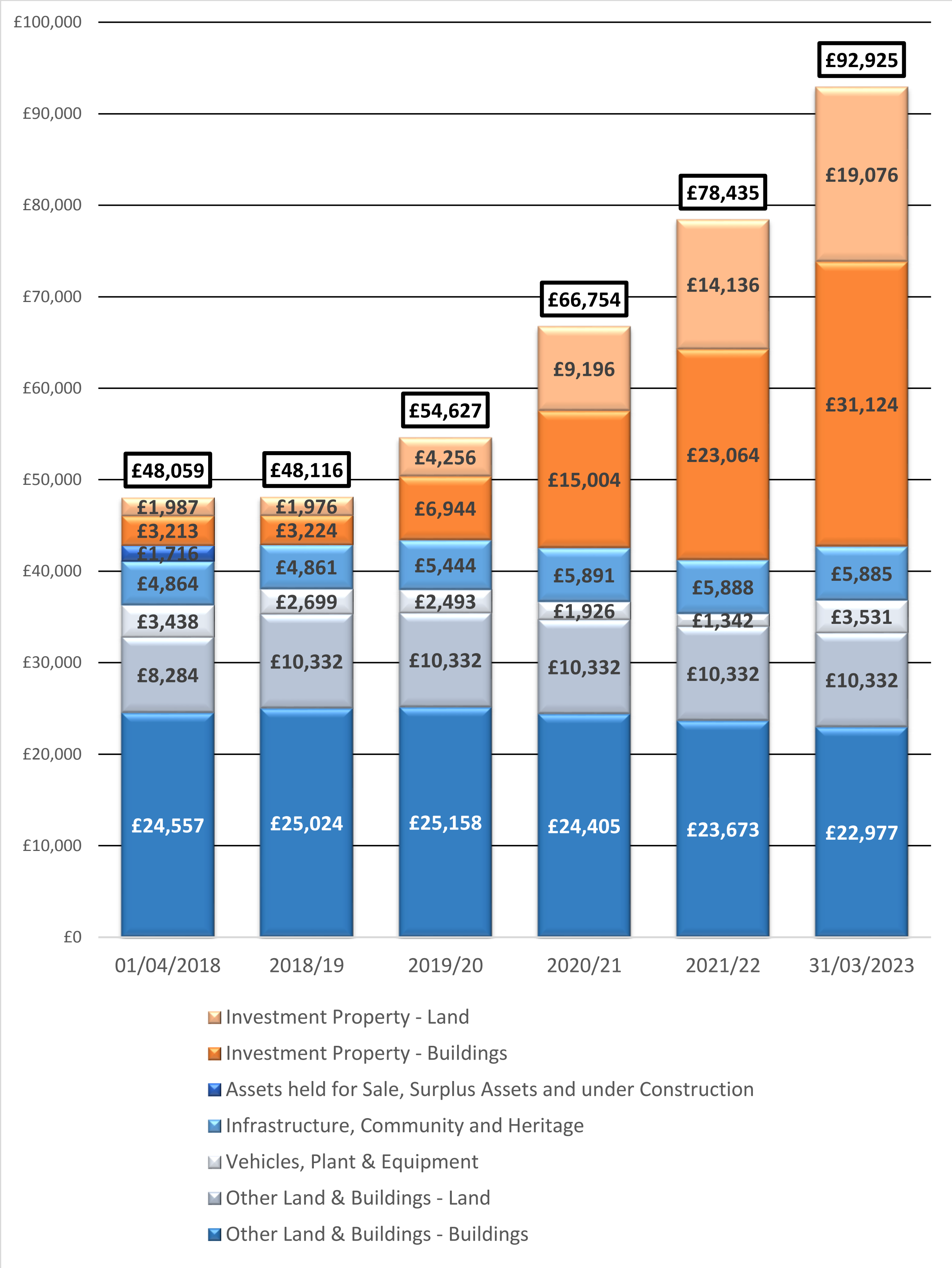
* - these capital receipts are subject to risks such as receipt of planning permission or an option agreement and therefore £649,000 has not been used to fund spend.

3. The Balance Sheet

3.1. The Capital Programme and its funding will significantly impact on the Council's Balance Sheet through property acquisitions funded by borrowing:

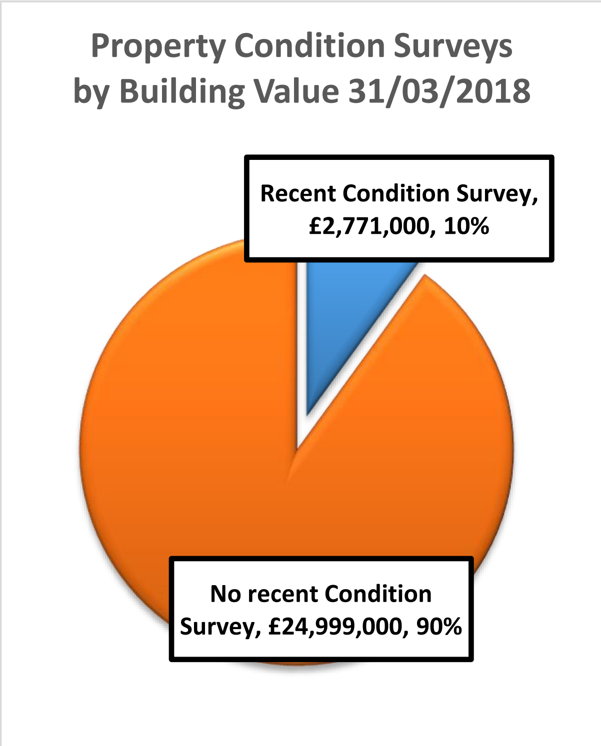


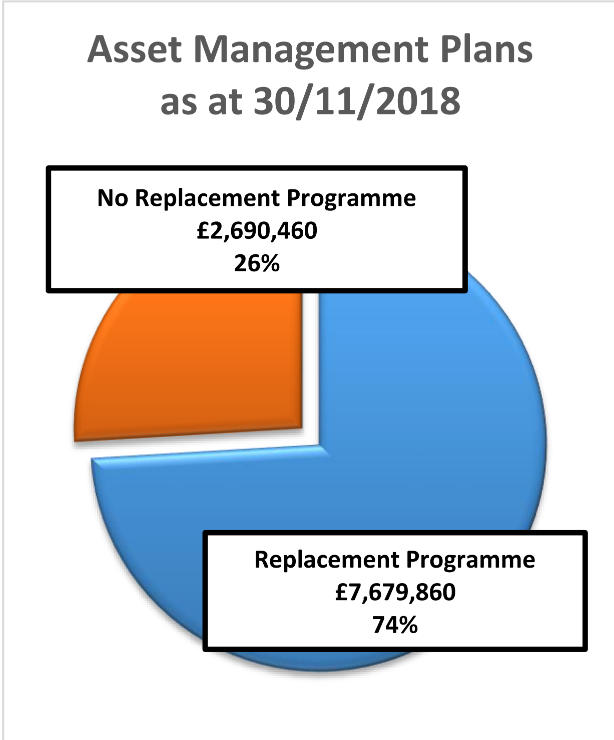
3.2. The property asset element of long term assets i.e. excluding long term investments and debtors together with investment property is shown in more detail below in £000:



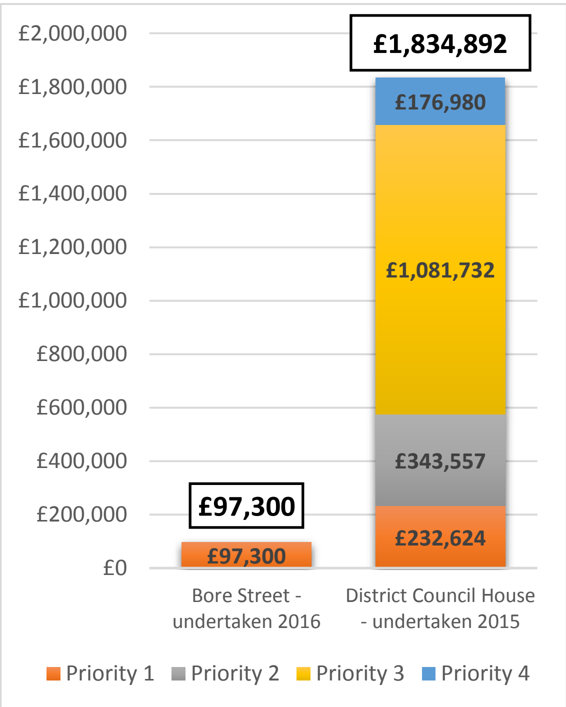
4. Asset Management Planning

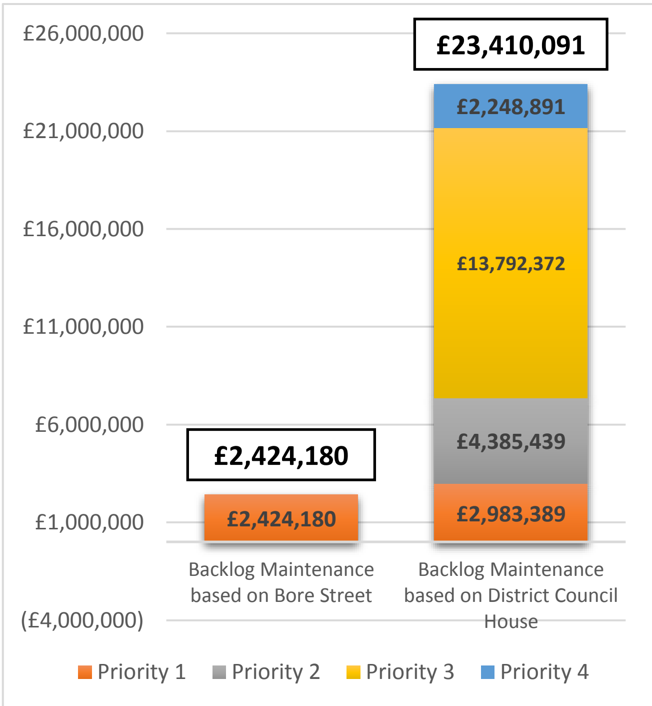
4.1. The level of property assets with recent Property Condition Surveys (i.e. undertaken within the last five years) and the current level of Asset Management Plans by asset value is shown below:



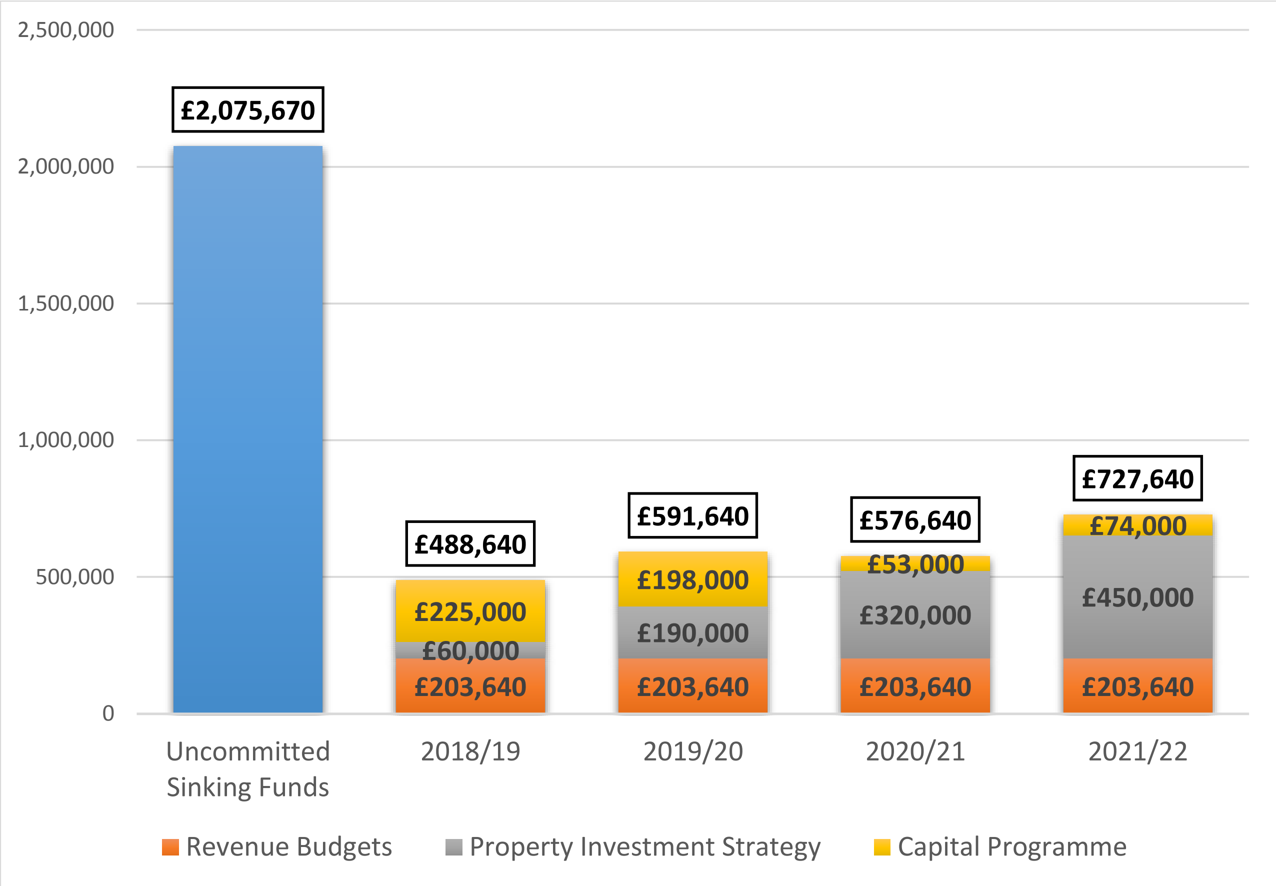


4.2. The level of backlog maintenance identified in the two recent condition surveys can be used to project the potential level for all property assets using the ratios identified in these surveys:

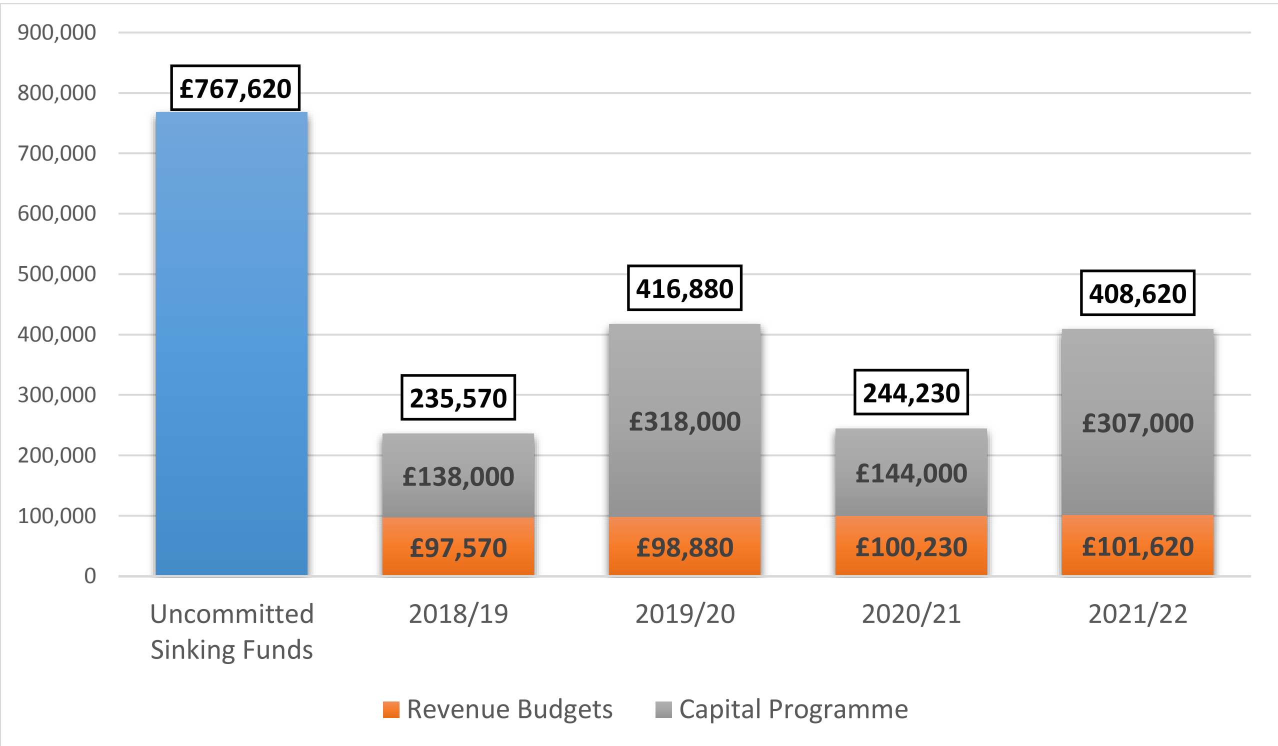




4.3. The resources identified for enhancement and maintenance of property assets are:



4.4. The resources identified for replacement and maintenance of vehicles, plant and equipment assets are:



5. The Property Investment Strategy

5.1. Council approved the property investment strategy on 16 October 2018 and plans to invest **£45m** to develop a prudent investment property portfolio to provide an ongoing source of income while supporting the strategic objectives of the Council by; promoting economic growth, facilitating development, shaping communities and enabling financial sustainability.

5.2. The Council must give due consideration to the drivers for investment (below), along with the guidance from CIPFA and the Ministry of Housing, Communities and Local Government. The latter is a clear steer to look at investments as listed below, where yield is the last consideration after security and liquidity, so that a focus on the potential return on investment does not hamper the need for appropriate due diligence and assessment of risk.

1. **Security** – ensure capital sums are largely protected from loss.
2. **Liquidity** – ensure money is available when required to meet ongoing needs.
3. **Yield** – ensure there is a viable and sustainable return on investment.

5.3. To ensure the maximum number of benefits are achieved, that public perception is considered and that management cost are optimised, the following principles have been selected by the Council to govern any decisions made on property investment;

- **Local** – property will be within the District of Lichfield, or within the functional economic geography. It should be close enough to allow it to be effectively managed and maintained, as well as being appealing to tenants or purchasers now and in the future.
- **Diversified** – property investment will be diversified to broaden the portfolio and so reduce the risk, with a focus given to particular groups, such as housing and offices, when justification is clear and evidenced
- **Strategic** – property investment should be for the long-term and be regularly rebalanced to support our strategic priorities as well as being acceptable to our community
- **Prudent** – property investment will be appropriately risk assessed. Where acquisition is being considered, the current tenancy should offer some security in relation to the length of tenure, strength of the covenant and ongoing viability of the tenant. Where development is being considered, likely tenancies and pre-lets would need to be leveraged to support any financial assessment.
- **Profitable** – property investment will provide a return on investment, either through lettings or sales. The yield on the property should exceed the ongoing costs for management, maintenance and borrowing, while considering the full costs of acquisition or development (e.g. Stamp Duty, legal fees, external valuations and structural surveys). To ensure these principles are considered in each case any decision to invest will be supported by the introduction of an assessment methodology, considering the key aspects of the property, such as; location, tenancy strength, tenure, lease length, repairing terms and size. This could be done through an assessment matrix, which would provide a level of assurance and objectivity to decision making.

5.4. Investment, including property acquisitions, always attracts a level of risk and higher returns are often associated with higher risks. This is one of the reasons for every decision to be appropriately risk assessed, while the overall portfolio should be adequately managed to reduce the overall risk attached to it.

5.5. Risk will come from a number of factors, including;

- **Economic** – periods of rental decline or lack of income, the costs of maintaining the property and falls in property values in a recessionary environment, certain property market segments or certain geographical areas becoming less attractive than others.
- **Political** – changes to national government or local priorities
- **Customer** – reputational damage from resident perception of investment
- **Legislative** – changes to ownership, investment or borrowing legislation

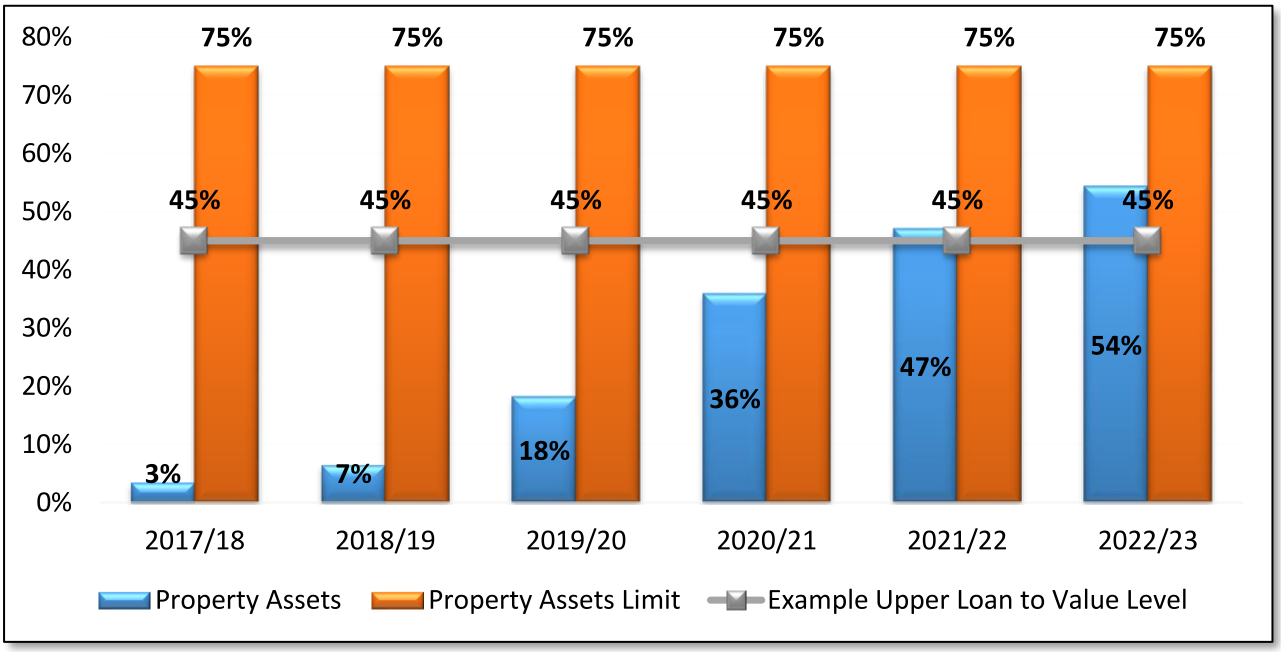
5.6. Ongoing risk, will be managed through standard risk management policies and procedures, ensuring appropriate transparency and challenge.

5.7. The Property Investment Strategy acquisitions are planned to be funded by borrowing. The level of property value funded by borrowing is known as gearing and in the private sector is measured as the loan to value (LTV) ratio.

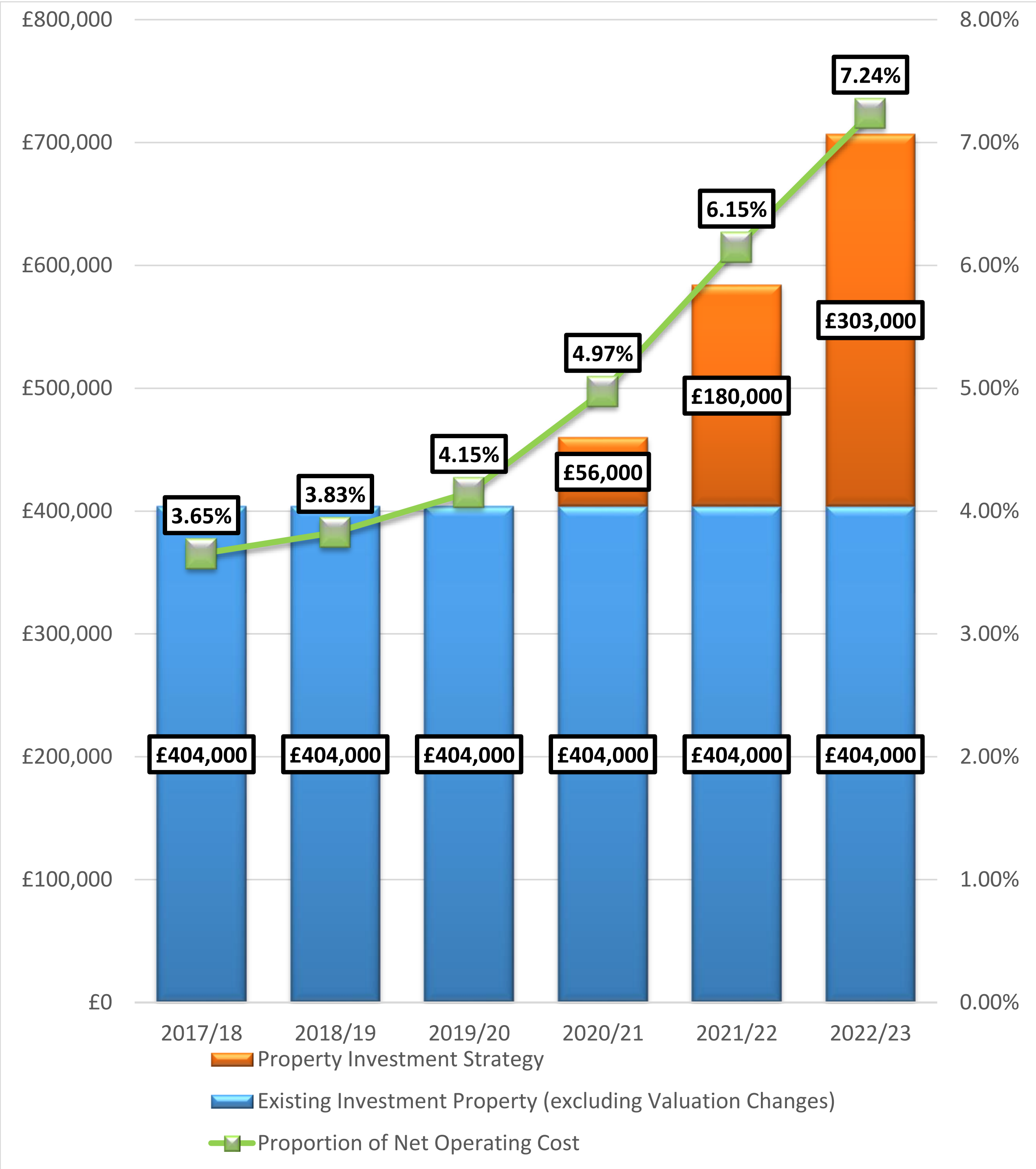
5.8. The private sector will set a maximum loan to value range for property typically **35%** to **45%** to manage the risk that the loans outstanding are unable to adapt to changing asset strategy or property value. This will be evident in a recession where typically property values reduce and loans therefore can exceed property value (known as negative equity).

5.9. A negative equity scenario can make it difficult to rebalance the portfolio through disposals due to the existing loan repayments that will still need to be paid whilst income is no longer received.

5.10. The projected gearing ratio, the limit identified in the property investment strategy and an example upper loan to value limit from a property investment company is shown below:



5.11. The level of the Net Budget that will be supported by the Property Investment Strategy (excluding valuation movements) is:



5.12. The Council has a joint venture partnership with PSP for property and also approved the creation of a Local Authority company to deliver on development and housing ambitions.

5.13. The Capital Programme includes a loan of up to **£900,000** in 2019/20 for a period of 5 years to facilitate housing development and is assumed to be interest free.

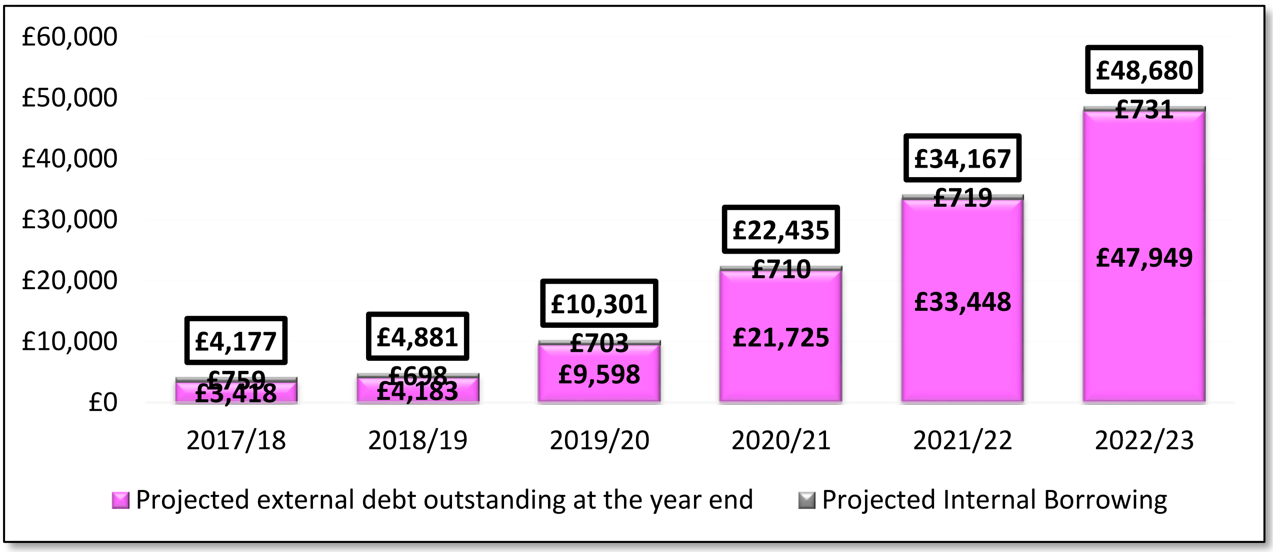
5.14. At present no income stream from the company other than the loan repayment that will be treated as a capital receipt is assumed in the Medium Term Financial Strategy.

6. Debt Management

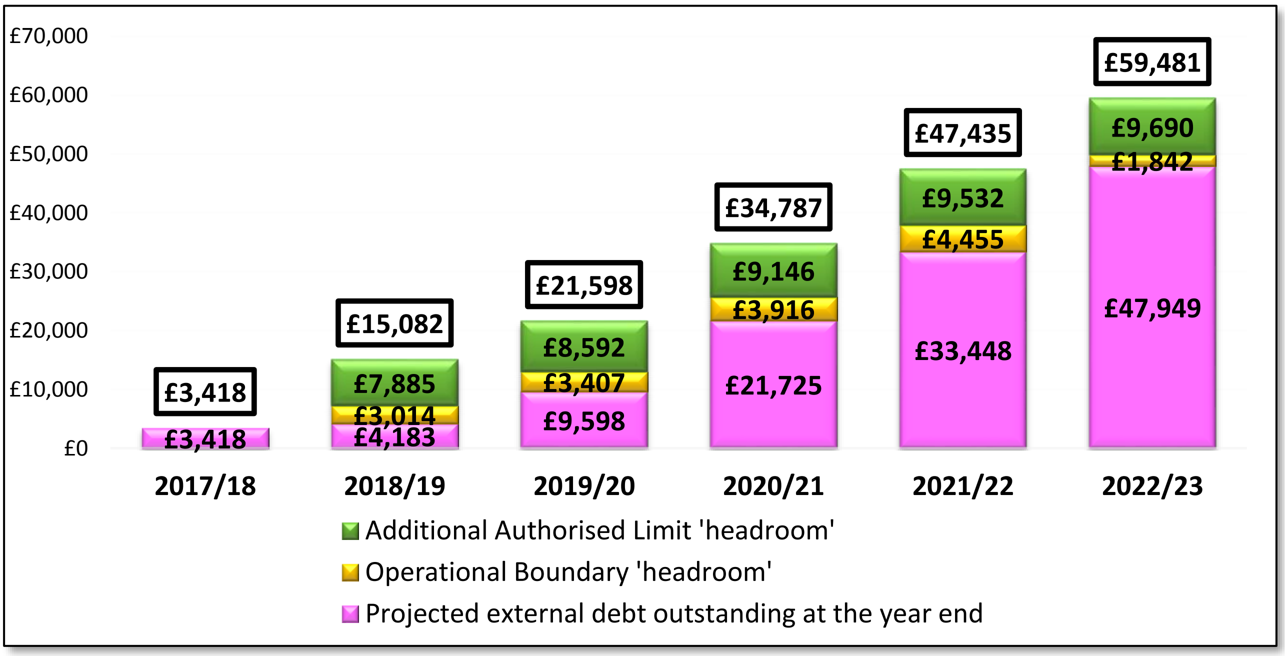
6.1. At the 31 March 2018 the Council had a relatively low level of debt outstanding of **£3.418m** in the form of external borrowing and finance leases.

6.2. The investment in Burntwood Leisure Centre as part of the Leisure Outsourcing, the implementation of the Property Investment Strategy and the renewal of the waste fleet through a contract hire arrangement will mean debt is projected to increase to **£47.949m** by 31 March 2023.

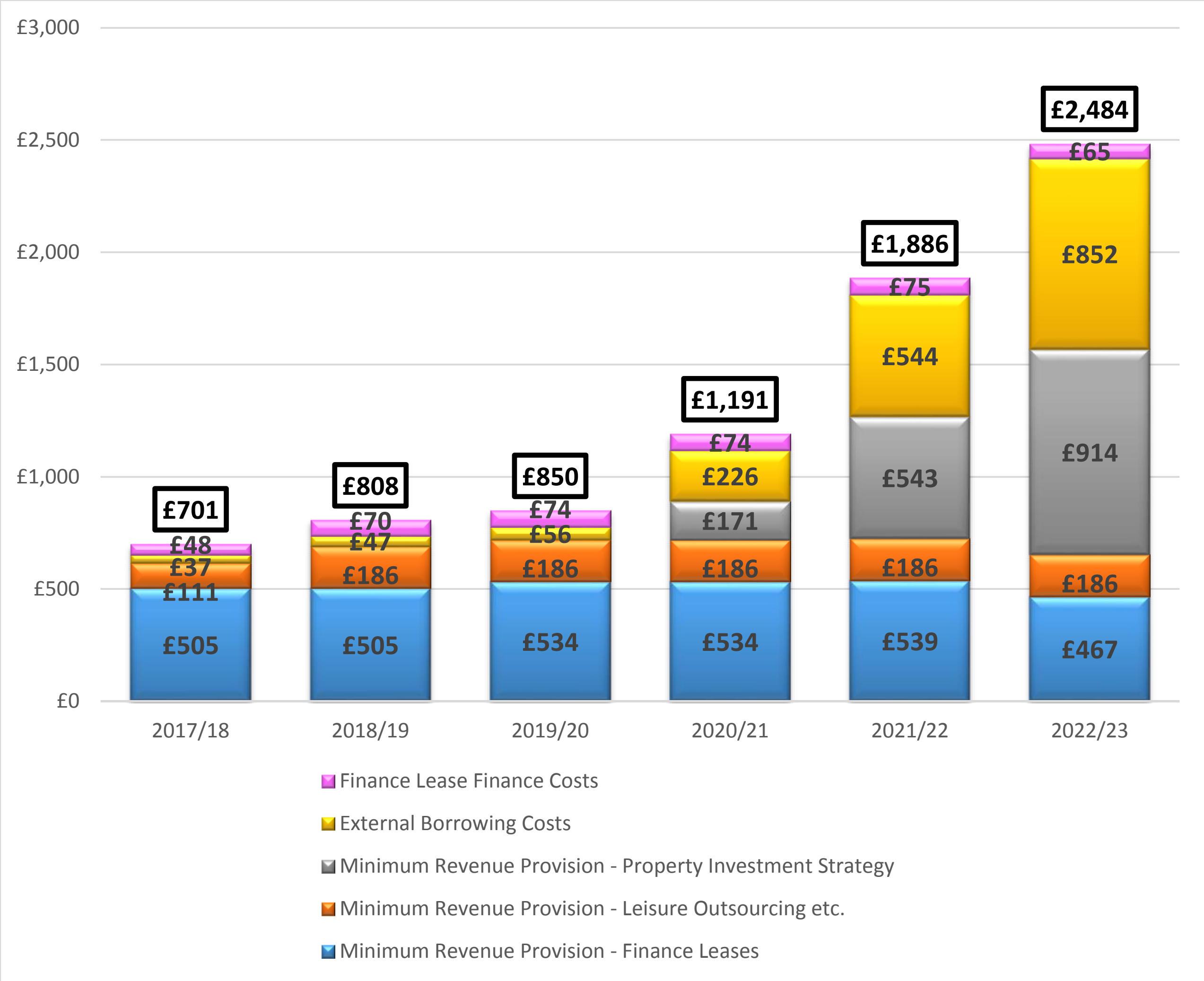
6.3. The projected **Capital Financing Requirement** or borrowing need, **projected level of external debt** and projected level of internal borrowing in (£000) is shown below:



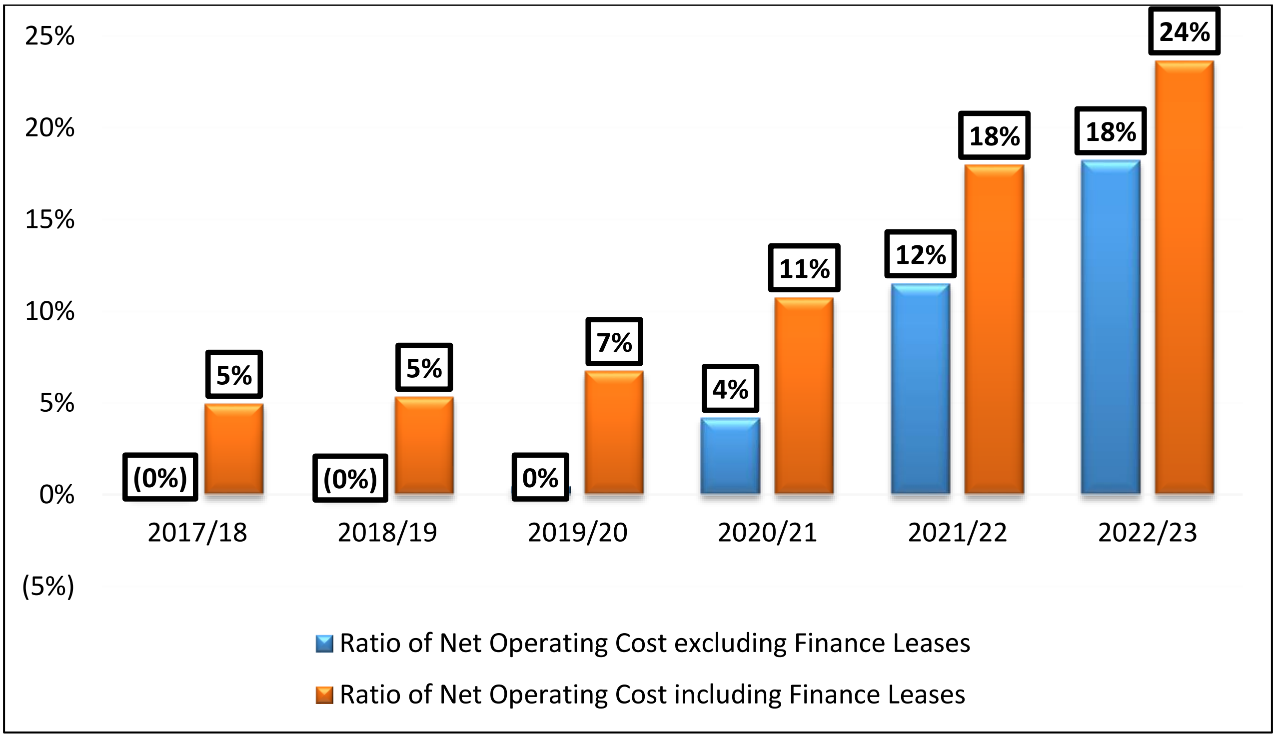
6.4. The Council is managing its debt through setting Prudential Indicators related to the statutory maximum known as the **Authorised Limit** and an **Operational Boundary** as shown below in (£000):



6.5. The level of debt determines the cost of debt servicing (Minimum Revenue Provision which is similar to depreciation with asset cost divided by assessed asset life plus the cost of finance) in £000:



6.6. The proportion of the net budget allocated to financing costs (net of investment income) is below:



7. Financial Guarantees

7.1. In addition, to the debt projections shown above in relation to external borrowing and finance leases, the Council also acts as a guarantor for an admitted body that delivers services on behalf of the Council.

7.2. In the event that it is probable that these guarantees will be required a financial provision would be created to mitigate the risk.

7.3. The guarantees identified in the Statement of Accounts under the Contingent Liabilities note are:

- **The Lichfield Garrick** – the guarantee relates to the pensions of transferred employees and at 31 March 2018 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£5,000.**
- **Freedom Leisure -** the guarantee relates to the pensions of transferred employees and at 31 March 2018 the risk of default was assessed as less than **1%** and therefore the financial risk to the Council is **£97,000.** Freedom Leisure have been admitted to the Pension Fund using a 'pass through' agreement where the Council bears all market related risks such as investment returns. The Pension Fund actuary assessed a market related bond to manage these risks to be **£677,000**. The Council agreed to the creation of an earmarked reserve projected to total **£267,080** at the end of the ten year contract period from the leisure outsourcing savings with any additional sum to be provided by General Reserves.

7.4. These guarantees are assessed throughout the year, in terms of the financial viability of the organisations for which the guarantee is provided, to determine whether a financial provision will need to be created.

8. The Authority's Risk Appetite, Knowledge and Skills

8.1. The Council's risk appetite along with the majority of Local Government is increasing due to the need to offset funding reductions from Central Government with income from alternative and commercial sources. This approach is evident with the approval by Council on 16 October 2018 of the Property Investment Strategy that involves the creation of a Local Authority Development Company and plans to invest in commercial property.

8.2. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance and Procurement is a qualified accountant with 30 years' experience, the Council is in the process of recruiting a new Estates Team to manage existing property and deliver the Property Investment Strategy. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and the Association of Accounting Technicians.

8.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and has access to property professionals through the PSP joint venture. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

8.4. The Council does not plan to utilise the flexible use of capital receipts for transformation projects.

9. Prudential and Local Indicators

9.1. The Prudential and Local Indicators in relation to the Capital Strategy are shown below:

Prudential Indicators							
Indicators	**2017/18 Actual**	**2018/19 Original**	**2018/19 Revised**	**2019/20 Original**	**2020/21 Original**	**2021/22 Original**	**2022/23 Original**
Capital Investment							
Capital Expenditure (£m)	£2.608	£10.242	£5.355	£11.618	£14.909	£14.466	£17.250
Capital Financing Requirement (£m)	£4.177	£10.552	£4.881	£10.301	£22.435	£34.167	£48.680
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£3.418)	(£10.142)	(£4.183)	(£9.598)	(£21.725)	(£33.448)	(£47.949)
Borrowing in Advance - Gross Debt > Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£3.991	£21.377	£15.082	£21.598	£34.787	£47.435	£59.481
Operational Boundary (£m)	£3.991	£13.122	£7.197	£13.006	£25.641	£37.903	£49.791
Proportion of Financing Costs to Net Revenue Stream (%)	5%	7%	5%	7%	11%	18%	24%
Local Indicators							
Indicators	**2017/18 Actual**	**2018/19 Original**	**2018/19 Revised**	**2019/20 Original**	**2020/21 Original**	**2021/22 Original**	**2022/23 Original**
Replacement of Debt Finance (£m)[1]	(£0.616)	(£0.699)	(£0.691)	(£0.720)	(£0.891)	(£1.268)	(£1.568)
Capital Receipts (£m)	(£0.426)	£0.000	(£0.356)	(£1.056)	(£0.009)	(£0.009)	(£0.009)
Liability Benchmark (£m)[2]	£13.243	£2.345	£12.572	£5.017	(£7.854)	(£20.171)	(£31.711)
Treasury Investments (£m)	£24.519	£20.911	£25.147	£23.689	£23.739	£23.903	£24.622

10. Chief Finance Officer Assessment of the Capital Strategy

10.1. The key risks associated with the Capital Strategy are principally related to the Property Investment Strategy and its funding given this is planned to be funded through borrowing.

10.2. I have assessed the current overall risk as **85** out of **144** based on the following factors:

	Likelihood	Impact	Overall
Minimum			**0**
Capital Strategy			
Slippage Occurs in the Capital Spend	4	2	8
Planned Capital Receipts are not received	3	4	12
Actual Cash flows differ from planned Cash flows	2	2	4
Property Investment Strategy			
Slippage Occurs in the Capital Spend	4	2	8
Change of Government policy including regulatory change	2	4	8
The form of exit from the EU adversely impacts on the UK economy including the Property Market and Borrowing Costs	3	4	12
There is a cyclical 'downturn' in the wider markets	3	3	9
There is insufficient expertise to implement the Property Investment Strategy	3	4	12
Inability to acquire or dispose of assets due to good opportunities not being identified	3	4	12
Assessed Level of Risk			**85**
Maximum			**144**

1 Total Minimum Revenue Provision.
2 The lowest risk level of borrowing by keeping cash and investment balances to a minimum level of £10m at each year end to maintain liquidity but minimise credit risk (the liability benchmark calculation reduces the level of cash that is invested in the financial markets to the minimum level through the use of internal borrowing).

APPENDIX B

Capital Programme

Project	Capital Programme (R=>£500k, A= £250k to £500k and G = <£250k)						
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000	Corporate £000
LOPS - BLC Enhancement Work	0	95	0	0	0	95	0
LOPS - Other Burntwood Leisure Centre Sinking Fund	0	140	0	0	0	140	0
LOPS - Friary Grange Capital Works	50	0	0	0	0	50	0
LOPS - Leisure Review: Capital Investment	1,395	0	0	0	0	1,395	0
ECON - Play Equipment at Hill Ridware Village Hall	0	71	0	0	0	71	0
ECON - New Build Parish Office/Community Hub	0	92	0	0	0	92	0
ECON - Fradley Village Heating & CCTV	15	0	0	0	0	15	0
ECON - Fradley Youth & Community Centre	15	0	0	0	0	15	0
ECON - Replacement of children's play equipment	21	0	0	0	0	21	0
ECON - Armitage with Handsacre Village Hall heating	20	0	0	0	0	20	0
ECON - Armitage with Handsacre Village Hall storage	16	0	0	0	0	16	0
ECON - Re-siting/improvement of Armitage War Memorial	80	40	0	0	0	120	0
ECON - Replacement of canopy and artificial grass	13	0	0	0	0	13	0
REGH - Accessible Homes (Disabled Facilities Grants)	1,193	1,104	950	950	950	5,147	352
REGH - Home Repair Assistance Grants	15	15	15	15	15	75	0
REGH - Decent Homes Standard	0	197	0	0	0	197	0
REGH - Energy Insulation Programme	41	10	10	10	10	81	0
REGH - DCLG Monies	0	212	0	0	0	212	0
REGH - Unallocated S106 Affordable Housing Monies	0	400	0	0	0	400	0
REGH - Housing Redevelopment Scheme - Packington	40	0	0	0	0	40	0
Healthy & Safe Communities Total	**2,914**	**2,376**	**975**	**975**	**975**	**8,215**	**352**
LOPS - Darnford Park (S106)	0	13	0	0	0	13	0
LPDE - Loan to Council Dev. Co.	0	900	0	0	0	900	116
ECON - Canal Towpath (Brereton & Ravenhill)	0	211	0	0	0	211	0
WC - Vehicle Replacement Programme	0	140	25	0	3,080	3,245	0
LOPS - Vehicle Replacement Programme	15	301	119	307	20	762	210
LOPS - Shortbutts Park, Lichfield	0	23	0	0	0	23	20
ECON - Env. Improvements - Upper St John St	0	7	0	0	0	7	0
LOPS - Stowe Pool Improvements (S106) (Jul 2012)	0	550	450	0	0	1,000	5
ECON - The Leomansley Area Improvement Project	3	0	0	0	0	3	0
ECON - Cannock Chase SAC	62	13	22	25	0	122	0
Clean, Green and Welcoming Places to Live Total	**80**	**2,158**	**616**	**332**	**3,100**	**6,286**	**351**
REGH - Data Management System	11	0	0	0	0	11	0
ECON - Birmingham Road Site Support	143	0	0	0	0	143	143
ECON - Birmingham Road Site - Coach Park	5	238	0	0	0	243	243
ECON - Birmingham Road Site - Police Station Acquisition	1,805	0	0	0	0	1,805	1,676
ECON - Birmingham Road Site - Short Term Redevelopment	0	353	0	0	0	353	0
ECON - Sankey's Corner Environmental Improvements	3	0	0	0	0	3	0
ECON - City Centre Strategy and Interpretation	24	0	0	0	0	24	1
ECON - Car Parks Variable Message Signing	0	32	0	0	0	32	0
ECON - Old Mining College - Refurbish access and signs	14	0	0	0	0	14	0
ECON - Lichfield Festival Parade and Website	14	0	0	0	0	14	14
ECON - St Mary's Cultural Hub	45	0	0	0	0	45	45
ECON - Erasmus Darwin Lunar Legacy	25	0	0	0	0	25	25
ECON - St. Chads Sculpture	0	50	0	0	0	50	50
A Vibrant and Prosperous Economy Total	**2,089**	**673**	**0**	**0**	**0**	**2,762**	**2,197**
LPDE - Property Investment Strategy	0	6,000	13,000	13,000	13,000	45,000	0
LOPS - Depot Sinking Fund	0	11	0	0	0	11	11

APPENDIX B

Project	Capital Programme (R=>£500k, A= £250k to £500k and G = <£250k) 2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000	Corporate £000
CORP - IT Innovation	187	167	110	50	50	564	459
CORP - IT Infrastructure	0	105	55	35	15	210	210
CORP - IT Cloud	0	25	100	0	0	125	125
CORP - District Council House	85	103	53	74	110	425	310
A Council that is Fit For the Future Total	**272**	**6,411**	**13,318**	**13,159**	**13,175**	**46,335**	**1,115**
Grand Total	**5,355**	**11,618**	**14,909**	**14,466**	**17,250**	**63,598**	**4,015**

Funding Source	Capital Programme 2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000	
Usable Capital Receipts	1,888	976	364	413	219	3,860	
Revenue	155	0	0	0	0	155	
Corporate Council Sources	**2,043**	**976**	**364**	**413**	**219**	**4,015**	
External Grants and Contributions	1,281	1,863	1,358	931	931	6,364	
Section 106	264	906	43	25	0	1,238	
Earmarked Reserves	365	1,498	119	97	20	2,099	
Sinking Fund	7	235	0	0	0	242	
Finance Leases	0	140	25	0	3,080	3,245	
Grand Total	**3,960**	**5,618**	**1,909**	**1,466**	**4,250**	**17,203**	**63,598**
In Year FUNDING GAP (Borrowing Need)	**1,395**	**6,000**	**13,000**	**13,000**	**13,000**	**46,395**	
Cumulative FUNDING GAP (Borrowing Need)	**3,338**	**9,151**	**21,793**	**34,064**	**45,964**	**45,964**	
Available Capital Receipts	**(1,538)**	**(1,618)**	**(1,263)**	**(859)**	**(649)**	**(649)**	

MTFS Audit Trail	Financial Year 2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Cabinet 13 February 2018	**10,242**	**17,707**	**14,551**	**14,207**	**0**	**56,707**
<u>Budget Monitoring in 2018/19</u>						
2017/18 Money Matters (Slippage)	918					918
3 Month's Money Matters						
• Rephasing	(649)	649				0
• Other Changes	154					154
6 Month's Money Matters						
• Rephasing	(3,544)	3,544				0
8 Month's Money Matters						
• Rephasing	(3,569)	3,579	(10)			0
• Other Changes	(101)					(101)
Cabinet and Council Reports		900				900
Completed Projects	(1)					(1)
Section 106 Allocations	488	106				594
Allocation of 'Old Father Time' monies under delegation	84	50				134
Birmingham Road Site including Police Station Acquisition	1,333	(2,658)	(50)			(1,375)
<u>Modelled Changes</u>						
Capital Bids		388	418	259	4,250	5,315
Rephasing of Property Investment Strategy		(13,000)			13,000	0
Birmingham Road Site - Short Term Redevelopment		353				353
Capital Programme	**5,355**	**11,618**	**14,909**	**14,466**	**17,250**	**63,598**

APPENDIX B

Birmingham Road Site - Short Term Redevelopment and Future Options Appraisal

Approved Budget

Birmingham Road Site	Approved Budget					
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Support	143					143
Police Station Acquisition	1,805					1,805
Coach Park Acquisition	5	238				243
Sub Total Capital Programme	**1,953**	**238**	**0**	**0**	**0**	**2,191**
Police Station Acquisition						
Other	8					8
Demolition	100					100
Sub Total Revenue Budget	**108**	**0**	**0**	**0**	**0**	**108**
Total Approved Budget	**2,061**	**238**	**0**	**0**	**0**	**2,299**

Funded by:						
Corporate Capital Resources	1,824	238				2,062
Earmarked Reserve – Condition Survey	39					39
Earmarked Reserve - BRS	198					198
Total Funding	**2,061**	**238**	**0**	**0**	**0**	**2,299**

APPENDIX B

Birmingham Road Site - Short Term Redevelopment and Future Options Appraisal

Recommended Additional Budgets

Short Term Development and Future Options Appraisal	Recommended Budget					
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Bus Station Works		167				167
Landscaping Works		111				111
Other Works		30				30
Fees		45				45
Sub Total Capital Programme	**0**	**353**	**0**	**0**	**0**	**353**
Master Planning		60				60
Fees	49	45	28	28		150
Demolition						
Total Cost		233				233
Less : Approved	(100)					(100)
Sub Total Revenue Budget	**(51)**	**338**	**28**	**28**	**0**	**343**
Total Recommended Budget	**(51)**	**691**	**28**	**28**	**0**	**696**

Funded by:						
Earmarked Reserve - BRS	(51)	691	28	28	0	696
Total Funding	**(51)**	**691**	**28**	**28**	**0**	**696**

Birmingham Road Site Earmarked Reserve

Short Term Development and Future Option Appraisal	BRS Earmarked Reserve					
	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Opening Balance	**(1,306)**	**(1,159)**	**(452)**	**(408)**	**(380)**	**(1,306)**
Approved Budget						
Police Station Acquisition	198					198
Major Projects Team		16	16			32
Recommended Budget						
Revenue	(51)	338	28	28	0	343
Capital	0	353	0	0	0	353
Closing Balance	**(1,159)**	**(452)**	**(408)**	**(380)**	**(380)**	**(380)**

Minimum Revenue Provision Statement 2019/20

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008. The Local Government Act 2003 requires this Authority to have regard to the Ministry of Housing, Communities and Local Government's (MGCLG) guidance on MRP most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over the period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the Authority to approve an annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

- For capital expenditure incurred after 1 April 2008 where no financial support is provided by the Government through the Finance Settlement, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments. MRP on purchases of **freehold land** will be charged over a maximum of **50 years**. MRP on expenditure not related to assets but that has been **capitalised by regulation or direction** (Revenue Expenditure Funded by Capital under Statute or REFCUS) will be charged over a maximum of **20 years**.
- For assets acquired by **finance leases**, MRP will be determined as being equal to the **element of the charge that is used to reduce the Balance Sheet liability**.
- For **capital expenditure loans to third parties that are repaid** in annual or more frequent instalments of principal, the Council will make **nil MRP**, but instead apply the capital receipts arising to reduce the Capital Financing Requirement or Borrowing Need. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate delaying the MRP until the year after the assets become operational.

Treasury Management

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested and is planning to borrow substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risks are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

As part of the MTFS, we prepare integrated Revenue Budgets and a Capital Programme. These budgets together with the actual Balance Sheet from the previous financial year are used to also prepare Balance Sheet projections. These Balance Sheet Projections are shown on the next page.

These Balance Sheet projections are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement (including comparison to a **Liability Benchmark** explained below), investment levels and our Investment Policy and Strategy.

A Liability benchmark compares the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as used in the Balance Sheet projections, but that cash and investment balances are kept to a minimum level (**£10m** in 2018/19) to maintain sufficient liquidity but minimise credit risk through the use of Internal Borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast Capital Financing Requirement (CFR) or Borrowing Need over the next three years. The table shows that the Authority expects to comply with this recommendation during 2019/20.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Capital Financing Requirement (Borrowing)	£2,130	£3,338	£9,153	£21,795	£34,066	£45,966
Capital Financing Requirement (Finance Leases)	£2,047	£1,543	£1,149	£640	£101	£2,714
Total	**£4,177**	**£4,881**	**£10,302**	**£22,435**	**£34,168**	**£48,680**

External Borrowing	(£1,370)	(£2,640)	(£8,449)	(£21,084)	(£33,346)	(£45,234)
Finance Leases	(£2,048)	(£1,543)	(£1,150)	(£641)	(£102)	(£2,715)
Total	**(£3,418)**	**(£4,183)**	**(£9,598)**	**(£21,725)**	**(£33,448)**	**(£47,949)**

Liability Benchmark	£13,243	£12,572	£5,017	(£7,854)	(£20,171)	(£31,711)
Higher Projected External Borrowing compared to Liability Benchmark	(£14,612)	(£15,212)	(£13,466)	(£13,230)	(£13,175)	(£13,523)

Balance Sheet Projections 2018-23

	Type	2017/18 Actual £000s	2018/19 Budget £000s	2019/20 Budget £000s	2020/21 Budget £000s	2021/22 Budget £000s	2022/23 Budget £000s	2018/23 Change £000s
Property, Plant and Equipment	ASSET	41,968	42,325	42,836	41,963	40,644	42,134	(191)
Heritage Assets	ASSET	515	515	515	515	515	515	0
Investment Property	ASSET	5,200	5,200	11,200	24,200	37,200	50,200	45,000
Intangible Assets	ASSET	76	76	76	76	76	76	0
Assets Held for Sale	ASSET	300	0	0	0	0	0	0
Long Term Debtors	DEBT	93	93	93	93	93	93	0
Long Term Debtors (Company Loan)	LOAN	0	0	900	900	900	900	900
Investments	INV	24,418	25,046	23,588	23,638	23,802	24,521	(525)
Borrowing	BOLE	(1,370)	(2,640)	(8,449)	(21,084)	(33,346)	(45,234)	(42,594)
Finance Leases	BOLE	(2,048)	(1,543)	(1,150)	(641)	(102)	(2,715)	(1,172)
Working Capital	CRED	(9,227)	(9,030)	(8,540)	(8,534)	(8,534)	(8,534)	496
Pensions	CRED	(34,393)	(35,154)	(36,028)	(36,028)	(36,028)	(36,028)	(874)
TOTAL ASSETS LESS LIABILITIES		**25,532**	**24,887**	**25,041**	**25,098**	**25,219**	**25,928**	**1,041**
Unusable Reserves								
Revaluation Reserve	REV	(9,016)	(9,016)	(9,016)	(9,016)	(9,016)	(9,016)	0
Capital Adjustment Account	CAP	(34,865)	(34,217)	(36,208)	(36,202)	(36,150)	(36,128)	(1,911)
Deferred Credits	CRED	(47)	(47)	(947)	(947)	(947)	(947)	(900)
Pension Scheme	CRED	36,028	36,028	36,028	36,028	36,028	36,028	0
Benefits Payable During Employment Adjustment Account	CRED	132	132	132	132	132	132	0
Collection Fund	UGER	(611)	(208)	0	0	0	0	208
Available for Sale Financial Instruments Reserve	INV	101	101	101	101	101	101	0
Usable Reserves								
Unapplied Grants and Contributions	UGER	(1,641)	(1,418)	(582)	(542)	(517)	(492)	926
Usable Capital Receipts	UGER	(3,070)	(1,538)	(1,618)	(1,263)	(859)	(649)	889
Burntwood Leisure Centre Sinking Fund	UGER	(236)	(236)	0	0	0	0	236
City Centre Redevelopment Sinking Fund	UGER	(25)	(18)	(18)	(18)	(18)	(18)	0
Elections, Public Open Spaces & Building Regulations	UGER	(780)	(780)	(780)	(780)	(780)	(780)	0
Three Spires Multi Storey	UGER	(2,057)	(2,207)	(2,357)	(2,507)	(2,507)	(2,507)	(300)
Other Earmarked Reserves	UGER	(4,904)	(6,111)	(4,275)	(4,128)	(4,003)	(3,983)	2,128
Grant Aid - Development	UGER	(20)	(20)	(20)	(20)	(20)	(20)	0
General Fund Balance	GEN	(4,521)	(5,332)	(5,481)	(5,936)	(6,663)	(7,649)	(2,317)
TOTAL EQUITY		**(25,532)**	**(24,887)**	**(25,041)**	**(25,098)**	**(25,219)**	**(25,928)**	**(1,041)**
Reserves Available to cover Investment Losses		**(9,470)**	**(11,481)**	**(9,794)**	**(10,102)**	**(10,704)**	**(11,670)**	**(189)**
Summary								
Capital Funding	CAP	(34,865)	(34,217)	(36,208)	(36,202)	(36,150)	(36,128)	(1,911)
Revaluation Reserve	REV	(9,016)	(9,016)	(9,016)	(9,016)	(9,016)	(9,016)	0
Borrowing and Leasing	BOLE	(3,418)	(4,183)	(9,598)	(21,725)	(33,448)	(47,949)	(43,765)
Non-Current Assets	ASSET	48,059	48,116	54,627	66,754	78,435	92,925	44,809
Investments	INV	24,519	25,147	23,689	23,739	23,903	24,622	(525)
Unapplied Grants & Earmarked Reserves	UGER	(13,344)	(12,536)	(9,650)	(9,258)	(8,704)	(8,449)	4,087
General Reserve	GEN	(4,521)	(5,332)	(5,481)	(5,936)	(6,663)	(7,649)	(2,317)
Long Term Debtors	DEBT	93	93	93	93	93	93	0
Long Term Debtors (Company Loan)	LOAN	0	0	900	900	900	900	900
Working Capital & Pensions	CRED	(7,507)	(8,071)	(9,355)	(9,349)	(9,349)	(9,349)	(1,278)
Total		**0**	**0**	**0**	**0**	**0**	**0**	**0**
Internal Borrowing		**760**	**699**	**704**	**711**	**720**	**732**	**33**
Liability Benchmark								
Capital Financing Requirement (Borrowing)		2,130	3,339	9,153	21,795	34,066	45,966	42,627
Working Capital & Pensions		(7,507)	(8,071)	(9,355)	(9,349)	(9,349)	(9,349)	(1,278)
Usable Reserves		(17,865)	(17,868)	(15,131)	(15,194)	(15,367)	(16,098)	1,770
Minimum Level of Investments		10,000	10,028	10,316	10,602	10,821	11,192	1,164
Total		**(13,242)**	**(12,572)**	**(5,017)**	**7,854**	**20,171**	**31,711**	**44,283**

Borrowing Strategy

The Authority currently projects **£2.640 million** of loans at 31 March 2019, an increase of **£1.270 million** on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast above shows that the Authority expects to borrow up to **£6.000 million** in 2019/20.

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

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

Alternatively, the Authority may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

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

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Staffordshire County Council Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- leasing
- hire purchase
- sale and leaseback

The Authority has previously raised all of its long-term borrowing from the Public Works Loans Board (PWLB) but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In 2019/20, the Authority's investment balance is projected to range between **£24.50 million** and **£32.62 million**.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated **£8 million** that is available for longer-term investment. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a continuation of the new strategy adopted in the last few years.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

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

Approved investment counterparties and limits

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£1m 5 years	£1m 20 years	£2m 50 years	£1m 20 years	£1m 20 years
AA+	£1m 5 years	£1m 10 years	£2m 25 years	£1m 10 years	£1m 10 years
AA	£1m 4 years	£1m 5 years	£2m 15 years	£1m 5 years	£1m 10 years
AA-	£1m 3 years	£1m 4 years	£2m 10 years	£1m 4 years	£1m 10 years
A+	£1m 2 years	£1m 3 years	£2m 5 years	£1m 3 years	£1m 5 years
A	£1m 13 months	£1m 2 years	£2m 5 years	£1m 2 years	£1m 5 years
A-	£1m 6 months	£1m 13 months	£2m 5 years	£1m 13 months	£1m 5 years
None	£0.5m 6 months	n/a	£2m 25 years	£50,000 5 years	£0.5m 5 years
Pooled funds and real estate investment trusts		£2m per fund			
UK Domiciled Pooled Funds		**£5m per fund**			

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

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

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of **£250,000** per company as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below **£500,000** per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of existing investments with the counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be **£11.481 million** on 31st March 2019. In order that no more than **1%** of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government, other Local Authorities and UK Domiciled Pooled Funds) will be **£1 million**. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Domiciled Pooled Funds, UK Central Government and UK Local Authorities	£1m each
UK Domiciled Pooled Funds	**£5m each**
UK Central Government	unlimited
UK Local Authorities	£2m each
Any group of organisations under the same ownership	£1m per group
Any group of pooled funds under the same management	£4m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£2m per country
Registered providers and registered social landlords	£5m in total
Unsecured investments with building societies	£2m in total
Loans to unrated corporates (excluding the Council's Company)	£2m in total
Money market funds	£12m in total
Real estate investment trusts	**£5m in total**

Liquidity management: The Authority uses cash flow forecasting via excel to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the medium-term financial strategy and cash flow forecast.

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Financial Derivatives: In the absence of any explicit legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

Markets in Financial Instruments Directive: The Authority has opted up to **professional client status** with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Head of Finance and Procurement believes this to be the most appropriate status.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance and Procurement, having consulted the Cabinet Member for Finance and Democratic Services, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Investment Strategy Report 2019/20

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between **£24.50 million** and **£32.62 million** during the 2019/20 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in a separate document in this report, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its employees for car loans, inherited housing loans from Birmingham City Council, makes loans to individuals to reduce the risk of homelessness and will lend to its subsidiary to support the development of local housing.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Category of borrower	31.3.2018 actual			2018/19	2019/20
	Balance owing	Loss allowance	Net figure in accounts	Projection	Proposed Limit
Subsidiaries	£0	£0	£0	£0	£900,000
Employees – car loans	£17,830	£0	£17,830	£17,830	£100,000
Housing Loans - secured	£44,320	£0	£44,320	£44,320	£45,000
Housing Loans - unsecured	£2,771	£0	£2,771	£2,771	£3,000
Homelessness Loans	£28,555	(£11,299)	£17,256	£17,256	£50,000
TOTAL	**£93,476**	**(£11,299)**	**£82,177**	**£82,177**	**£1,098,000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent including placing charges on properties for housing loans (secured) and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The most significant loan for a service purpose is the **£900,000** loan for **5 years** to the Council Development Company for the provision of housing. The Board of Directors of the Company will initially consist of Council employees and therefore the Council will be able to manage the repayment risk through project due diligence and the monitoring of selected projects.

Commercial Investments: Property

See the Capital Strategy at **APPENDIX B**.

Loan Commitments and Financial Guarantees

See the Capital Strategy at **APPENDIX B**.

Proportionality

See the Capital Strategy at **APPENDIX B**.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has chosen not to follow this guidance and plans to borrow for this purpose to fund the approved Property Investment Strategy. The Authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs will be managed as part of the Authority's overall management of its treasury risks.

Capacity, Skills and Culture

See the Capital Strategy at **APPENDIX B**.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Total Investment Exposure	31/03/2018 Actual £000	31/03/2019 Forecast £000	31/03/2020 Forecast £000	31/03/2021 Forecast £000	31/03/2022 Forecast £000	31/03/2023 Forecast £000
Treasury Management Investments	£24,519	£25,147	£23,689	£23,739	£23,903	£24,622
Commercial Investments: Property	£5,200	£5,200	£11,200	£24,200	£37,200	£50,200
TOTAL INVESTMENTS	**£29,719**	**£30,347**	**£34,889**	**£47,939**	**£61,103**	**£74,822**
Commitments to Lend	£0	£0	£900	£900	£900	£900
TOTAL EXPOSURE	**£29,719**	**£30,347**	**£35,789**	**£48,839**	**£62,003**	**£75,722**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing

Investments Funded by Borrowing	31/03/2018 Actual £000	31/03/2019 Forecast £000	31/03/2020 Forecast £000	31/03/2021 Forecast £000	31/03/2022 Forecast £000	31/03/2023 Forecast £000
Commercial Investments: Property	£0	£0	£6,000	£19,000	£32,000	£45,000
TOTAL FUNDED BY BORROWING	**£0**	**£0**	**£6,000**	**£19,000**	**£32,000**	**£45,000**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investment rate of return (net of all costs)

Investments Net Rate of Return	31/03/2018 Actual %	31/03/2019 Forecast %	31/03/2020 Forecast %	31/03/2021 Forecast %	31/03/2022 Forecast %	31/03/2023 Forecast %
Treasury Management Investments	0.66%	0.86%	0.98%	1.01%	1.03%	1.03%
Commercial Investments						
Property (exc. valuation changes)	7.77%	7.77%	7.77%	7.77%	7.77%	7.77%
Property Investment Strategy	0.00%	0.00%	1.00%	1.00%	1.00%	1.00%
ALL INVESTMENTS	**8.43%**	**8.63%**	**9.75%**	**9.78%**	**9.80%**	**9.80%**

See the Capital Strategy at **APPENDIX B**.

INTERNAL AUDIT PROGRESS REPORT SEPTEMBER 2018 TO DECEMBER 2018

Report of the Audit Manager

Date:	6 February 2019
Agenda Item:	5
Contact Officer:	Angela Struthers
Tel Number:	01543 308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To report on the outcome of Internal Audit's review of the internal control, risk management and governance framework for the period September 2018 to December 2018. To provide members with assurance of the ongoing effective operation of an internal audit function and enabling any particularly significant issues to be brought to the Committee's attention.

2. Recommendations

2.1 That the Committee considers the attached performance report and raises any issue it deems appropriate.

3. Background

3.1 The Accounts and Audit Regulations 2015 require each local authority to publish an Annual Governance Statement (AGS) with its Annual Statement of Accounts. The AGS is required to reflect the various arrangements within the Authority for providing assurance on the internal control, risk management and governance framework within the organisation, and their outcomes.

3.2 One of the sources of assurance featured in the AGS is the professional opinion of the Audit Manager on the outcome of internal audit reviews. Professional good practice recommends that the opinion be given throughout the year to inform the Annual Governance Statement. This opinion is given as part of the reporting process to the Audit & Members Standards Committee.

3.3 The Audit Manager's opinion statement for the period September 2018 to December 2018 is set out as **Appendix 1** and the opinion is summarised below.

3.4 Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's Risk Management, Control & Governance processes.

Overall in my opinion, based upon the reviews performed for the period September 2018 to December 2018, the Authority has:
- adequate and effective risk management arrangements;
- adequate and effective governance; and
- adequate and effective control processes.

Specific Issues

No specific issues have been highlighted through the work undertaken by Internal Audit during 2018/19 to date.

Alternative Options	1. None.
Consultation	1. The progress report has been discussed and agreed with the Council's S151 Officer.
Financial Implications	1. None arising from this report.
Contribution to the Delivery of the Strategic Plan	1. Internal Audit aims to support the Strategic Plan by providing an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations
Equality, Diversity and Human Rights Implications	1. None arising from this report.
Crime & Safety Issues	1. None arising from this report
GDPR/Privacy Impact Assessment	1. N/A

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Audit Plan becomes unachievable	Continuous review to ensure target is achieved	Green
B	Audit Plan becomes irrelevant	Continuous review to ensure any issues that become high risk during the year are included in the Plan	Green

Background documents

Relevant web links

Appendix 1

REPORT ON AUDIT WORK CARRIED OUT DURING SEPTEMBER 2018 TO DECEMBER 2018

1 INTRODUCTION

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. (Public Sector Internal Audit Standards).

Every local authority is statutorily required to provide for an adequate and effective internal audit function. The Internal Audit service provides this function at this Authority.

This brief report aims to ensure that Committee members are aware of the arrangements operated by the Internal Audit service to monitor the control environment within the services and functions of the authority, and the outcome of the monitoring. This is to contribute to corporate governance and assurance arrangements and ensure compliance with statutory and professional duties, as Internal Audit is required to provide periodic reports to "those charged with governance".

2 PERFORMANCE AND PROGRESS AGAINST THE AUDIT PLAN

The Internal Audit service aims to complete at least 90% of the applicable planned audits by the end of the financial year. This is one of the main Performance Indicators for Internal Audit. Five audits (Income Management, Property Leases & Charges, Public Sector Network, Mobile Phones and Taxi Licences) have been postponed at management's request due to imminent system changes and have been moved to the next financial year. Four audits (Disabled Facilities Grants Assurance work, Transparency Code, Web Expenses & Housing Benefit Memorandum of Understanding) have been added to the current financial year's plan. Progress to the end of December 2018 is detailed in **Annex 1** (with a summary in the table below) which shows that Internal Audit had started/completed 65% of the planned audits for the revised 2018/19 audit plan. Internal Audit expect to have started/completed 75% of the audit plan at the end of December. This equates to 3 audits not being started in the time period as expected. This has evolved due to staffing issues within the department – An Audit Apprentice was taken on in January 2018 and left in June 2018 creating a vacancy. Additional support to cover the vacancy gap is currently being provided by contracted staff in order to achieve the audit plan. The Audit Apprentice post has being replaced by a new post of Trainee Internal Audit Assistant who commenced employment in December 2018. At least 90% of the audit plan is expected to be achieved by the end of the financial year.

	Original Plan	Current Plan			
		Ytd Target	Ytd Actual	Projected	
Number of Planned Audits	24		23		
Performance against the Audit Plan (%)	90%	75%	65%	90%	√
Performance against the Audit Plan (Audits)	22	17	15	21	√

3 AUDIT REVIEWS COMPLETED SEPTEMBER 2018 TO DECEMBER 2018

Five audits were finalised during the period September 2018 to December 2018 with a total of 33 recommendations made with 32 (97%) of recommendations being accepted by management. **Annex 2** confirms the recommendations accepted. The one recommendation not accepted related to project management governance procedures and the lack of consistency over the arrangements to support the monitoring of projects. It was recommended that a consistent approach to monitoring arrangement should be put in place. However, it was felt that this was not required as they are described in the Project Initiation Document. The table below details the reviews finalised and their assurance levels:

Overall Audit Opinion – work completed September to December 2018

Audit	Overall Opinion	Accepted Recommendations H	M	
Corporate Policy Management	Adequate assurance		6	System based review
Project Management	Adequate assurance		7	System based review
Cyber Security	Limited assurance	2	6	IT audit
Land Charges	Adequate assurance		6	System based review
BACs	Substantial assurance		1	IT audit
Lichfield Connects	Substantial assurance		5	System based review
Disabled Facilities Grants Assurance work				Additional Transactional
Pensions Assurance work				Transactional
Memorandum of Understanding between Housing Benefits & DWP Assurance work				Additional transactional

Internal Audit revisits areas it has audited around 6 months after agreeing a final report on the audit, to test and report to management on the extent to which agreed actions have been taken. Details of the implementation reviews and the status of the agreed management actions are summarised below and are detailed in **Annex 3**.

First Implementation Review	**High**			**Medium**		
Area	**Fully**	**Partially**	**Not**	**Fully**	**Partially**	**Not**
Creditors				3		
NNDR				2		
Payroll		1				
Economic Development Partnership Arrangements				7	1	
Total	**-**	**1**	**-**	**12**	**1**	**-**

Second Implementation Review	**High**			**Medium**		
Area	**Fully**	**Partially**	**Not**	**Fully**	**Partially**	**Not**
Housing Benefit – Verification & Performance				2		
Memorandum of Understanding between Housing Benefit & DWP assurance work				4		
Total	**-**	**-**	**-**	**6**	**-**	**-**

Internal Audit is satisfied with the progress made by management to reduce the level of risk and its commitment to progress the outstanding issues.

4 INDEPENDENCE OF THE INTERNAL AUDIT ACTIVITY

Attribute Standards 1110 to 1130 of the Public Sector Internal Audit Standards require that Internal Audit have organisational and individual independence and specifically states that the Audit Manager must confirm this to the Audit Committee at least annually. This confirmation is provided as part of the Internal Audit performance reporting.

"The Audit Manager confirms that Internal Audit is operating independently of management and is objective in the performance of internal audit work."

5 OVERALL CURRENT INTERNAL AUDIT OPINION

Based on the ongoing work carried out by and on behalf of Internal Audit and other sources of information and assurance, I am satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation's Risk Management, Control & Governance processes.

Overall in my opinion, based upon the reviews performed for the period September 2018 to December 2018, the Authority has:

- Adequate and effective risk management arrangement;
- Adequate and effective governance; and
- Adequate and effective control processes.

Specific issues:

There were no specific issues highlighted through the work to date in the 2018/19 financial year.

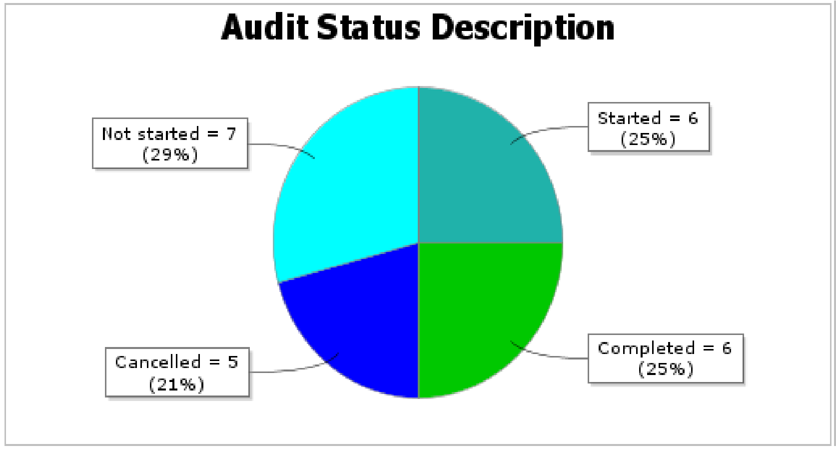
Angela Struthers
Audit Manager

Annex 1

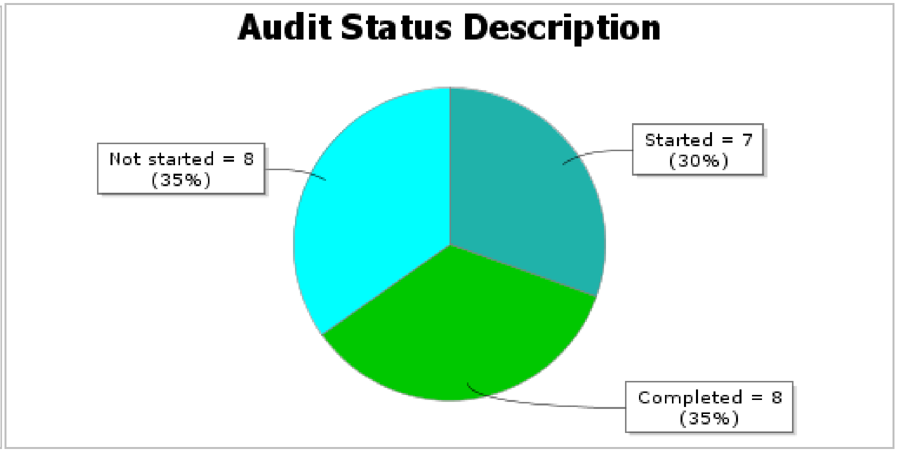
Audit Plan Status 2018/19 Revised plan

Report Type: Audit File Report
Report Author: Angela Struthers
Generated on: 04 January 2019

Original Plan



Revised Plan



Revised Plan

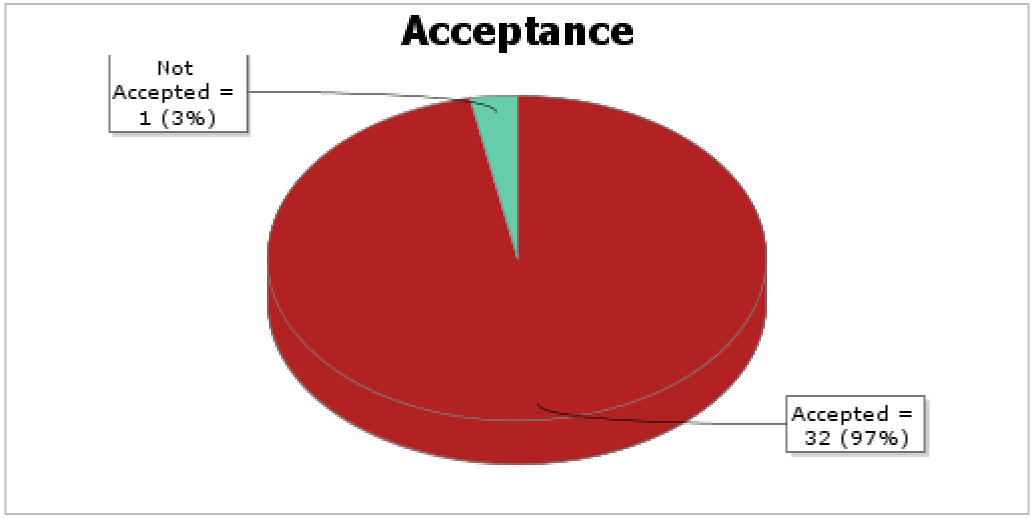
Title	Audit Status Icon	Audit Status Description	Audit Assurance Type Title
Fraud Awareness/ Proactive work	✓	Started	
Accounting & Budgetary Control	✓	Started	System based review
Treasury Management	✓	Completed	System based review

Title	Audit Status Icon	Audit Status Description	Audit Assurance Type Title
BACs		Completed	System based review
Data Protection/Data Quality (GDPR)		Not started	System based review
Elections		Started	Risk based review
Scheme of Delegation		Not started	Risk based review
Service Desk		Not started	Risk based review
Application Controls		Started	Risk based review
Geographic Information System		Started	System based review
Allowances		Started	System based review
Lichfield Connects		Completed	System based review
Strategic Housing		Not started	System based review
Homelessness		Not started	System based review
Land Charges		Completed	System based review
Ground Maintenance/Parks – Business Growth Improvement		Not started	System based review
Car Parking		Completed	System based review
LA Trading Company		Not started	
Pension Assurance Work		Completed	Transactional
Disabled Facilities Grants Assurance work		Completed	Additional system based review
Transparency Code		Not started	Additional system based review
Corporate work – Web expenses		Started	Additional risk based review
Housing Benefit/DWP Memorandum of Understanding		Completed	Additional system based review

Annex 2

Recommendations agreed between Sept and Dec 2018

Report Type: Audit Recommendations Report
Report Author: Angela Struthers
Generated on: 04 January 2019



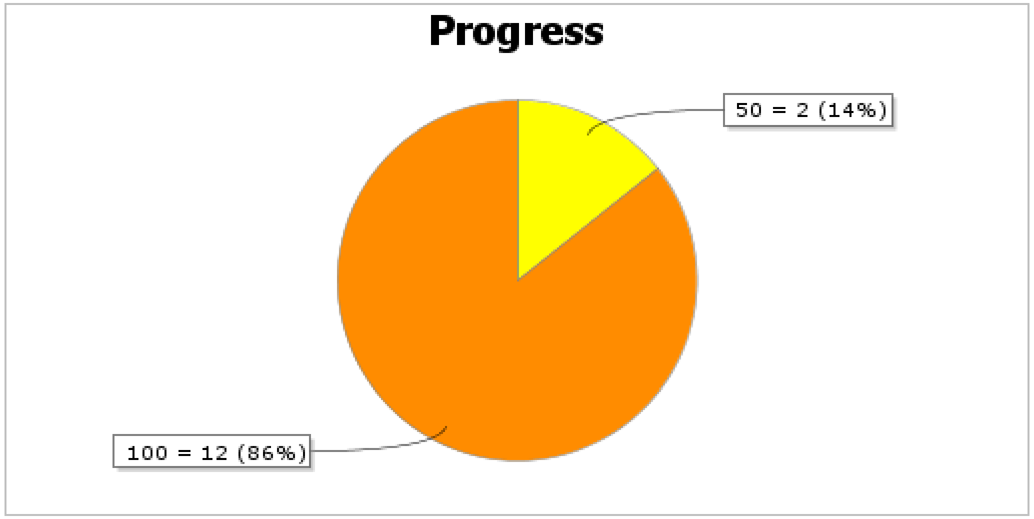
Project management 07 Governance	Medium	Not Accepted

Annex 3

1st Implementation Reviews status Sept to Dec 2018

Report Type: Audit Recommendations Report
Report Author: Angela Struthers
Generated on: 04 January 2019

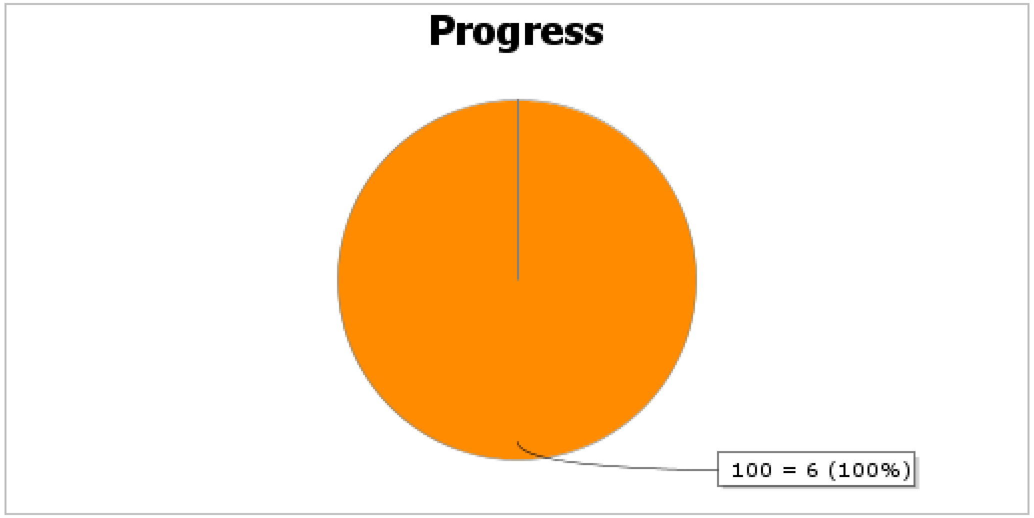
Rows are sorted by Priority



Audit Recommendation Code & Title	Audit Recommendation Status Icon	Audit Recommendation Priority	Audit Recommendation Progress Bar	Audit Recommendation Implementation Status Description
1718 Payroll 01 Information sending		High	50%	1st implementation review completed
1718 Econ Dev 04 Social media		Medium	50%	1st implementation review completed

2nd Implementation Reviews status Sept to Dec 2018

Report Type: Audit Recommendations Report
Report Author: Angela Struthers
Generated on: 04 January 2019



RISK MANAGEMENT UPDATE

Councillor CJ Spruce

Date:	6 February 2019
Agenda Item:	6
Contact Officer:	Angela Struthers
Tel Number:	01543 308030
Email:	Angela.struthers@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To update the Committee on the management of the Corporate Risk Register.

2. Recommendations

2.1 That Members:

- Note the work being undertaken to ensure the Risk Management Policy is adhered to and the actions taking place to manage the Council's most significant risks.

.3. Background

3.1 The Council must manage risks through applying strong controls at all levels of the organisation and the Terms of Reference for the Audit & Member Standards Committee make it clear that this is this Committee's responsibility – **"To monitor the effectiveness of the Council's risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management"**.

3.2 The purpose of Risk Management is to effectively manage potential opportunities and threats to the organisation achieving its objectives. Risk Management assesses risks to the operation of the Council's business at Service, Project and Corporate levels, to make sure we know what the issues are that we need to pay attention to and that we are taking the right actions to minimise the risks.

3.3 The Corporate Risk Register is produced by assessing the risk factors that could potentially impact on the Council's ability to deliver its Strategic Plan, as this sets out our priorities. This assessment ensures that we have measures in place to control the potential risks to our business objectives. Risks are judged based on their likelihood of occurrence and their potential impact. Each of these are rated on a scale of 1(Low), 2 (Medium), 3 (Significant) and 4 (High); the definitions of these ratings are set out in the Risk Management Policy. By multiplying the two scores together, each risk receives a rating to place it in a category of Tolerable, Material or Severe.

3.4 Following a comprehensive review by Leadership Team of Corporate Risks, a Corporate Risk Register of those risks that could have a potential impact on the Council's ability to deliver the Strategic Plan have been identified, reviewed and assessed. It should be noted that not all these risks are severe but need to be monitored and reviewed on a regular basis for any potential impact on the Strategic Plan.

3.5 The corporate risks that have been identified as having a potential impact on the ability to deliver the Strategic Plan are:

- A failure to respond to changing demographics
- Economic growth/Performance of the local economy/Integrity of the Local Plan
- Financial sustainability of the Council
- Capacity to deliver
- Governance & statutory obligations
- Information technology
- Impact of Stakeholder strategies on our Strategic Plan
- Failure to manage a major incident

The detail of these risks including the potential causes, consequences and the risk treatments measures in place are detailed in the Corporate Risk Register at **Appendix 1**.

3.6 Further to the discussion and question on the issue of Property Investment Strategy (PIS) risk management at Full Council on 18 December 2018, there is an existing corporate risk related to finance which incorporates the PIS. This will be reviewed to ensure it is fully reflective of the discussions that have taken place.

In addition, the following are also undertaken to manage risks related to the PIS:

Previous reports to Cabinet and Council included risks relating to the PIS and the delivery of it
The capital strategy contains a risk assessment of our capital investment including the PIS specifically
There will be a risk register in the company business plan to reflect risks around development
There will be a risk register for the service area which will include property investments

3.7 It has also been noted that some projects carry significant risks as they could have a major impact if they are not delivered. The end of the ICT Support Contract had previously been identified as a project risk, as the project has been completed, the risk has been removed from the Project Risk Register As such, one risk remains on the Project Risk Register, and this risk needs to be monitored through this Committee and is attached at **Appendix 2** for information.

Alternative Options	1. None.
Consultation	1. Leadership Team have been consulted on the Corporate Risk Register.
Financial Implications	1. Risk management processes consider value for money at all times of the process. Failure to manage risks could lead to the Council being faced with costs that could impact on its ability to achieve its objectives
Contribution to the Delivery of the Strategic Plan	1. The Risk Management Policy supports the delivery of priorities in the Strategic Plan.
Equality, Diversity and Human Rights Implications	1. None.
Crime & Safety	1. The Policy will aid the Council in assessing risks related to Crime and Community Safety and support improvement in this area.

Issues	
GDPR/Privacy Impact Assessment	1. N/A

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Non-compliance with policy	Risk champions and Managers to monitor effectiveness and implementation	Green (tolerable)
B	Failure to manage known risks proactively	Severe risks are closely monitored by the Audit & Member Standard Committee and Leadership Team. Reports to Audit & Member Standard Committee provide assurance that active steps are being taken to control risks.	Green (tolerable)

Background documents

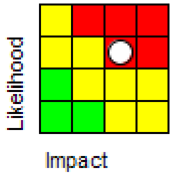
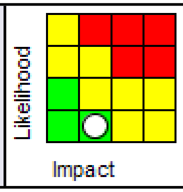
Relevant web links

Appendix 1

Corporate Risk Register 2018

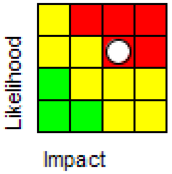
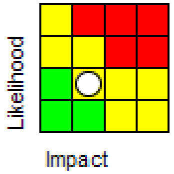
Report Type: Risks Report
Report Author: Angela Struthers
Generated on: 18 January 2019

Lichfield district council
www.lichfielddc.gov.uk

Risk Code	COR1	Risk Title	A Failure to Respond to Changing Demographics	Current Risk Status	
Description	A failure to respond to changing demographics				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	14-Jan-2019
Responsible Cabinet Member					
Assigned To	Pat Leybourne; Neil Turner				
Risk Factors/Causes	It is recognised that the population of Lichfield district is ageing more quickly than other areas for a number of reasons: the young families that moved into the district during the periods of high growth in the 1970s and 1980s are now older. The district tends to see its young people leave for higher education, to begin their careers and to start families whilst the district is popular with those retiring and those developing professional careers during their middle age. In consequence we need to be mindful of the demographics of the district as it will place different demands on the services required from the council and, conversely, will also provide opportunities. This risk analysis attempts to capture what emerging pressures may look like and also the potential opportunities that that may materialise that need to be recognised.				
Potential effects/consequences	**Risks** Growing demands from residents for support services that are provided directly by the council including:				

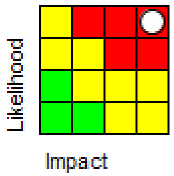
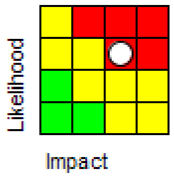
	. Benefits – council tax support; housing benefit; extra care; – Reduced council tax receipts; extra administration costs; if benefits capped then extra financial pressure on council . Assisted bin collections; – Additional costs of collection . Disabled car parking provision – Lower return from car parking – Impact of parking on street . More applications for disability facilities grant – Risk of developing a waiting list for DFG's which increases the potential risk of increased delays/worsening health and wellbeing of applicants/complaints and increases the risk to meet statutory responsibilities Growing demands from residents for facilities and infrastructure that are provided by others but are influenced by the council including: . supported or extra care housing; . specific types of housing including bungalows, retirement apartments, etc. . provision of health facilities . extra demand for taxis – pressure on licensing Growing demands from residents for facilities and infrastructure that are provided by others: . Health and social care – costs falling onto other parts of the public sector; risk of cost shunting or reduction of others' budgets. . Public transport pressure particularly for buses Growing pressures on businesses – An ageing workforce with dated skills that might mean businesses struggle to recruit. **Opportunities** Growing demands for services provided or facilitated by the council – A healthier older population may be looking for greater sports and physical activity opportunities in our parks and leisure centres – A healthier older population may be willing to volunteer for conservation, sport, cultural or tourism related activities – A more IT literate older population will be more willing to embrace channel shift – A wealthier older population may be prepared to spend more for leisure, cultural and tourism type activities. – A wealthier, healthier older population will continue to use car parks – A more mobile older population may utilise the shop mobility scheme Growing opportunities for the community and the economy – A healthier experienced skilled older population will bring different skills to the workplace and to voluntary and community groups

	– A wealthier older population will bring disposable income to support the retail, care and leisure economy; An older population, with time capacity may offer more affordable childcare to their grandchildren thereby allowing their children to be more economically active, or to offer more time as a volunteer. – A healthier older population may wish to set up their own businesses using their own capital;
Risk Treatment Measures	Consider changing demographics – but not just from a risk point of view – when preparing equality impact assessments, plans and policies.
Latest Note	

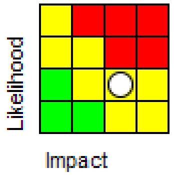
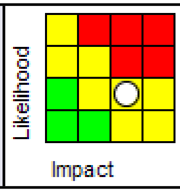
Risk Code	COR2	Risk Title	Economic Growth/Performance of the Local Economy/Integrity of the Local Plan	Current Risk Status	
Description	Economic Growth/Performance of the Local Economy/Integrity of the Local Plan				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	14-Jan-2019
Responsible Cabinet Member					
Assigned To	Craig Jordan; Richard King				
Risk Factors/Causes	The state of the local economy is a key factor for the Council, residents and businesses in the District. A poorly performing economy is not only contrary to expectations of the Council's Strategic Plan to 2020 but can cause a variety of problems. It is imperative that the Authority understands local economic conditions, identifies where and how private sector investment can be attracted and furthermore determines where policy and others forms of intervention would make economic, social and environmental sense. Specific risks are that the Council does not suitably monitor and be aware of economic trends taking place or impacting upon the District, does not work appropriately cross-sector including with other public sector bodies, fails to deliver growth or key infrastructure where it has direct or significant control and does not acknowledge or engage with key businesses or consumers to ensure good succession planning and business continuity. Whilst, the Authority to some degree can influence and intervene in the local economy it needs to be recognised that external factors such as the state of the global and national economy as well as policy decisions taken at the national level can have significant impacts. The decision in 2016 to leave the European Union is an example, the repercussions of which are unknown at this time but will in due course effect the UK economy.				
Potential effects/consequences	The effects of a poorly performing local economy can be seen in many ways including: 1. Increased unemployment, decreasing activity rates - people losing jobs, companies closing or reducing the scale of their operations can have serious social and economic consequences for an area including placing increased demands on the Council and other public agencies to provide support and address financial and welfare issues. 2. Failing town and local centres - Lichfield City and Burntwood are the Districts two key urban centres serving substantial populations. Outside of these and recognising the large rural areas in Lichfield District, there a number of key centres and more localised centres meeting needs of				

	immediate residents and further afield. These centres and their economic health and well-being are crucial to the sustainability of residents and local business. Significantly changeable retail/commercial vacancy rate, decline in business rate receipts, business support relief. 3. Empty properties highlight problems with local property and commercial markets and can indicate a lack of confidence in an area, lack of market interest, poor wider economic and social conditions etc. Whilst it might be expected to see the occasional empty property in a thriving, affluent area and which has little negative impact, in other areas an agglomeration of empty properties can have serious implications. Decline in business rate receipts, decline in Council tax receipts, unused or underused resource, potential costs to Authority of liaising with property owners to maintain health and safety obligations and preventing environmental despoliation. 4. Key to maintaining and strengthening centres is to encourage and realise improved footfall, boosting visitors and providing the right kinds of services and facilities to meet the needs of residents and those travelling further afield. If measures of footfall show a decrease over normal levels then that can be sign of market problems and lack of retailer/consumer and investor confidence. Requests for Business rate relief increase. 5. Lower footfall and lack of investment in centres can be a sign of a troubled locality. This can impact the Council and local community through reduction in income e.g. retail and commercial outlets owned or leased by the Authority. 6. In times when the economy is not performing well or there are market and other barriers at work, development sites and related infrastructure may not come forward and lay dormant. Lack of business rate income, Council Tax and New Homes Bonus to the Authority
Risk Treatment Measures	Having a vibrant and prosperous local economy by 2020 is a key strategic ambition in the Council's Strategic Plan. The Plan is supported by Annual Action Plans setting out specific actions and performance measures for relevant services. Alongside the Strategic Plan is an Economic Development Strategy and associated Action Plan setting in more detail how the stated strategic ambitions are going to be realised. The Council's approved Local Plan sets out a spatial strategy for delivering employment land and jobs linked to the above, this is under constant review (see below for latest update) The Council's shared economic development service led by Tamworth Borough Council activities are informed by the Strategic Plan and ED Strategy but also a regularly reviewed and agreed Service Level Agreement and annual business plan. Performance against the business plan is overseen by the Economic Growth, Development and Environment Cabinet Member and scrutinised by the EGED (O&S) Committee At the Strategic level the Council is involved with both the Greater Birmingham and Solihull LEP and the Stoke and Staffordshire LEP, both identifying high level priorities and from this setting out clear long term ambitions and detailed work programmes. Through this engagement the Council benefits from cross-LEP funding, access to European Funding regimes, information sharing and skills & knowledge. Programmes and initiatives, for example the Business Growth Programme and Rural Enterprise Programme, support local businesses by providing information & technical advice, access to funding and networking opportunities to share experiences and inform policy and plans. A variety of partners work with and oversee the outputs and outcomes of the District Council in terms of local economic development including Lichfield District Board, Staffs CC, Birmingham Chambers, Lichfield City BID, Lichfield Town safe Partnership, Burntwood Business Community,

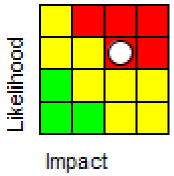
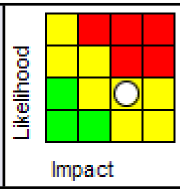
Latest Note	Part 2 of the Local Plan, the Land Allocations Document was submitted for examination earlier this year and subsequently examined by an independent inspector. The inspector has recently indicated the need for certain modifications to be made to ensure that the Plan can be found sound. Work has commenced on a Local Plan Review with consultation on issues and options undertaken in mid-2018, an initial draft plan is due to be prepared for early 2019. The Council continues to keep a watching brief over activity being carried out by the West Midlands Combined Authority and which potentially could be relevant to growth and prosperity prospects in the District. Our membership of the GBSLEP allows us an insight and some influence over the level of knowledge sharing from the CA and ability to inform the application of policy. A number of new initiatives arising out of both the GBSLEP and CA could have impacts on or be beneficial to the district including policy and funding support for delivery of affordable housing and strengthening city and town centres. In terms of centres, following the demise of the Friarsgate project efforts are being made to re-evaluate the scope for re-development of the Birmingham Road site. A cross-party member task group has been set up with officer support to consider in the context of the wider city centre the scale and nature of development that would be appropriate on this site. Since September 2017The Council has engaged additional dedicated resource as regards the economic growth agenda enabling the District's interests to be further acknowledged and addressed at a strategic and local level. This resource working with the shared service provide to Lichfield by Tamworth BC has ensured that local businesses and those contemplating setting up in business have been able to take advantage of business support initiatives e.g. Business Growth Programme and Enterprise for Success as well as more generally through the two LEP-enabled Growth Hubs. Finally, the Council has adopted a Property Investment Strategy as part of its wider Commercialisation Strategy, identifying opportunities to intervene in and support the market in line with its strategic objectives.

Risk Code	COR3	Risk Title	Financial Sustainability of the Council	Current Risk Status	
Description	The financial resources available are not sufficient to support all of the planned priorities for the Council and areas that rely on significant income generation may not achieve their targets.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	04-Jan-2019
Responsible Cabinet Member					
Assigned To	Anthony Thomas				
Risk Factors/Causes	The financial risks facing the Council continue to be severe. The following are key risks: . Planned capital receipts are not received and this impacts on the financing of the Capital Programme. . Planned income from the Property Investment Strategy is not delivered due to a lack of investment opportunities or stifled yields. . The Council is unable to achieve its key priorities. . The implementation of the Check, Challenge and Appeal new Business Rates Appeal system from 1 April 2017. . The implementation of more frequent Business Rate revaluations. . The financial impact of changes to the New Homes Bonus regime in 2020/21. . The move to 75% retention of Business Rates and the Fair Funding review in 2020/21. . Any potential impact of BREXIT on the local economy. Although at this stage it is difficult to quantify the risk to the Council and the local economy, trade negotiations and subsequent agreements are likely to be a key element for some local businesses.				
Potential effects/consequences	The financial resources available are not sufficient to support all of the planned priorities for the Council and areas that rely on significant income generation may not achieve their targets.				
Risk Treatment Measures	The Council intends closing this funding gap via an efficiency plan with four strands: 1. **In year efficiency savings / income generation** - this is in recognition of the Council's favourable financial performance over the last three financial years, in comparison with the Approved Budget. **2. Fit for the Future (F4F) efficiency savings / income generation** - this is part of the Council's ongoing F4F programme. This programme is designed to manage the change that will be across LDC and its services in order to meet all of the changes following the fundamental review of				

	Local Government Finances. This includes three strands; income, innovation and investment (the latter of which includes the property investment strategy). The anticipated outcomes are identified at the scoping stage of each project and benefit realisation assessed post implementation. The investment in property is regularly reviewed and re-profiled as necessary to mitigate risk. 3. **F4F transformational change** - this is the element of the F4F programme designed to reshape and redesign LDC and its services into one that is fit for the future. 4. **Growing the Business Rates and Council Tax base** - the Council will seek to maximise the growth of both of these in order to increase the income from these funding sources. This will enable the Council to become financially self-sufficient over the medium term. The Council closely monitors it's in year position and this is reported on a regular basis to Cabinet in the Money Matters Reports and Strategic (Overview and Scrutiny) Committee in briefing notes.
Latest Note	The draft Medium Term Financial Strategy 2018-23 will be approved by Council on 19 February 2019. Prior to approval by Council, the Medium Term Financial Strategy will be reviewed by Strategic (Overview and Scrutiny) Committee on 29 January 2019 and the Treasury Management Strategy Statement will be reviewed by Audit and Member Standards Committee on 6 February 2019 prior to Cabinet on 12 February 2019. The Provisional Finance Settlement for 2019/20 was positive for this Council: . The removal of Negative Revenue Support Grant for 2019/20 - this will reduce the funding gap by **£453,000**. . Additional New Homes Bonus for 2019/20 of **£468,000** (£1,278,000 compared to the Budget of £810,000) - this is proposed to be used to part fund the loan to the Development Company. . Staffordshire and Stoke on Trent were one of 15 successful Business Rate Pilots for 2019/20 and this will result in an estimated **£568,000** of additional Business Rates income - this is proposed to be set aside for economic growth / income generating activities. . Other additional grants for 2019/20 - this will reduce the funding gap by **£37,000**. The positive benefits from the Settlement together with the proposals to reduce the Funding Gap are likely to mean the Council has a balanced budget in 2019/20 with a contribution to General Reserves. However it must be emphasised that these are financial benefits that impact on 2019/20 only with the majority of key income streams (Business Rates, Fair Funding and New Homes Bonus) being reviewed in 2020/21. Therefore the Council will still need to press on with identifying initiatives to close the projected funding gap from 2020/21 onwards.

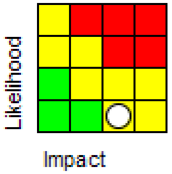
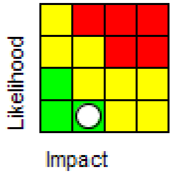
Risk Code	COR4	Risk Title	Capacity to Deliver	Current Risk Status	
Description	Capacity to deliver all of the outcomes required in the Councils Strategic Plan with the particular workforce and organisational development challenges we currently face.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	10-Jan-2019
Responsible Cabinet Member					
Assigned To	Christie Tims				
Risk Factors/Causes	The council is facing significant pressure to deliver its ambitious strategic outcomes in tight financial constraints. Ensuring the workforce of the council has the correct skills and capacity to deliver and that all of the expected outcomes from the Strategic Plan are being effectively progressed is a significant challenge. If we are not able to recruit and retain critical skills sets and sustain sufficient resources to deliver our plans effectively, this is a key corporate risk. If we are also not able to inspire a more commercial culture and clear business focus, then we will not be able to build a sustainable council.				
Potential effects/consequences	The effects of a lack of workforce capacity can be seen in a number of ways including – 1. Impacts on service delivery 2. Failure to deliver key objectives and performance metrics 3. Workforce disturbances including industrial action; vacancy rates; inability to recruit. 4. Reputational damage 5. Loss of morale				
Risk Treatment Measures	These issues will be addressed in the full as part of the Fit for the Future programme to establish a clear vision, empower and incentivise staff to new ways of working and increase flexibility. This will be supported by a People Strategy and underpinning Workforce Development Plan. Leadership development has been undertaken to ensure effective change and will be further supported by a commercial training programme this year. Service Plans and strategic plans are being aligned with the budget setting process and the Corporate Annual Action Plan is being replaced by a Delivery plan for the remainder of the Strategic Plan period to ensure the key outcomes are prioritised, deliverable and support is available. As				

	part of our golden tread for Performance Management, the Delivery Plan translates into Service Delivery plans then individual Performance Development Reviews (PDRs) and targets for all employees. Any vacancies and skill shortages are flagged as service ricks for each relevant service area. Key projects will be controlled with clear business case and document risks and resource planning under the Fit for the Future Programme. All activity is co-ordinated through Leadership Team. Other treatment measures are: Regular communications/engagement - e.g. staff briefings and use of key messages to ensure all employees are aware of the strategic projects and how they contribute to achieving them. Revisions to the PDR process (updated template to allow e-mailing, support for 1-2-1 PDRs in all areas) and monitoring and reporting of completion in all areas. HR policies and procedures reviewed and available via the intranet, training and support delivered as required. Absence management tracking and reporting with management of long term absence and return to work process in place. Talent and succession planning built into service plan templates. Review of recruitment processes to reduce waste/delay. Trade union relationships are good with the role of the union clearly defined. Union are supported to ensure meaningful engagement. Business continuity plans and service risk management build in resilience for teams. Training and development completed for all levels of staff. Corporate training needs are identified to build skills and capacity. Robust Project management that ensures business outcomes and performance of key projects. Employee well-being is developed and key interventions in place to support management of change. People Strategy - which articulates all of these aspirations and how managers will be supported to deliver them.
Latest Note	Fit for the future has been relaunched, significant projects are programmed for delivery during this period.

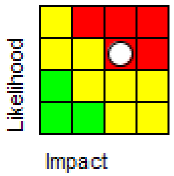
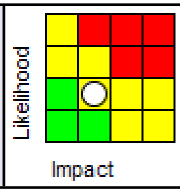
Risk Code	COR5	Risk Title	Governance & Statutory Obligations	Current Risk Status	
Description	Governance & Statutory Obligations				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	18-Jan-2019
Responsible Cabinet Member					
Assigned To	Bal Nahal; Neil Turner				
Risk Factors/Causes	Every organisation needs effective governance to ensure that it complies with its statutory obligations and its own constitution. Lichfield District Council is no exception. Indeed as a public body, the council needs to be an exemplar of good governance to ensure that its decisions are sound and transparent in their making, in order to maintain the confidence of its residents, partners and customers. Sound decision making and probity is informed by the council's Constitution and the associated financial and procurement rules, which are unique to this council. But the council is also governed by legislation including Health and Safety at Work Act; the Equalities Act, the Local Government acts (which demands the appointment of a Head of Paid Service, a S151 Officer and a Monitoring Officer) and, from May 2018, will need to be compliant with the General Data Protection Regulations. There are 4 key areas of governance where the council considers the risks are greatest, either because of external factors, or because there is always a material risk to be managed. Its constitution has not been comprehensively reviewed since its adoption in 2001 despite a number of legislative changes and restructures; financial probity to ensure that we can protect the public purse; ensuring compliance with the General Data Protection Regulations (although we are aware of our obligations of the Data Protection Act); and meeting our Health and Safety obligations. Of course there are other risks associated with governance – for instance of managing change; of employing staff; of ensuring that our services are not fair. But these risks are considered to be satisfactorily managed through existing policies and procedures, although they are reviewed on a regular basis.				
Potential	Decision making is poor and subject to challenge leading to reputational, financial and operational risk				

effects/consequences	There are increased opportunities for fraud or loss to the public purse People are injured or killed because of a failure to comply with health and safety Recruitment and retention of staff is difficult because of a lack of clear policies and procedures Costs rise because of failure to follow policies and procedures. Information is lost, inaccurate or inaccessible because of a breach of data protection principles.
Risk Treatment Measures	The following actions are being implemented to ensure risks are mitigated: **Decision making** The constitution has been reviewed to ensure that it is fit for purpose. The revised constitution was adopted in May 2018. The approach to overview and scrutiny is changing so as to be able to support Cabinet and Cabinet Members to make better, more informed, decision in order to help deliver the ambitions of the Strategic Plan. Appropriately skilled and authorised officers attend all constituted meetings to ensure that decisions are not taken ultra vires. All members and officers are expected to observe the relevant Codes of Conduct, including declaring conflicts of interest, and operate by the Nolan 7 principles of public service. **Financial Probity** The council retains a team of Internal Audit and is required to maintain the appointment of External Auditors. The s151 Officer is expected to ensure that the council remains compliant with all fiscal obligations including ensuring that the council has a balanced budget, a medium term financial strategy, and an annual governance statement The financial and contract procedure rules were revised as part of constitution review and training will be rolled out to all Officers. **General Data Protection Regulations** New rules on data protection come into force from 25th May 2018. A project is being implemented to ensure that we can evidence compliance by then. Actions include training of all staff, Members, the appointment of a Data Protection Officer and a Senior Information Risk Owner, an audit of data and of information systems, and the design and implementation of procedures to ensure compliance.

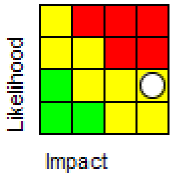
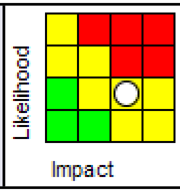
	Health and Safety The council maintains the appointment of a competent person. The council has a Health and Safety Policy which is reviewed and revised annually. Health and Safety performance is reported to the Employee Liaison Group, Leadership Team and Employment Committee. The Joint Waste Service supports a service specific Health and Safety Committee in recognition of the greater risks associated with the collection of household and trade waste. Managers are supported in developing risk assessments and training is provided where risks are greatest.
Latest Note	,

Risk Code	COR6	Risk Title	Information Technology	Current Risk Status	
Description	How ICT supports business outcomes and our reliance on IT to achieve our strategic ambitions.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	10-Jan-2019
Responsible Cabinet Member					
Assigned To	Christie Tims				
Risk Factors/Causes	We live in an increasingly digital world, heavily dependent on information technology to deliver all our key services in some way. Our ability to be able to respond to new digital threats, adapt our ITC infrastructure and develop all the technologies we use is key to the delivery of our strategic plan. Any failure of our infrastructure, data assets and development capacity is a key business risk for the authority.				
Potential effects/consequences	Losing sight of customers Cost/return on investment Loss of IT systems & inability to deliver services Reputational damage Fine and prosecution Potential imprisonment Loss of key management information Cost of change prohibitive to consider alternatives and develop new approaches.				
Risk Treatment Measures	Primarily these have been addressed in the development of the Digital Strategy and underpinning ICT Review for the termination of the support contract. An effective Cloud Readiness assessment has been undertaken to consider all of our future options for ICT. ICT has clear business continuity plans; uses strong information governance; has developed mechanisms to anticipate & identify business needs and develop and implement new technology effectively. Other measures include: Effective Project management and deployment of new systems Use of Firewalls and virus protection to manage cyber				

	security Strong user ID's and passwords and policies on their application and refreshment Policies and procedures relating to good, safe practice and a programme of awareness. Secure remote access controls. Physical security of the building and key assets and the use of clear desk/locked screens. PSN compliance and staff vetting for relevant positions Established protocols and audit controls. Business continuity plan and disaster recovery planning. Use of penetration testing to identify and remove potential weaknesses. Data Protection Policy and Data protection training for all staff. IT governance and CPD to ensure skill sets are maintained.
Latest Note	In sourcing has gone smoothly with no issues.

Risk Code	COR7	Risk Title	Impact of Stakeholder Strategies on our Strategic Plan	Current Risk Status	
Description	Impact of Stakeholder Strategies on our Strategic Plan				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	14-Jan-2019
Responsible Cabinet Member					
Assigned To	Diane Tilley				
Risk Factors/Causes	Whilst focussed on delivering the strategic plan at a local level the work of the council is inevitably affected by partner organisations locally and government and policy decisions taken nationally. The council does not operate in a vacuum. The changes to the strategy and policy of other organisation may prevent the achievement of our goals by changes in statute, requirement to divert resources to new policy initiatives, reduction in available resources, changes to grant income from other partners, changes to service provision from partners that have a knock on effect on those services we deliver. Some of these are linked to other risks in this corporate risk register, such as the impact of national economic measures on our own economy and on our financial resilience. Each risk as it emerges will appear in relevant service plans and in itself will not be a corporate risk but collectively these issues require corporate response and monitoring				
Potential effects/consequences	These are wide and varied but as examples of current pressures: 1. Reduction in funding for Domestic violence from County and OPCC resulting in closure of refuge and LDC requirement to rehouse occupants. 2. Changes to housing associations voids policy requiring additional temporary accommodation for homelessness 3. Requirement for increased resource commitment to Prevent and community cohesion agenda 4. Changes to health provision which affects our community and their needs. 5. Changes to the national economic position which could result in reduced business rate receipts 6. Increased unemployment and lower wages leading to increased demand for affordable housing 7. New legislation on Homelessness prevention is increasing pressures 8. SCC budget pressures – including verge cutting which will impact on our reputation				

Risk Treatment Measures	Each different event which comes under this collective heading will have a range of treatment and mitigation measures that can be taken by the relevant service area as and when necessary. However corporately there are number of mitigating actions which need to be taken. These include: 1. New burdens funding – ensure that costs of new government initiatives are covered by New Burdens funding and that we are fully aware of the whole cost of a change and evidence need for increased resources. 2. A need to monitor and assess emerging pressures. Through fora such as LGA, and DCN national issues can be tracked and anticipated. Through liaison with neighbouring Councils and the strategic partnerships across Staffordshire, e.g. partnership, Health and Wellbeing Board, Safer Communities' Board emerging issues can be tracked monitored and challenged by senior staff and members 3. At a local level the District Board should consider how it encourages local partners to share knowledge and information of emerging strategies to future proof decision making 4. When developing business cases full consideration of all possible changes by other partners or stakeholders should be factored into the decision so that individual risks are fully appreciated. 5. Working as One Council will reduce risk of cross directorate impacts and also increase knowledge and information available on stakeholder activities. 6. Being clear on exit strategies for initiatives where funding and delivery is dependent on more than one organisation so that the district council does not retain the expectations of the community for continued delivery when others withdraw. 7. There needs to be a corporate recognition of these issues and acceptance of a level of risk that we have no control over 8. Analysing and responding to policy consultations to influence the direction of policy in the Council's favour. 9. Ensuring that the additional risks identified above are considered when setting the minimum level of reserves in order to further protect the council from exposure financially as a result of these risk materialising.
Latest Note	No change in this review however one of the latest risks in this area is the impact of the government guidance on the geography or LEP which may impact on our relationships with GBSLEP and SSLEP

Risk Code	COR8	Risk Title	Failure to manage a major incident	Current Risk Status	
Description	Failure to manage a major incident				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	18-Jan-2019
Responsible Cabinet Member					
Assigned To	Gareth Davies				
Risk Factors/Causes	Lack of integrated emergency arrangements making it difficult to react quickly to a disaster and provide the required support and essential service in line with the requirements of the Civil Contingencies Act. Failure to test plans Failure to undertake training Plans not activated Plans not kept up to date Plans do not accurately identify the staffing/resources required Implications of industrial action from other service providers e.g. Fire Service Lack of understanding both staff and members of their roles Failure to understand and monitor the needs of the community Not understanding our communities needs Lack of integrated emergency plans for significant incidents that may impact on our district in neighbouring authorities' areas.				
Potential effects/consequences	Services not delivered Damage to reputation Civil Contingency Act requirements not met Death Destruction of property Damage to the environment				

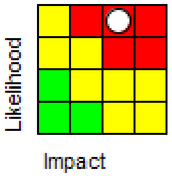
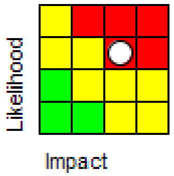
	Adverse effect on vulnerable groups Public expectations of service delivery not met Increased costs for alternative service delivery Loss of homes – temporary or permanent
Risk Treatment Measures	Emergency plan in place and tested on a regular basis Emergency planning training Business Continuity Plans at service level Insurance cover Advice and guidance on Risk Management Business continuity strategy and management handbook Emergency advice available on the website including Evacuation Plan for Lichfield City Centre leaflet and poster, Flooding, How we Plan for Emergencies, Your Guide to Dealing with the Unexpected and links to the Staffordshire Prepared website Fire prevention controls in place and tested on a regular basis PAT testing Physical access controls in place Communications plan Membership of Staffordshire CCU & Resilience Forum Plans uploaded to Resilience Direct Learning from actual events e.g. IT system restores, Flooding Prevent training Chair local Safety Advisory Groups for local events Building Control enforcement – dangerous structures etc. Monitor for the emergence of high risk sites on our borders and ensure adequate multi-agency response plans are in place.
Latest Note	

Appendix 2

Corporate projects risk register

Report Type: Risks Report
Report Author: Angela Struthers
Generated on: 18 January 2019

Lichfield district council
www.lichfielddc.gov.uk

Risk Code	CORPRO3	Risk Title	FGLC	Current Risk Status	
Description	Planned or unplanned closure of the Friary Grange Leisure Centre due to lack of investment in the asset by Staffordshire County Council and/or associated Contractual/Legal issues relating to ownership and asset responsibility.				
Gross Risk Matrix		Current Risk Matrix		Last Review Date	18-Jan-2019
Responsible Cabinet Member					
Assigned To	Richard King				
Risk Factors/Causes	. No investment in the building infrastructure resulting in closure - the asset responsibility is currently being discussed/disputed through the reinstated Friary Grange Management Committee. Whilst the Management Committee has now been dissolved renewed discussions are taking place between SCC & LCC to identify a pragmatic solution to prevent closure. If this is not achieved it is likely that some form of informal arbitration will be used. . The building is in a poor state of repair as a result of its age (45 years) and lack of investment. Recent closures have taken place as a result of water ingress and corrosion to major pipework. The roof is leaking throughout the whole facility and specifically the squash court and swimming pool roofs require replacement. The cost of the swimming pool roof is currently being determined by way of an intrusive survey funded by LDC. . It is not possible to determine when further closure will be required as a result of structural and/or M&E failure. Although LDC have produced an operational risk assessment the potential of risk of injury cannot be predetermined.				
Potential effects/consequences	. Reputational damage to the Authority . Cessation of the outsource leisure contract and associated compensatory payments relating to the contract and staff redundancy.				

	. Significant shortfall in leisure provision(refer to FGLC options paper May 2018) within Lichfield/the district (Policy & Strategic Context – National Planning Policy Framework 2012, Lichfield Local Plan 2008 – 2012, Lichfield District Infrastructure Delivery Plan 2017, Lichfield District Council Strategic Plan 2016 – 2020, Lichfield District Council Health & Wellbeing Strategy 2018, LOPS Service Plan 2018 – 2023) Formal legal proceedings could commence regarding ownership of the building in the event of the Management Committee being unable to reach an agreement, but this is not a preferred option. Associated costs and implications cannot be determined at this stage. Potential clawback in relation to £210K Sport England grant for refurbishment of reception area and changing rooms in 2013. The amount will be determined by the timing of any closure and LDC approach to providing a replacement facility. Enforcement bodies (Health and safety Executive, Staffordshire fire and Rescue etc.) could invoke enforcement action against the Council if they deemed the lack of investment was seriously compromising public and/or employee safety
Risk Treatment Measures	In June 2017 the issues relating to the Condition Survey and Management Arrangements was integrated into the procurement process for the outsource of leisure facilities. This was subsequently discussed with the preferred bidder and resulted in the 10 year operational contract being changed to a 12 month rolling basis to reflect the associated risk of cessation. . Between June 2017 & February 2018 LDC continued to develop the working relationship with Friary School and addressed the funding allocation relating to the apportionment of utility/operating costs. . In October 2017 LDC commissioned Sport England to undertake a detailed planning model to determine the size, scale and scope of leisure facility that would be required to replace FGLC. . In January 2018 LDC developed an operational risk matrix and associated communications plan identifying all operational/financial/structural/contractual/health and safety risks. In February 2018 LDC commissioned LPB Consulting to develop an options appraisal for Friary Grange Leisure Centre, this document was considered by the Leadership Team on 4th July and subsequently by informal Cabinet. At this stage the key focus is on maintaining the serviceability of the building and the potential to replace the facility will be considered gain in Spring 2019. In October 2018 renewed discussions commenced between SCC & LDC Officers to identify a pragmatic solution to ensuring the serviceability of the building. The operator of the leisure centre (Freedom Leisure) hold operational responsibility for the safe delivery of services. They will continue to report through to the Head of Leisure any concerns relating to ongoing safety and operation
Latest Note	A detailed condition survey has been commissioned to ascertain the level of investment required to keep the facility operating. The results of that survey are currently awaited. A presentation was made to Leisure Parks and Waste Overview and Scrutiny Committee on 16 January to update the Committee on the latest position.

Annual Report on Exceptions and Exemptions (Waivers) to Procedure Rules

Councillor CJ Spruce

Date:	6 February 2019
Agenda Item:	**7**
Contact Officer:	Bal Nahal
Tel Number:	01543 308002
Email:	bal.nahal@lichfielddc.gov.uk
Key Decision?	**NO**
Local Ward Members	**Full Council**

Lichfield district council
www.lichfielddc.gov.uk

AUDIT & MEMBER STANDARDS COMMITTEE

1. Executive Summary

1.1 To detail the Exception and Exemption (Waiver) process that was approved as part of the Contract Procedure Rules and applicable from the 2017/18 financial year.

1.2 To report on the number of Exceptions and Exemptions (Waivers) made to the Chief Executive for the financial year 2017/18 under the Contract Procedure Rules.

2. Recommendations

2.1 The Committee is asked to review the Exceptions (Waivers) set out within **APPENDIX A.**

3. Background

Procedure Rules and the role of Exceptions and Exemptions (Waivers)

3.1 Compliance with Procedure Rules is essential in order to demonstrate sound financial management of the Council's affairs. There are, however, occasions when an Exception or Exemption (Waiver) may be granted.

3.2 The process for granting an Exception or Exemption (Waiver) forms part of the approved Procedure Rules.

3.3 However, significant levels of Exception or Exemption (Waiver), without justifiable reasons, could potentially give rise to concerns that the Council was not achieving value for money. To ensure financial standards and probity in this process of granting Exceptions and Exemptions (Waivers) are maintained, an annual report is produced for Audit Committee.

Exceptions and Exemptions (Waivers) from 2017/18 under the Procedure Rules

3.4 To improve and simplify the Procedure Rules, all procurement requirements are now contained solely in the Contract Procedure Rules. The following actions are required in relation to the procurement of goods and services:

Transaction value	Procedure Rules
Up to **£1000**	A framework agreement if there is one, unless best value can be achieved through other procurement routes. For transactions valued below £1,000, you can use a purchasing card.
Between **£1000** and **£4,999**	A framework agreement if there is one, unless best value can be achieved through other procurement routes. Three written quotations invited.

Transaction value	Procedure Rules
	If no framework option–decide whether a bespoke contract is needed or whether the Council s standard terms and conditions will suffice.
Between **£5,000** and **£24,999**	A framework agreement if there is one, unless best value can be achieved through other procurement routes. Three written quotations invited. If no framework option–decide whether a bespoke contract is needed or whether the Council s standard terms and conditions will suffice. . Must be entered on the Council s Contract Register.
Between **£25,000** and **£74,999**	A framework agreement if there is one, unless best value can be achieved through other procurement routes. Three written quotations invited. If no framework option–decide whether a bespoke contract is needed or whether the Council s standard terms and conditions will suffice . Must be entered on the Council s Contract Register, the Tenders and Contracts part of the website and the Government Contract Finder website . Carry out a financial check in line with the supplier financial appraisal strategy.
Any exception of £75,000 or above (Key Decision) requires a report to Cabinet	
Above **£75,000** and up to the European Union prescribed limits	A framework agreement if there is one unless best value can be achieved through other procurement routes and is agreed by the Monitoring Officer. Placed on the Tenders and Contracts part of the website and the Governments Contracts Finder Website. Three written tenders or quotations invited. If no framework option–decide whether a bespoke contract is needed or whether the Council s standard terms and conditions will suffice
EU Prescribed Limits **Goods and Services Over £181,302** **Works £4,551,413**	Special rules apply – see guidance from the Monitoring Officer.

3.5 In addition, the Exception (Waiver) process contained in the Contract Procedure Rules has been updated and improved. The relevant paragraphs are extracted below for information:

- An exception to these rules means we give permission to agree a contract without keeping to one or more of these rules. We may grant an exception under conditions set out below. We cannot grant an exception if to do so would mean breaking any laws on public procurement or other relevant legislation.
- An exemption will automatically apply where we decide to use a framework agreement or to jointly contract with another public authority acting as the lead authority.
- The Chief Executive may grant an exception to these rules as detailed below. If you want an exception (other than those automatically covered which are listed below at paragraph U7 or at A14), you must apply in

writing using the request for waiver form and send it to the Solicitor and Monitoring Officer. Please include the exception you want and your reasons for it.

- The Solicitor and Monitoring Officer will keep a register of all exceptions to these Rules.
- We will not agree an application for an exception unless you have a good reason. We do not consider a lack of time caused by poor forward planning as a good reason and so will not allow it.

3.6 Exceptions which involve the request for waiver form related to General contracts and where an exception may be granted in the following circumstances are:

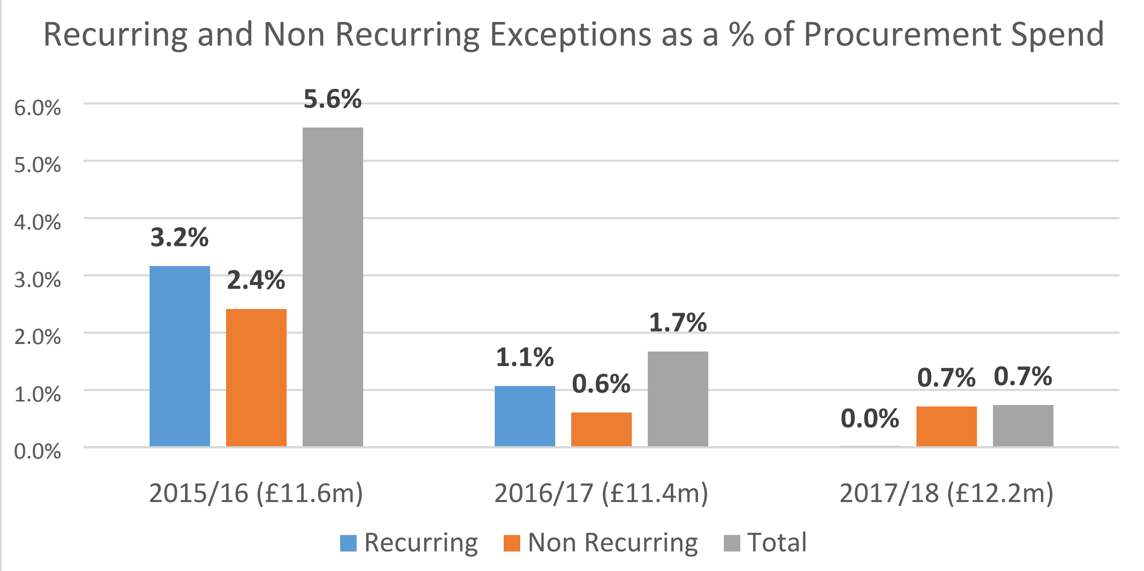
- If there is an unexpected emergency involving danger to life or health or serious damage to property, if the goods, work or services are needed more urgently than would be possible if we followed the tender or quotation procedure;
- If, for technical reasons, the goods, work or services can be bought from only one provider and this can be justified;
- If the proposed contract is an extension or change to the scope of an existing contract with a value (including the change or extension) that is below the relevant EU limit. However, this does not apply if the existing contract provides for an extension;
- If we can achieve value for money by buying used vehicles, equipment or materials; and
- To deliver our aims to develop the local economy, without breaking public procurement rules.

3.7 The level of Exceptions and Exemptions (Waivers) granted during 2017/18 and the previous two financial years is shown in summary in the financial implications section and in detail at **APPENDIX A** of this report.

Alternative Options	None.

Consultation	Any issues are considered at the time the Waiver is granted.

Financial Implications	The Council procured goods and services during 2017/18 with a total value of £**12.2m** (2016/17 £11.4m). The majority of this procurement activity **99.3%** (2016/17 **98.3%**) has been procured using procurement routes where a Director, Head of Service or Manager has determined that they are compliant with the requirements of the Procedure Rules. However, where a Director, Head of Service or Manager has determined that full compliance with the Procedure Rules cannot be achieved, an Exception or Exemption (Waiver) has been requested for approval based on the estimated level of spend. The total number of Waivers received in the last three years categorised[1] into recurring (where the same exception appears in multiple years) and non-recurring is summarised in the chart and table below:



Type	2015/16		2016/17		2017/18	
	No.	£	No.	£	No	£
Recurring Exceptions	18	£366,684	4	£121,784	1	£3,000
Non-Recurring Exceptions	44	£280,220	11	£68,976	6	£86,776
Total	**62**	**£646,904**	**15**	**£190,760**	**7**	**£89,776**
Exceptions as a % of procurement spend				**1.7%**		**0.7%**

The total Exceptions by the range of transaction value are shown in the table below:

Value	2015/16		2016/17		2017/18	
	No.	£	No.	£	No.	£
Unknown					1	
Between **£501** and **£4,999**	33	78,323	7	23,656	2	£7,800
Between **£5,000** and **£9,999**	12	106,047	4	26,180		
Between **£10,000** and **£49,999**	16	372,534	3	50,924	4	£81,976
Above **£50,000** and up to the European Union prescribed limit	1	90,000	1	90,000		
Total	**62**	**£646,904**	**15**	**£190,760**	**7**	**£89,776**

The number of Exceptions classified as recurring that have been received in the last three years by Service Area is summarised in the table below:

Service	2015/16		2016/17		2017/18	
	No.	£	No.	£	No.	£
Economic Growth	3	£69,000				
Corporate Services	1	£90,000	1	£90,000		
Finance & Procurement	2	£17,784	2	£18,784	1	£3,000
Leisure & Operational Services	10	£147,700	1	£13,000		
Joint Waste	2	£42,200				
Total	**18**	**£366,684**	**4**	**£121,784**	**1**	**£3,000**

Contribution to the Delivery of the Strategic Plan	The Procedure Rules are a significant contributor towards the demonstration of best value, and ensuring competition in the awards of contracts. Any significant level of expenditure not within the Procedure Rules could potentially be construed as not having demonstrated best value.

Equality, Diversity and Human Rights Implications	Any issues are considered at the time the Waiver is granted.

Crime & Safety Issues	Any issues are considered at the time the Waiver is granted.

GDPR/Privacy Impact Assessment	None however we do ask all contractors to comply with the Data Protection Act 2018.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	Adherence to Procedure Rules is needed to show achievement of value for money and the sound use of public funds. Non adherence, without justifiable reasons, potentially exposes the Council to inefficient use of public funds and accusations of improper actions.	An arrangement with Wolverhampton City Council is being negotiated to provide specialist procurement advice to Directors, Heads of Service and Managers. Internal Audit Review.	Green – Tolerable
B	Breach of EU procurement regulations	An arrangement with Wolverhampton City Council is being negotiated to provide specialist procurement advice to Directors, Heads of Service and Managers. Internal Audit Review.	Yellow – Material

Background documents

Financial Procedure Rules
Contract Procedure Rules

Relevant web links

Recurring Waivers

Recurring Exceptions	Supplier	Estimated Spend 2015/16 £	Estimated Spend 2016/17 £	Planned Actions in 2017/18 related to recurring exceptions granted in 2016/17	Estimated Spend 2017/18 £	Planned Actions in 2018/19 related to recurring exceptions granted in 2017/18
Economic Growth						
CCTV Repairs & Maintenance	ADT PLC	£10,000				
Car Park Ticket machines, repairs and maintenance	Metric Group Ltd	£45,000		Staffordshire authorities are aware of different costs for essentially the same service so as a group Councils are attempting to negotiate a joint deal with Metric for the whole County but this is still a work in progress.		
CIL Viability Assessment	Peter Brett Associates Ltd	£14,000				
Corporate Services						
Print Contract	Walsall Metropolitan Borough Council	£90,000	£90,000	The print contract was formally approved by Cabinet in October 2016 and is for a 3 year period with an option to extend for a further two years.		
Finance & Procurement						
Multi Tax Helpline	PWC	£2,000	£3,000	An exception for a full taxation helpline has been requested and granted for 2017/18. This is because of the relatively small annual value for the contract and the value for money it provides.	£3,000	A waiver for a full taxation helpline has been requested and granted for 2018/19. This is because of the relatively small annual value for the contract and the value for money it provides.
Council's Main Banking Arrangement	NatWest	£15,784	£15,784	No change planned until 2018/19		
Leisure & Operational Services						
Burntwood Parks - Locking	Chaseland Security Services	£13,200	£13,000	Competitive quote process completed. No longer an exception for 2017-18. But same supplier.		
Depot fire alarm maintenance and servicing	Lyrico Systems Ltd	£2,000		The fire alarm system at the Depot is a Lyrico system and only Lyrico have the software to		

APPENDIX A

Recurring Exceptions	Supplier	Estimated Spend 2015/16	Estimated Spend 2016/17	Planned Actions in 2017/18 related to recurring exceptions granted in 2016/17	Estimated Spend 2017/18	Planned Actions in 2018/19 related to recurring exceptions granted in 2017/18
		£	£		£	
				maintain it. However the spend is significantly below the threshold limit. No exception required.		
Hedge cutting	Len Horton	£2,500		Quotes obtained from two contractors for this service, No exception required.		
Asbestos Contractor	Aqua Force Special Waste and Watling waste	£3,500		These contractors need to be approved by Staffs County Council. They are used for the collection and disposal of Hazardous waste fly tipped in our district. These are used in conjunction with the County Council. Quotes have been obtained from both contractors for this service, No exception required		
Depot alarm system Maintenance and service.	Focus Security and Surveillance Ltd	£2,500		Focus Security are used as and when required to carry out repairs and maintenance. They also provide an alarm monitoring service for the Depot. The value of this is significantly lower than the threshold limit. Therefore, No exception required		
Vehicle Tyres, repairs and maintenance	Chase Tyres	£4,000		This is a local tyre company who are used to supply tyres and carry out repairs on our Streetscene plant and equipment. The spend is lower than the threshold limit. Therefore , No exception is required		
Repairs and Maintenance of mowers, plant and equipment	C & G Mowers	£15,000		Quotes obtained from three suppliers for service and maintenance work to our plant and equipment. Therefore, No exception required.		
Maintenance of ransomes and ride on mowers	Burrows GM Ltd	£15,000		Quotes obtained from three suppliers for service and maintenance work to our plant and equipment. Therefore, No exception required.		
Highway sweeping	Burntwood Road Sweepers	£45,000		A formal EU tender was carried out for this service in 2016. Therefore, No exception required.		
Cesspool emptying	Burntwood Road Sweepers	£45,000				

APPENDIX A

Recurring Exceptions	Supplier	Estimated Spend 2015/16	Estimated Spend 2016/17	Planned Actions in 2017/18 related to recurring exceptions granted in 2016/17	Estimated Spend 2017/18	Planned Actions in 2018/19 related to recurring exceptions granted in 2017/18
		£	£		£	
<u>Joint Waste</u>						
Refuse Vehicles, Tracking and data collection	Bartec Audio ID Ltd	£35,000				
Vehicle Parking-Rent Agreement	Alan Wilmore Builders Ltd	£7,200				
Total Recurring Exceptions		**£366,684**	**£121,784**		**£3,000**	
Total Number of Recurring Exceptions		**18**	**4**		**1**	

APPENDIX B

Non-Recurring Waivers in 2017/2018

Non Recurring Exceptions		2017/18 £
Chief Executive		
Commercial Learning and Development	Staffordshire Chambers of Commerce	16,680
Regulatory, Housing and Wellbeing		
Service Level Agreement	Warmer Homes, Greener District energy efficiency initiative	10,440
Service Level Agreement	Bromford for Homes Direct	22,500 7,500 per annum
Economic Growth		
High Speed 2 Phase 2a – Provision of Services	Sharpe Pritchard – Solicitors and Parliamentary Agents	Unknown as based on time spent on case by legal professionals
Visit Lichfield Website Replacement and Support	Adaptive Web Ltd	32,355.63
Finance & Procurement		
Provision of IT Audit Services	E-tec Business Services	4,800
Total Single Year Exceptions		**£86,775.63**
Number of Non-Recurring Exceptions		**6**

APPENDIX C

Non-Recurring Waivers in 2018/2019

Non Recurring Exceptions		2018/19 £
Corporate Services Civica data export and disposal modules	Civica	59,985
Regulatory, Housing and Wellbeing Office of the Police & Crime Commissioner Service Level Agreement: Space Programme	Liberty	7,410
Leisure & Operational Services Filter – Mechanical & Engineering Essential Modifications	Sterling Hydotech Ltd	9,904
Legal, Property & Democratic Services Be a Councillor Event	LGA	2,000
Economic Growth Commissioning of project management and quantity surveying support – Birmingham Road site, Lichfield	Greenwood Projects	12,700
Consultancy assistance with Local Plan hearing statements	Land Use Consultants	1,957.50
Consultancy assistance with Sequential Test production	JBA consulting	1,250
Friarsgate Lessons learned Review	Local Partnerships	12,000 (5k contribution from LGA)
Development Services Press Notices with local papers with Reach Publishing Services Ltd (previously was known as Local World)	Statutory requirement Press Notices for Planning & Listed Building Applications	28,000
Total Single Year Exceptions		**£135,201.50**
Number of Non-Recurring Exceptions		**9**

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Dear Anthony

Certification work for Lichfield District Council for the year ended 31 March 2018

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

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

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £17.9 million. Further details are set out in Appendix A.

We identified several issues from our certification work which we wish to highlight for your attention. There were a number of errors from the extended testing that we carried out on this year's subsidy return, which recurred from 2016/17. The extrapolated financial impact on the claim, which we have reported to the DWP, was relatively insignificant compared to the total subsidy receivable.

As a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP. The DWP may require the Council to undertake further work or to provide assurances on the errors we have identified.

The indicative fee for 2017/18 for the Council was based on the actual 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £6,123. This is set out in more detail in Appendix B.

Yours sincerely

Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2017/18

Claim or return	Value	Amended?	Amendment value	Qualified?	Comments
Housing benefits subsidy claim	£17,854,118	Yes	(£7)	Yes	See below

Findings from certification of housing benefits subsidy claim

Claimant income

We identified errors where assessors had incorrectly calculated claimants' earned income from evidence provided in respect of claims in receipt of rent allowances. We found 3 errors leading to overpayment of benefit out of 42 cases tested, leading to an extrapolated overpayment of £311.

We also identified errors where assessors had incorrectly calculated claimants' income from self-employment from evidence provided in respect of claims in receipt of rent allowances. We found 1 error leading to overpayment of benefit out of 40 cases tested, leading to an extrapolated overpayment of £287.

Child care costs

We identified errors where assessors had incorrectly input child care costs in respect of claims in receipt of rent allowances. We found 6 errors leading to overpayment of benefit out of 40 cases tested, leading to an extrapolated overpayment of £1,116.

Recommended actions for officers

We recommend that the Council, as part of its internal quality assurance process, should increase its focus or level of testing in respect of the areas where we identified errors from our testing.

Appendix B: Fees for 201718 certification work

Claim or return	2015/16 fee (£)	2017/18 indicative fee (£)	2017/18 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	£6,123	£6,123	£6,123	£nil	N/A
Total	£6,123	£6,123	£6,123	£nil	

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Informing the audit risk assessment Lichfield District Council 2018/19

Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an on-going risk of fraud being committed against the Council, clear and effective arrangements are in place to prevent and detect fraud. No material instances of fraud, have been identified in 2018/19.

Fraud risk assessment (continued)

Question	Management response
How are the Audit Committee satisfied that the overall control environment is robust. In particular what processes does the Council have in place to identify and respond to risks of fraud in the organisation?	The Council has in place strong controls over the sales and purchase ledger in order to prevent fraud. Internal audit are used to carry out work on overall fraud risk areas including Council Tax and Housing benefit.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	There are no material instances of fraud that have been identified during the year. There are some areas that are inherently at risk from fraud such as: • Council Tax • Single person discount A single person discount review is undertaken every 2 years. Lichfield, working with other Local Authorities and a joint procurement of a credit reference agency to identify potential fraud in Council Tax has taken place. The company has been selected and we are about to enter the stand still part of the procurement process.

Fraud risk assessment (continued)

Question	Management response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Not aware of any area where there is a potential of override of controls or inappropriate influence over the financial reporting process.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Not aware of any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process.

Fraud risk assessment (continued)

Question	Management response
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Audit and Member Standards Committee receives an update report from Internal Audit which is a summary of the work completed by Internal Audit. This highlights the number of recommendations made. It also highlights implementation reviews completed and highlights where there are recommendations not implemented. The Chair and Vice Chair receive copies of finalised internal reports and finalised implementation reviews carried out. Any frauds identified will be reported to the Audit and Member Standards Committee. Potential fraud risks to the Authority have been identified and will be reported to the Audit and Member Standards Committee.
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	Code of practice is available on the Councils intranet along with the whistleblowing policy. All employees are required to read this as part of their induction process.

Fraud risk assessment (continued)

Question	Management response
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Whistleblowing Policy encourages employees to report any suspicions of fraud or irregularity, and explains the procedures to follow. This policy is available to all staff via the Council's intranet, and is included as part of the induction programme for new staff.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	The Council sets out related party transactions within the annual accounts. Declarations and conflicts of interest are recorded on an annual basis through a return required to be submitted by members. Any additional interests are required to be declared before meetings and on an ad hoc basis throughout the year.

Fraud risk assessment (continued)

Question	Management response
Are you aware of any instances of actual, suspected, or alleged fraud either within the Council as a whole or within specific departments since 1 April 2018?	None.
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018? If so how does the Audit Committee respond to these?	We are not aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018.

Laws and regulations

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the noncompliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? How does management gain assurance that all relevant laws and regulations have been complied with?	The Monitoring Officer is responsible for ensuring the Council is compliant with laws and regulations. The Constitution notes that these responsibilities cover: • complying with the law of the land (including any relevant Codes of Conduct); • complying with any General Guidance issued, from time to time, by the Monitoring Officer; • making lawful and proportionate decisions; and • generally, not taking action that would bring the Council, their offices or professions into disrepute. This officer has access to all Council committee reports. The Monitoring Officer raises awareness on legal requirements at meetings where needed. In addition in terms of any specific legal issues the monitoring officer would get involved at an early stage. Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The S151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Monitoring Officer (or representative) attends Audit and Member Standards Committee meetings and advises members on any areas of concern.
Have there been any instances of non-compliance or suspected non-compliance with law and regulations since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?	The Monitoring Officer is not aware of any instances of non compliance with laws or regulations that would have an impact on the financial statements.

Impact of laws and regulations (continued)

Question	Management response
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	No new litigation claims in year the process is consistent with the prior year. The Monitoring Officer/Solicitor is responsible for identifying and evaluating claims in the first instance. If the Council cannot deal with the claim in house then an external solicitor will be contacted.
Is there any actual or potential litigation or claims that would affect the financial statements?	None that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate noncompliance?	None.

Going concern

Matters in relation to laws and regulations

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

Going concern is a fundamental principle in the preparation of financial statements. Under the going concern assumption, a council is viewed as continuing in operation for the foreseeable future with no necessity of liquidation or ceasing trading. Accordingly, the Council's assets and liabilities are recorded on the basis that assets will be realised and liabilities discharged in the normal course of business. A key consideration of going concern is that the Council has the cash resources and reserves to meet its obligations as they fall due in the foreseeable future.

We have discussed the going concern assumption with key Council officers and reviewed the Council's financial and operating performance. Below are key questions on the going concern assumption which we would like the Audit Committee to consider.

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	A review of future revenue streams and a cash flow forecast is undertaken as part of the budget setting process, management assesses whether it will have enough cash to continue to operate and whether there are any known events that might occur that could prevent this.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	Management is not aware of any events or conditions that may cast doubt on the entity's ability to continue as a going concern.
Are arrangements in place to report the going concern assessment to the Audit Committee? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?	In terms of the going concern we have a four year Strategic Plan 2016- 2020 and this went through a number of Committees including Full Council for approval. Therefore whilst we don't specifically report on the going concern assessment to Audit and Member Standards Committee we need to take account of the Council's overall Governance process of which Audit and Member Standards Committee is one element. All Audit and Member Standards Committee Members will have been part of the process for its compilation and approval. We have also incorporated reference to the new Strategic Plan in the Statement of Accounts via the narrative statement and AGS.
Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	The Medium Term Financial Strategy is agreed annually and reflects the investment needs required to deliver the Strategic Plan. The Medium Term Financial Strategy makes clear reference to the Strategic Plan as the basis for the financial considerations in setting the Medium Term Financial Strategy. The financial assumptions are therefore consistent with the Strategic Plan.Monitoring Reports in year to Cabinet and Strategic (Overview and Scrutiny) Committee are consistent with the agreed budget.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Medium Term Financial Strategy considered explicitly the government changes in terms of grants. The plan sets out the likely implications of the Government's Resources Review and other changes to local government finance.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made?	No, Internal Audit have not raised any significant assurance weaknesses in controls or procedures.

Going concern considerations (continued)

Question	Management response
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The available financial information does not identify any adverse financial indicators including negative cash flow.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	There are sufficient staff in post with appropriate skills and where vacancies have occurred consideration is given to the recruitment of temporary resources. As part of the Management Structure the acting Head of Finance and Procurement was appointed.

Related parties

Matters in relation to Related Parties

Local Authorities are required to comply with International Accounting Standard 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e. subsidiaries);
- associates and/or joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations have been set out below and management has provided its response.

Related parties considerations

Question	Management response
What controls does the Council have in place to identify, account for, and disclose related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members • Annual declaration of interest • Councillors and officers do not participate in decisions where they are a related party • Annual accounts disclosures for related parties and transactions are reviewed for completeness by senior finance officers
Who have the Council identified as related parties?	No changes are expected to those related parties disclosed in the 2017/18 financial statements.

Accounting estimates

Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identified the transactions, events and conditions that may give rise to the need to an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

Accounting estimates considerations

Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	The Check, Challenge and Appeal Process and the paucity of information will mean there will be significant estimates and judgement on the level of the appeals provision at 31 March 2019.
Are the management arrangements for the accounting estimates, as detailed in Appendix 1 reasonable?	Yes- Accounting estimates are made by members of the finance team with sufficient skill and knowledge. The finance team at LDC is experienced and there have been no issues in prior year audits surrounding estimates. Accounting treatment used by the Council is in line with IFRS and the Code of Practice.
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Experienced finance staff are responsible for making the estimates and are done so in line with accounting standards. Assurance is also provided by internal and external audit.

Appendix 1 - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations.	Valuations are made by the District Valuer inline with RICS guidance on the basis of 5 year valuations with interim reviews.	Senior Accountancy Assistant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.	Use the District Valuer.	Valuations are made inline with RICS guidance – reliance on expert.	No
Estimated remaining useful lives of PPE.	The following asset categories have general asset lives: ■ Buildings 50 years ■ Equipment/vehicles 5 years ■ Plant 12 years ■ Infrastructure 40 years.	Consistent asset lives applied to each asset category.	Use the District Valuer for property related assets. Managers provide estimates for vehicles, plant and equipment assets.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the District Valuer's estimates.	No
Depreciation & Amortisation	Depreciation is provided for on all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The length of the life is determined at the point of acquisition or revaluation according to: ■ A full year's charge is made in the year of acquisition. ■ Assets that are not fully constructed are not depreciated until they are brought into use.	No
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Use the District Valuer.	Valuations are made inline with RICS guidance - reliance on expert.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation.	The finance team apportion central support costs to services based on fixed bases.	All support service cost centres are allocated according to the pre agreed bases.	No	Apportionment bases are reviewed each year to ensure equitable.	No
Measurement of Financial Instruments.	Council values financial instruments at fair value based on the advice of their treasury management advisors and other finance professionals.	Take advice from finance professionals.	Yes	Take advice from finance professionals.	No
Provisions for liabilities.	has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Council becomes aware of the obligation.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision.	A provision is estimated using a proportion basis of an aged debt listing.	The finance team and Corporate Debt Team review the aged debt listing and the likelihood of debt being collected before calculating the BDP.	No	Consistent proportion used across aged debt as per the Code.	No
Accruals	The finance team collate accruals of Expenditure and Income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used	No
Non adjusting events - events after the Balance Sheet date	S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an unadjusting event. For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.	Directors and Heads of Service notify the S151 Officer.	This would be considered on individual circumstances.	This would be considered on individual circumstances.	N/A

External Audit Plan

Year ending 31 March 2019

Lichfield District Council

February 2019

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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 planning 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 the Authority or all 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.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lichfield District Council (‘the Authority’) for those charged with governance.

Respective responsibilities

The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Lichfield District Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Member Standards Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Member Standards Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Valuation of land and buildings, both PPE and Investment Properties • Valuation of the pension fund net liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £880k (PY £864k) for the Authority, which equates to 2% of your prior year gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial has been set at £44k (PY £43k).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Termination of the Friarsgate development agreement • Financial sustainability
Audit logistics	Our interim visit will take place in February 2019 and our final visit will take place in June 2019. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £35,412 (PY: £45,990) for the Authority, subject to the Authority meeting our requirements set out on page 11.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial Pressures

Lichfield has historically set and met balanced budgets, and this is not expected to change in 2018/19. However pressures are unlikely to ease in coming years, due to ongoing financial challenge in the public sector, and particularly as the circumstances surrounding Brexit will start to take shape, and the Council must adapt to any impact this has on grant funding and the economy.

The Authority are forecasting that at the end of the 2018/19 financial year their outturn position will be in line with their budget for the year.

Commercialisation

The scale of investment activity by local authorities has increased in recent years as they seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle.

Lichfield are in the process of setting up a subsidiary company for the delivery of housing. In future years the Authority will need to ensure that any commercial activity is presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, and that any borrowing to finance these activities is compliant with CIPFA's Prudential Code.

Friarsgate development

The Council ended the Friarsgate development agreement in the 2018/19 financial year. This project had been planned for a number of years, and the Authority is currently considering alternative options.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

We will consider your arrangements relating to decision making and business planning as part of our work in reaching our Value for Money conclusion.

We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Authority, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for Lichfield District Council.**

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings **(both PPE and Investment Assets)**	The Authority revalue PPE land and buildings on a rolling five-yearly basis, and investment properties every year. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus and investment assets) at the financial statements date, where not all assets are valued in the financial year. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • communicate with the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
Valuation of the pension fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£34 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

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Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

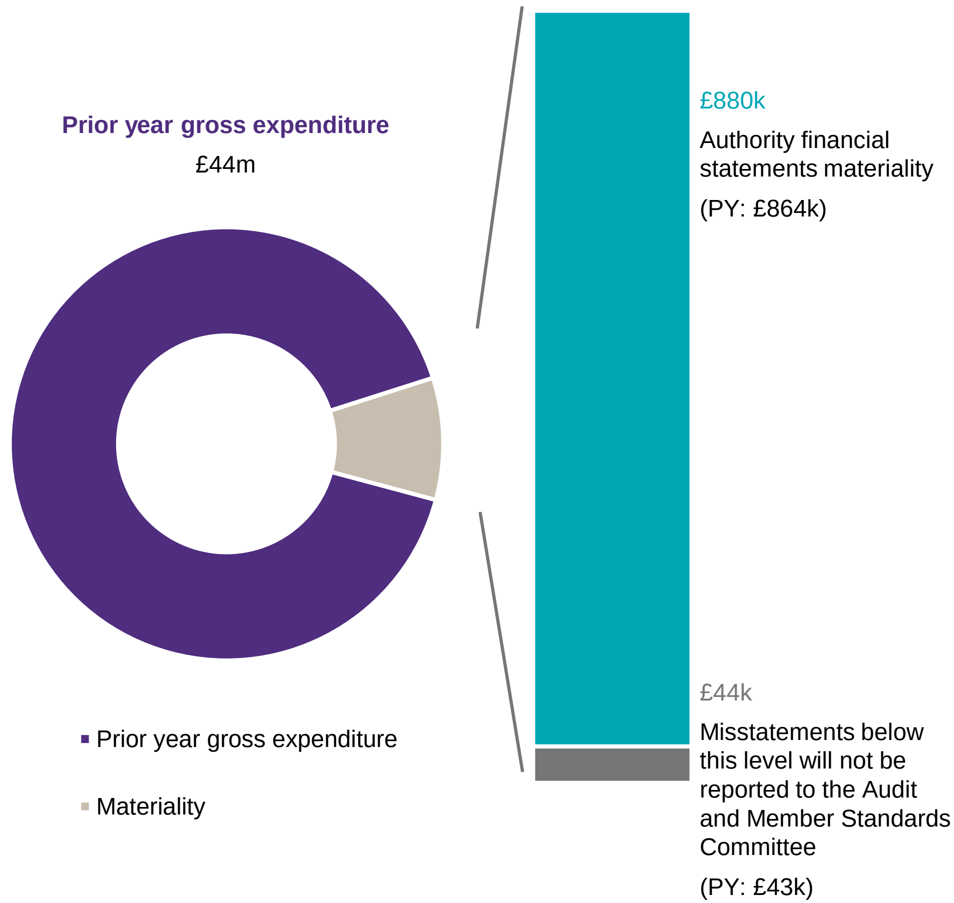
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £880k (PY £864k) for the Authority, which equates to 2% of your prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for disclosures of Senior Officer Remuneration and Exit Packages.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £44k (PY £43k).

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



Value for Money arrangements

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:

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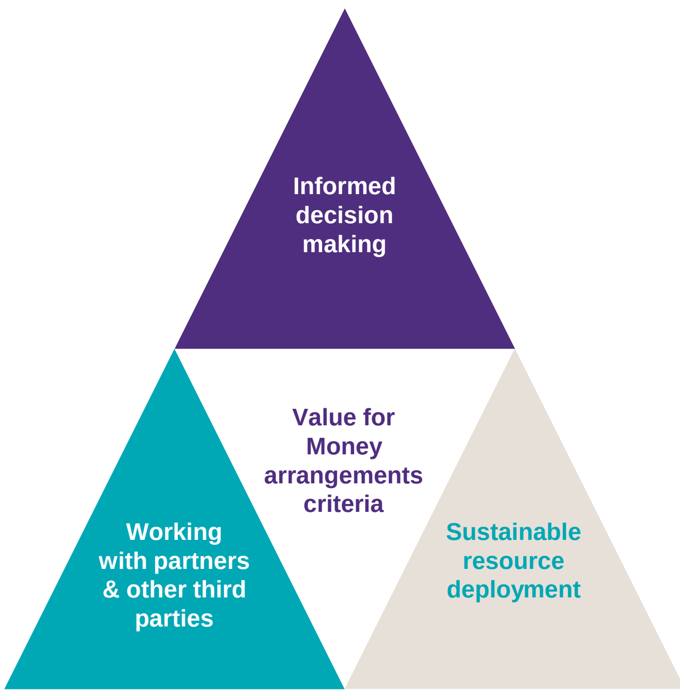

Significant VFM risks

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

Termination of the Friarsgate development agreement

The Friarsgate Development project was terminated early in the 2018/19 year following the withdrawal of a key funding partner in 2017.

This was a key decision for the future of the district.

We will review the actions taken by management between the beginning of the financial year and the decision taken to abandon the Friarsgate project, including any expert advice that was taken and the information that was shared with key decision makers.

We will also consider the actions taken by the Council since the decision was made.

Financial sustainability

The Council has made significant changes to aspects of its service delivery in recent years, including the outsourcing of the provision of leisure services to Freedom Leisure, the joint provision of waste collection with Tamworth Borough Council. The Council are also in the process of setting up a subsidiary company for the delivery of housing.

In addition to this, future funding arrangements for local authorities are not known, and the UK's exit from the European Union will potentially have a significant impact.

We will consider the appraisal and decision making process followed by the Council when making significant delivery decisions.

We will maintain a watching brief on the Council's progress in setting its budget for the 2019/20 year, and the updated medium term financial strategy, and consider the appropriateness of the process followed, including any actions taken to mitigate the Council's risk.

Audit logistics, team & fees

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Phil Jones, Engagement Lead

Phil will be the main point of contact for the Chair, Chief Executive and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Phil will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Phil will sign your audit opinion.

Laurelin Griffiths, Engagement Manager

Laurelin will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. She will attend Audit & Member Standards Committees with Phil, and supervise the In Charge Auditor in leading the on-site team. Laurelin will undertake reviews of the team's work and draft clear, concise and understandable reports.

Audit fees

The planned audit fees are £35,412 (PY: £45,990) for the financial statements audit completed under the Code, which is in line with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Where additional audit work is required to address risks relating to changes in year, we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

The Council successfully achieved early close in 2017/18.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 10). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits claim	14,000	Self-Interest (because this is a recurring fee	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,000 in comparison to the total fee for the audit of £35,412 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level
Non-audit related			
No non-audit related services identified.			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Member Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Appendices

A. Audit Approach

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Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses

  A cloud-based industry-leading audit tool developed in partnership with Microsoft

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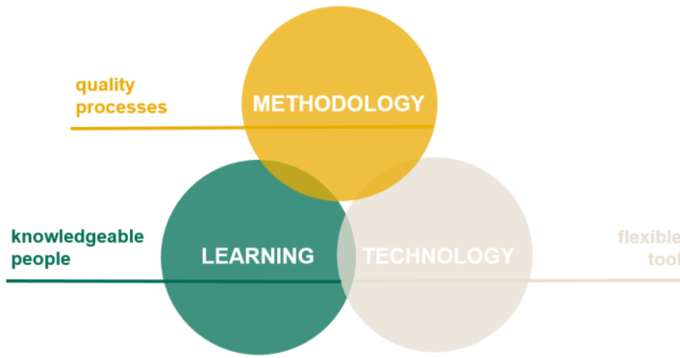

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2018/19

Item	14 Nov 18	06 Feb 19	27 Mar 19	24 Apr 19	July 19	Deferred Reason
FINANCE						
Annual Governance Statement				√		
Annual Treasury Management Report						
Mid-Year Treasury Management Report	√					
Review of Accounting Policies			√			
Statement of Accounts						
Treasury Management Statement and Prudential Indicators		√				
Audit & Member Standards Committee Practical Guidance	√					
INTERNAL AUDIT						
Annual Report for Internal Audit					√	
Internal Audit Charter and Protocol			√			
Internal Audit Plan			√			
Internal Audit Progress Report	√	√	√			
Quality Assurance and Improvement Programme					√	
Review of Internal Control including Public Sector Internal Audit Standards Self-Assessment Summary					√	
Risk Management Update		√			√	
Risk Management Update to include Risk Management Policy and Corporate Risk Register	√					

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AUDIT & MEMBER STANDARDS COMMITTEE WORK PROGRAMME FOR 2018/19

Item	14 Nov 18	06 Feb 19	27 Mar 19	24 Apr 19	July 19	Deferred Reason
Counter Fraud Update Report including Counter Fraud & Corruption and Whistleblowing Policies					√	
LEGAL, PROPERTY AND DEMOCRATIC						
Annual report on Exceptions and Exemptions to Procedure Rules		√				
Overview of the Council's Constitution in respect of Contract Procedure Rules					√	Done as part of Constitution update to include Financial Procedure rules
GDPR/Data Protection Policy						Approved at previous meeting and Cabinet 01/05/18
Annual Report of the Monitoring Officer - Complaints			√			
RIPA reports policy and monitoring						
Terms of Reference						Done as part of Constitution update
EXTERNAL AUDITOR						
Audit Findings Report for Lichfield District Council 2017/18						
The Annual Audit Letter for Lichfield District Council	√					
Certification Work for Lichfield District Council for Year Ended 31 March 2018		√				Verbal Report only in November – report to be finalised by end of Nov so actual report will be deferred to February 2019
Planned Audit Fee 2018/19						
Informing the Audit Risk Assessment - Lichfield District Council		√				
Audit Plan for Lichfield District Council 2018/19		√				
Audit Committee LDC Progress Report and Update – Year Ended 31 March 2019	√		√			

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