When telephoning, please ask for: Tracey Coop
Direct dial 0115 914 8511
Email constitutionalservices@rushcliffe.gov.uk

Our reference:
Your reference:
Date: Wednesday, 30 January 2019

Rushcliffe Borough Council

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West Bridgford
Nottingham
NG2 6BU

In person
Monday to Friday
8.30am - 5pm
First Saturday of each month
9am - 1pm

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Rushcliffe Arena
Rugby Road
West Bridgford
Nottingham
NG2 7YG

To all Members of the Corporate Governance Group

Dear Councillor

A Meeting of the Corporate Governance Group will be held on Thursday, 7 February 2019 at 7.00 pm in the Council Chamber Area B, Rushcliffe Arena, Rugby Road, West Bridgford to consider the following items of business.

Yours sincerely

Sanjit Sull
Monitoring Officer

AGENDA

1. Apologies for absence

2. Declarations of Interest

3. Minutes of the meeting held on 29 November 2018 (Pages 1 - 12)

4. Internal Audit Progress Report - Quarter 3 2018/19 (Pages 13 - 28)

   The report of the Executive Manager – Finance and Corporate Services.

5. External Audit Strategy 2019 (Pages 29 - 56)

   The Report of the Executive Manager – Finance and Corporate Services.

6. Internal Audit Strategy 2019 - 2022 (Pages 57 - 82)

   The report of the Executive Manager – Finance and Corporate Services.

7. Capital and Investment Strategy 2019/20 (Pages 83 - 108)

   The report of the Executive Manager – Finance and Corporate

Services.

8. Revenue and Capital Budget Monitoring - Quarter 3 2018/19 (Pages 109 - 122)

   The report of the Executive Manager – Finance and Corporate Services.

9. Certification of Grants and Return Annual Report 2017/18 (Pages 123 - 128)

   The report of the Executive Manager – Finance and Corporate Services.

10. Work Programme (Pages 129 - 130)

   The report of the Executive Manager – Finance and Corporate Services.

<u>Membership</u>

Chairman: Councillor K Beardsall
Vice-Chairman: Councillor G Davidson
Councillors: A Brown, B Cooper, R Hetherington, N Lawrence, A MacInnes, F Purdue-Horan and R Walker

Meeting Room Guidance

Fire Alarm Evacuation: in the event of an alarm sounding please evacuate the building using the nearest fire exit, normally through the Council Chamber. You should assemble at the far side of the plaza outside the main entrance to the building.

Toilets: are located to the rear of the building near the lift and stairs to the first floor.

Mobile Phones: For the benefit of others please ensure that your mobile phone is switched off whilst you are in the meeting.

Microphones: When you are invited to speak please press the button on your microphone, a red light will appear on the stem. Please ensure that you switch this off after you have spoken.

Recording at Meetings

The Openness of Local Government Bodies Regulations 2014 allows filming and recording by anyone attending a meeting. This is not within the Council’s control.

Rushcliffe Borough Council is committed to being open and transparent in its decision making. As such, the Council will undertake audio recording of meetings which are open to the public, except where it is resolved that the public be excluded, as the information being discussed is confidential or otherwise exempt.

Rushcliffe Borough Council

MINUTES
OF THE MEETING OF THE
CORPORATE GOVERNANCE GROUP
THURSDAY, 29 NOVEMBER 2018

Held at 7.00 pm in the Council Chamber Area B, Rushcliffe Arena, Rugby Road, West Bridgford

PRESENT:

Councillors K Beardsall (Chairman), A Brown, B Cooper, R Hetherington, N Lawrence, A MacInnes, F Purdue-Horan and R Walker

ALSO IN ATTENDANCE:

Councillors

OFFICERS IN ATTENDANCE:

P Linfield	Executive Manager - Finance and Corporate Services
L Ashmore	Service Manager - Transformation
S Whittaker	Financial Services Manager
T Coop	Constitutional Services Officer
K Emery	Emergency Planning Officer
A Pipes	Manager - Mazars
C Williams	Head of Internal Audit - RSM

APOLOGIES:

Councillors G Davidson

16 **Declarations of Interest**

There were no declarations of interest.

17 **Minutes of the Meeting held on 20 September 2018.**

The minutes of the meeting held on 20 September 2018, were approved as a correct record and signed by the Chairman.

18 **Introduction to Mazars - Verbal Introduction**

The Executive Manager – Finance and Corporate Services introduced Anita Pipes – Audit Manager of Mazars Nottingham, the Council's newly appointed External Auditors for the next five years.

Ms Pipes provided a presentation and verbal overview of the audit team and their engagement and responsibilities. Ms Pipes advised the group that Mazars were appointed to perform the Council's external audit for the year to 31 March 2019. The scope of their engagement is set out in the Statement of Responsibilities of Auditors and Audit Bodies, issued by Public Sector Audit Appointments Ltd (PSAA). The responsibilities are principally derived from the

Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office (NAO).

Ms Pipes added that the audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. She provided a timeline of the procedures which will be performed at the different stages of the audit process:

Planning December 2018 to January 2019	• Updating our understanding of the Council • Initial opinion and value for money risk assessments • Development of the audit strategy • Agreement of timetables • Preliminary analytical procedures
Interim February to March 2019	• Documenting systems and controls • Walkthrough procedures and control testing • Early substantive testing of transactions
Fieldwork June to July 2019	• Review of draft financial statements • Reassessment of audit strategy, revising if necessary • Delivering our planned audit testing • Continuous communication on emerging issues • Clearance meetings
Completion July 2019	• Final review and closure checklist of financial statements • Final partner review • Agreeing content of letter of representation • Reporting to Corporate Governance Group • Reviewing post balance sheet events • Signing our opinion

The Chairman thanked Ms Pipes for her presentation and invited members to comment. Members of the Group asked specific questions about how the contract was awarded and whether there were any savings for the Council.
The Executive Manager – Finance and Corporate Services informed members that the previous contract had come to its end and that Mazars had been successful during the Council's tendering stage, he added that Mazars were providing a saving of £10,000 on its external audit fee.

19 **Internal Audit Progress Report - Quarter 2 2018/19**

Mr Williams – Head of Internal Audit – RSM provided the Internal Audit Progress Report for Quarter 2. It is the second progress report for the financial year 2018/19 and shows the current position on the audit programme, along with any significant recommendations with regards to the audits completed during this period.

Mr Williams provided information on assignments that had been completed since the last meeting of Corporate Governance Group and the impact of findings to date. He reported that there had been a number of low priority findings identified in NNDR, IT Strategy Review, Payroll and Expenses and Income and Debtors, and advised that Management actions were agreed in respect of these finding. He reported one medium priority finding relating to the IT Strategy Review

It was RESOLVED that the Internal Audit Progress Report – Quarter 2 be noted.

20 **Health and Safety Interim Report**

The Service Manager – Transformation presented the Health and Safety Interim report which provided members with a summary of the Councils occupational health and safety performance during the six month period, 1 April to 30 September 2018.

The report summarised the council's health and safety policies, procedures and activities. It also set out the training programmes delivered, provided numerical and statistical data and the progress on the health and safety objectives for the year.

The Service Manager – Transformation provided a power point presentation which highlighted the main points for members to consider, these included:

- Completion of low risk health and safety audits across the authority.
- Review of policies that are greater than three years old.
- Look at the new standard for gold award for the Workplace Health Scheme.
- To audit contractors in two of its high risk areas (to be determined).

The presentation continued to provide information on training outcomes, accident forms completed and comparisons with previous years, number of days lost due to absenteeism and accidents to public when using council facilities.

Members considered the report and asked specific questions in respect of the increase in accidents to the public. The Service Manager – Transformation advised that the rise in accidents was a result of increased usage of Council facilities, particularly the Arena usage, adding that most of the accidents reported were minor slips and trips.

Members requested additional information on the Nottinghamshire County Council Workplace Health Scheme and what the criteria is for the Council achieving the gold award.

Members praised officers for their excellent achievements highlighted in the report and requested that the Leadership team pass on Members comments and praise to in particular Depot employees.

It was **RESOLVED** that the Health and Safety Interim report be noted.

21 **Risk Management Progress Report**

The Service Manager – Transformation presented the Risk Management Progress Report and provided an update and summary of risks in the Council's Risk Registers that have changed.

There are currently 35 corporate risks and 28 operational risks and members were advised that the number of risks within the register can fluctuate throughout the year as active risk management is undertaken.

The Service Manager – Transformation provided examples of risks that had changed following the review process:

- OR_TR23 Challenge to ensure sufficient parking spaces at Rushcliffe Arena

This risk has been removed following successful completion of car park improvements.

- CRR_C005 Unforeseen incidents happening at public events

This risk has been added following high profile incidents at other events across the country. The assessment is 4 impact and 2 likelihood. A plan is being prepared in order to reduce the risk of an occurrence at an event run by the Council.

Four risks have been amended:

- CRR_FCS08 Inadequate capital resources

The likelihood has been increased from 1 to 2 due to increased demand on the capital programme;

- CRR_TR15 Significant reduction in staff morale

The likelihood has increased from 1 to 2 and impact has decreased from 3 to 2 resulting in an overall increase in risk from 3 to 4. This is due to the current uncertainty in respect of the Nottinghamshire Unitary bid and the move of manual staff from Abbey Road Depot;

- CRR_TR17 Inability to draw down Growth deal 2 funding with the specified timescales

The likelihood has decreased from 3 to 2 and the impact has decreased from 3 to 4. Due to the outline Business case being submitted in November 2018 and funding no longer being linked to accelerated delivery of schemes;

- OR_CO04 Cost of defending appeals for large residential developments and potential award of costs

The likelihood has increased from 2 to 3 due to the council having to defend two appeals for residential development which were dealt with by way of a public inquiry, incurring significant costs.

The Service Manager – Transformation advised that in early august 2018 the Government raised the potential risk of a 'no deal' BREXIT. Technical notices have been released from the Government detailing plans for a 'no deal, including instructions for businesses and households on how to prepare. Further notices are expected to be published later in the year.

Members were assured that BREXIT and the risk of a 'no deal' was discussed at weekly Executive Management Team meetings, and that the risk for Rushcliffe was considered to be relatively low.

The Emergency Planning Officer provided an update on the Council's Emergency Planning arrangements for members to consider. An Internal Audit on the Council's business continuity arrangements was conducted in June 2018, which concluded that there is substantial assurance that the council has appropriate business continuity arrangements in place.

The Emergency Planning Officer updated the Group on the Local Resilience Forum and the recent emergency planning exercises that had been conducted.

- Diamond IV - a flood exercise in February 2018 which prompted the Rushcliffe local flood response plan to be reviewed and updated.

- Part 1 Silver Siren – a 4 day exercise in May 2018 involving a military aircraft crash over the A46 in Rushcliffe. Rushcliffe staff were involved in a practical test of an emergency mortuary within Nottinghamshire.

- Part 2 Jerboa resilience – a 3 day exercise at the end of November 2018. This exercise is the strategic/tactical incident response to part 1. Over the 3 days exercise Rushcliffe will be providing 11 staff from a range of service areas.

The Emergency Planning Officer advised that during the year other training had be facilitated in preparation for the resilience exercises above and staff had attended discussion exercises on Grenfell, Leicestershire Hinkley road explosion, Salisbury Novichock and Shorham air disaster.

The Emergency Planning Officer presented a power point on the Lord Kerslake report into the Manchester Arena terrorist attack. The report seeks to place the experiences of those directly affected by the terrorist attack at the heart of the review. There were 50 recommendations for both single and multiagency partners. These have been reviewed by the Local Resilience Forum in relation to emergency planning in Nottingham/Nottinghamshire.

The Emergency Planning Officer added that Rushcliffe has similar crowded places venues to the Manchester Arena, in Nottingham Forest Football Ground and Trent Bridge. She advised that club representatives and Rushcliffe event staff have attended counter terrorism awareness workshops and both grounds have safety advisory groups (SAG) in place.

Members thanked the Emergency Planning Officer and noted the findings of the Kerslake report. Members were pleased to see that Nottingham Forest Football Ground and Trent Bridge had been recognised as crowded places venues and that emergency planning arrangements were in place.

Members raised specific questions on the recent Severn Trent burst water pipe at Epperstone, which caused loss of water supply to a large area of the Borough. Members expressed their disappointed in Severn Trent Water, who they felt did not act quick enough to get supplies of bottled water out to those areas affected, adding that some vulnerable residents were without water for a number of hours.

The Emergency Planning Officer informed members that Nottinghamshire County Council and Severn Trent Water do have a list of vulnerable people. She advised Members to encourage their vulnerable residents to register with Severn Trent Water.

It was **RESOLVED** that the Group note the Risk Management report and;

a) Endorse the actions taken to review the risk management arrangements and implement internal audit recommendations

b) Endorse the work of the Emergency Planning Officer and the Local Resilience Forum

22 **Treasury Management 2018/19 - Six Monthly Update**

The Service Manager – Finance provided a report which summarised the capital and investment activities of the Council for the period 1 April to 30 September 2018. The Capital and Investment strategy for 2018/19 was approved by council on 1 March 2018 and outlines the Council's capital and investment priorities as follows;

- Security of capital
- Liquidity of investments and
- Optimising yield earned on investments (cash and property)

The Service Manager – Finance added that the strategy includes indicators which help ensure the Council's capital investment plans are affordable, prudent and sustainable and that setting a Capital and Investment strategy is a requirement of the CIPFA Code of Practise.

The Service Manager – Finance informed the Group of the Council's investment income advising them that a combination of base rate forecasts, constraints on the lending list and the expenditure expected to be incurred on the Capital Programme meant that the Council had budgeted to receive £270,500 in investment income for 2018/19. However the actual interest earned to 30 September 2018 totalled £137.300, with receipts for the year expected to be £315,500. She advised interest receipts were higher than expected due to higher interest rates and delays in the Capital Programme. The Service Manger – Finance added that going forward this could change, for example if interest rates alter, or there is an unexpected property investment or if there are economic growth consequences of BREXIT which remain speculative.

The Service Manager – Finance provided detailed information in appendices to demonstrate the Council's spread of investments across the financial sector.

Members asked specific questions relating to the risk of institutions the Council were investing in and whether these were set out in the Treasury Management Strategy. Members also requested if they could be provided with the list of investments as a *AAA rating score as extra information for Members to consider.

The Executive Manager – Finance and Corporate Services provided additional information in respect of the Council's Commercial Investments advising that there had been a reduction in Commercial Investment activity since July 2018, highlighting that the Council had other potential capital demands, in the Crematorium and Bingham Leisure Centre.

It was **RESOLVED** that the Group note the Capital Investment position as at 30 September 2018.

23 **Revenue and Capital Budget Monitoring - Quarter 2 2018/19**

The Executive Manager – Finance and Corporate Services provided the Group with an update on the Council's Revenue and Capital Budget position as at 30 September 2018. The Executive Manager – Finance and Corporate Services advised the Group that overall the Council's financial position is relatively stable. There are revenue efficiencies and additional grant income of £53,000 which is offset by a slightly poorer business rate position of £133,000. The net position of £80,000 in adverse variances represents a 0.8% variation against the net expenditure budget, which represents a broadly balanced budget overall. £1.17million is expected to be transferred to reserves, so the Council can meet the financial challenges and risks going forward.

The Executive Manager – Finance and Corporate Services added that the Capital Programme shows a planned underspend of £12.064 million as a result of a 'slow down' in asset investment and the delay in the Depot operations relocating from Abbey Road.

In conclusion the Executive Manager – Finance and Corporate Services advised that the Council's overall position for both revenue and capital is positive. However it was noted that opportunities and challenges can arise during the year which may impact on the projected year-end position.

Members asked specific questions relating to the adverse variances in excess of £15,000 and in particular the additional costs incurred by the increase in fly-tipping and what the Council is doing to reduce these costs. Members also requested if they could be provided with a comparison from last year's costs.

Members who attend PMB stated that it was difficult to target offenders and that the Council were being proactive in those areas most effected. It was noted that the Council had been successful in securing two prosecutions recently.

It was **RESOLVED** that the Group:

a) approve the Revenue and Capital Budget Monitoring report;

b) and that the report is forwarded to Council for approval.

24 **Work Programme**

The Committee considered its work Programme.

It was **RESOLVED** that the work programme, as detailed below be approved

7 February 2019

- Internal Audit Progress Report – Quarter 3 2018/19
- External Audit Plan 2019/20
- Internal Audit Strategy 2018 - 2021
- Capital Investment Strategy 2019/20
- Revenue and Capital Budget Monitoring – Quarter 3 2018/19
- Certification of Grants and Return Annual Report 2017/18
- Work Programme

9 May 2019

- Internal Audit Progress Report 2018/19
- Internal Audit Annual Report 2018/19
- IT Progress Report
- Risk Management Progress Report
- Annual Governance Statement
- Work Programme

ACTION SHEET

Corporate Governance Group – 29 November 2018

Minute No	Actions	Officer Responsible
20	Members requested information on the Criteria required for the Gold Award for the Nottinghamshire County Councils Workplace Health Scheme.	Jo Wilkinson - Health and Safety Officer
21	Members requested a full list of risk indicators as an appendix for the next Risk Management report	Executive Manager – Transformation and Operations

21	Members requested a summary of key issues they raised to be fedback to Severn Trent Water and for an update on how risks were being mitigated by Severn Trent Water	K Emery – Emergency Planning Officer
22	Members requested an extra column is added to the table regarding the risk ratings of institutions that the Council has invested with for future reports	Executive Manager – Finance and Corporate Services
23	Members requested a comparison of cost from last year to now for the removal of fly-tipping waste for the Council	Executive Manager – Finance and Corporate Services

The meeting closed at 9.08 pm.

CHAIRMAN

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ACTION SHEET

Corporate Governance Group – 29 November 2018 - Update of responses

Minute No	Actions	Officer Responsible	Response
20	Members requested information on the Criteria required for the Gold Award for the Nottinghamshire County Councils Workplace Health Scheme.	Jo Wilkinson - Health and Safety Officer	A table explaining the criteria for achieving the Nottinghamshire County Councils Workplace Health Gold Award was emailed to members from Constitutional Services on 24 January 2019
21	Members requested a full list of risk indicators as an appendix for the next Risk Management report	Executive Manager – Transformation and Operations	To be provided with the next Risk Management report.
21	Members requested a summary of key issues they raised to be feedback to Severn Trent Water and for an update on how risks were being mitigated by Severn Trent Water	K Emery – Emergency Planning Officer	Karen Emery – Emergency Planning Officer is meeting with Severn Trent Water on Thursday 31 January 2019 – a briefing note will be emailed to members before the meeting on 7 February 2019.
22	Members requested an extra column is added to the table regarding the risk ratings of institutions that the Council has invested with for future reports	Executive Manager – Finance and Corporate Services	To be provided with the next Treasury Management report.
23	Members requested a comparison of cost from last year to now for the removal of fly-tipping waste for the Council	Executive Manager – Finance and Corporate Services	The 17/18 expenditure for fly-tipping was £14k. The projected outturn for 18/19 is £29k and this will be budgeted for in the Council's 19/20 budget.

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Rushcliffe Borough Council

Corporate Governance Group

Thursday, 7 February 2019

Internal Audit Progress Report - Quarter 3 2018/19

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

1.1. The attached report has been prepared by the Council's internal auditors RSM. It is the third progress report for the financial year 2018/19 and shows the current position on the audit programme, along with any significant recommendations with regard to the audits completed during this period.

2. Recommendation

It is RECOMMENDED that the Corporate Governance Group notes the third progress report for 2018/19 **(Appendix A)** from the Council's Internal Auditor.

3. Reasons for Recommendation

To conform to best practice and Public Sector Internal Audit Standards, and give assurance to the Corporate Governance Group regarding the Council's internal control environment.

4. Supporting Information

4.1. The Internal Audit Plan for 2018/19 was approved by the Corporate Governance Group at its meeting on 10 May 2018 and includes 20 planned reviews. Of these reviews 78% have been completed. The attached report highlights the completion and issuing of four reports: Markets, Contract management – garages and fleet, Community facilities, Contract management – car parking. In terms of findings:

- All four audits have returned findings of Substantial Assurance
- The Markets audit resulted in one medium priority recommendation and one low priority recommendation – both of which have been agreed and appropriate measures will be taken.
- The Community facilities audit resulted in three low level recommendations and management actions have been agreed.

4.2. With regard to the remaining programme, three assignments and a follow-up audit are scheduled for the final quarter of the year and will be reported in May 2019.

5. Alternative options considered and reasons for rejection

5.1. Not applicable.

6. Risks and Uncertainties

6.1. If recommendations are not acted upon there is a risk internal controls are weakened and the risk materialises.

7. Implications

7.1. **Financial Implications**

7.1.1. There are no direct financial implications to the report. Indirectly a better internal control environment suggests risk has reduced and can result in a reduced audit workload and therefore cost.

7.2. **Legal Implications**

7.2.1. The recommendation supports good risk management.

7.3. **Equalities Implications**

7.3.1. There are no equalities implications identified for this report

7.4. **Section 17 of the Crime and Disorder Act 1998 Implications**

7.4.1. There are no such implications.

7.5. **Other implications**

7.5.1. There are no other implications.

8. Link to Corporate Priorities

8.1. Maintaining a proactive internal audit programme each year contributes to the Corporate Priority of:

- Transforming the Council to enable the delivery of efficient high quality services

9. Recommendations

It is RECOMMENDED that the Corporate Governance Group notes the third progress report for 2018/19 **(Appendix A)** from the Council's Internal Auditor.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix - Internal Audit Progress Report – RSM

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RUSHCLIFFE BOROUGH COUNCIL

Internal Audit Progress Report

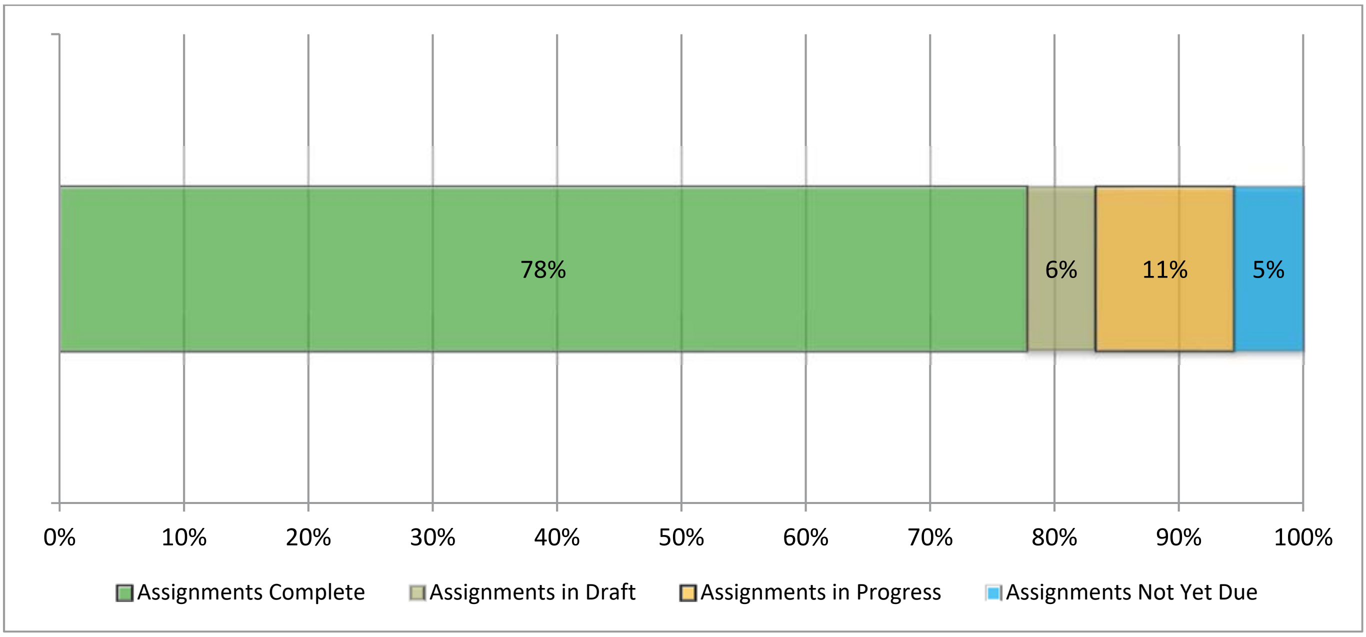
Corporate Governance Group

7 February 2019

CONTENTS

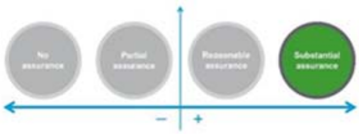
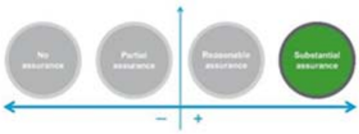
1 INTRODUCTION

The internal audit plan for 2018/19 was approved by the Corporate Governance Group on 10 May 2018. Below provides a summary update on progress against that plan and summarises the results of our work to date. Please see chart below for current progress with the plan.



2 REPORTS CONSIDERED AT THIS CORPORATE GOVERNANCE GROUP

This table informs of the audit assignments that have been completed and the impacts of those findings since the last Corporate Governance Group held. The Executive Summary and Key Findings of the assignments below are attached to this progress report.

Assignments	Status	Opinion issued	Actions agreed		
			H	M	L
Markets (10.18/19)	Final		0	1	1
Contract Management – Garages and Fleet (12.18/19)	Final		0	0	0
Community Facilities (13.18/19)	Final		0	0	3
Contract Management – Car Parking (14.18/19)	Final		0	0	0

2.1 Impact of findings to date

Markets (10.18/19)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing, one medium and one low priority findings were identified. Management actions were agreed in respect of these findings.

The medium priority finding relates to:

- We identified that photographs were not being deleted after receipt of the cheque was confirmed in the bank statement. This is a breach of Data Protection legislation because personal information is being retained by the Council for longer than necessary.

Contract Management – Garages and Fleet (12.18/19)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing, no management actions were raised from this audit review.

Community Facilities (13.18/19)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing, three low priority findings were identified. Management actions were agreed in respect of these findings.

Contract Management – Car Parking (14.18/19)

Conclusion: Substantial Assurance

Impact on Annual Opinion: Positive

As a result of testing, no management actions were raised from this audit review.

3 LOOKING AHEAD

Assignment area	Audit Timing	Status	Target Corporate Governance Group meeting
Budgetary Control and Setting	7 January 2019	Draft Report Issued	7 February 2019
Safeguarding	28 January 2019	In Progress	9 May 2019
Follow Up	28 January 2019	In Progress	9 May 2019
Health and Safety	25 February 2019	Not started	9 May 2019

4 OTHER MATTERS

4.1 Changes to the audit plan

There are no changes to the internal audit plan since the previous Corporate Governance Group.

4.2 Quality Assurance and Continual Improvement

To ensure that RSM remains compliant with the PSIAS framework we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews being used to inform the training needs of our audit teams.

The Quality Assurance Team is made up of: Ross Wood (Manager, Quality Assurance Department) with support from other team members across the Department. All reports are reviewed by James Farmbrough as the Head of the Quality Assurance Department.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

4.3 Post Assignment Surveys

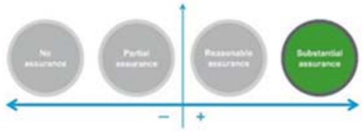
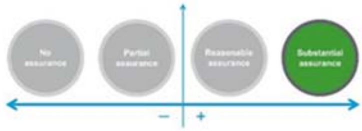
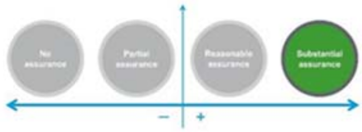
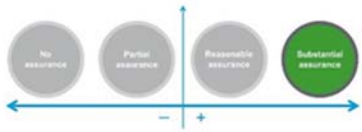
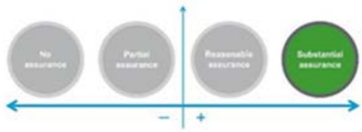
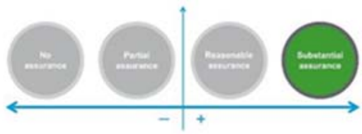
We are committed to delivering an excellent client experience every time we work with you. Your feedback helps us to improve the quality of the service we deliver to you. Currently, following the completion of each product we deliver we attached a brief survey for the client lead to complete.

We would like to give you the opportunity to consider how frequently you receive these feedback requests; and whether the current format works. Options available are:

- After each product (current option);
- Monthly / quarterly / annual feedback request; and
- Executive lead only, or executive lead and key team members.

APPENDIX A: INTERNAL AUDIT ASSIGNMENTS COMPLETED TO DATE

Report previously seen by the Audit Committee and included for information purposes only:

Assignment	Status	Opinion issued	Actions agreed		
			H	M	L
Risk Management (1.18/19)	Final		0	0	0
Business Continuity (2.18/19)	Final		0	0	1
General Data Protection Regulations (GDPR) Governance – Post Implementation Review (3.18/19)	Final	Advisory	Seven management actions to consider		
Council Tax (4.18/19)	Final		0	0	3
Asset Investment (5.18/19)	Final	Advisory	0	0	1
NNDR (6.18/19)	Final		0	0	2
IT Strategy Review (7.18/19)	Final		0	1	4
Payroll and Expenses (8.18/19)	Final		0	0	1
Income and Debtors (9.18/19)	Final		0	0	4

FOR FURTHER INFORMATION CONTACT

Chris Williams, Head of Internal Audit

chris.williams@rsmuk.com

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RSM Risk Assurance Services LLP
Suite A, 7th Floor
City Gate East
Tollhouse Hill
Nottingham NG1 5FS

Phone: 01159 644450
Mobile: 07753 584993

rsmuk.com

2 DETAILED FINDINGS

Categorisation of internal audit findings	
Priority	**Definition**
Low	There is scope for enhancing control or improving efficiency and quality.
Medium	Timely management attention is necessary. This is an internal control risk management issue that could lead to: Financial losses which could affect the effective function of a department, loss of controls or process being audited or possible regulatory scrutiny/reputational damage, negative publicity in local or regional media.
High	Immediate management attention is necessary. This is a serious internal control or risk management issue that may lead to: Substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines.

This report has been prepared by exception. Therefore, we have included in this section, only those risks of weakness in control or examples of lapses in control identified from our testing and not the outcome of all internal audit testing undertaken.

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
Risk: Losses due to fraud or error, inefficient processing or inappropriate activity.								
1	All cash is banked on day of receipt at the Post Office, located in Bingham Market Place and a copy of the paying in receipt, issued by the Post Office is retained in the weekly cash collection sheet. Any cheques received are posted to RBC, who is then responsible for receipting and banking the cheques. A spreadsheet based weekly cash collection sheet is maintained by	Yes	No	We tested every Thursday market since April 2018 (i.e. one market per week for 26 weeks) and confirmed that all markets run had weekly market cash collection sheets in place. All income was collected from every trader present at the market. Receipts are issued for every payment received and are consistently numbered. We also confirmed that the income summary and reconciliation are completed in full and photographic evidence of the Post Office receipt for the total amount banked is kept on file.	Medium	We will ensure that all photographs of market traders cheque payments are deleted as soon as the cheque has cleared through the banking system.	30 November 2018	Property Support Officer

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
	the Markets Manager and is submitted to the Council to evidence the collection and banking in the markets income. This includes details of income collected from each trader, receipt numbers issued, and a reconciliation of cash and cheques collected for banking.			As part of our test, we confirmed actual receipt of the cash banked at Bingham Post Office into the RBC Bank account and general Ledger. Any payments received by cheque are recorded on weekly cash collection sheets and these are then posted direct to the Council for receipting and banking. From our testing, we were also able to confirm receipt of the cheques by the Council, their banking and recording in the general ledger. The Markets Manager takes a photograph of each cheque received and sends this to the Council independently. The photograph of the cheque is a useful control to evidence that the cheque has been received in case the original cheques become lost in the post. The original cheques are posted to the Council, via the Royal Mail and are receipted and banked at the Customer Contact Centre. Our testing of the Weekly Cash Collection Sheets, identified that the photographs of cheques, containing customer account details and a signature; are being retained on file. Once the cheque has been banked and paid, the retention of the photograph of each cheque is unnecessary.				

Ref	Control	Adequate control design	Controls complied with	Audit findings and implications	Priority	Action for management	Implementation date	Responsible owner
				There is a risk that, by retaining this personal information longer than is necessary; the Council is in breach of Data Protection legislation. Therefore, the photographs of cheques should be deleted as soon as possible, after the cheque has cleared into the Council's bank account.				
2	The Markets Manager collects all stall rents from the traders on a weekly or monthly basis, according to the terms of the Traders Licence. No arrears are allowed. The rent is collected in either cash or cheques and a consecutively numbered receipt is issued in exchange for the rent paid.	Yes	No	From our testing, we identified that receipt number 25320 had not been issued to any trader and was unaccounted for. Our testing confirmed that receipts issued 28/06/18 correctly ended with receipt number 25319 and that the receipts issued on 05/07/18 started with receipt number 25321. If a receipt cannot be accounted for, there is a risk that any cash collected using that receipt could be misappropriated. Therefore, all receipts should be accounted for and any receipts that are spoiled or otherwise not used, should be recorded on the weekly cash collection sheets, with a suitable explanation provided.	Low	We will ensure that the Markets Manager is instructed to account for any spoiled or missing receipts and will record on the relevant weekly collection record, the numbers of any spoiled receipts. This will ensure that every receipt is accounted for.	31 December 2018	Property Support Officer

Agenda Item 5

Corporate Governance Group

Thursday, 7 February 2019

External Audit Strategy to 31 March 2019

Rushcliffe
Borough Council

Report of the Executive Manager Finance and Corporate Services

1. Purpose of report

1.1. The attached report from Mazars summarises their approach to external audit activity with regard to the final accounts process and their approach to value for money work in relation to the financial year 2018/19.

1.2. Mazars highlight a number of risks concerning the audit focusing on both the financial statements and value for money. For example, pension liabilities and financial resilience included associated commercial activity.

1.3. Mazars staff will be available to answer any detailed questions arising from the report.

2. Recommendation

It is RECOMMENDED that the Corporate Governance Group accept the External Audit Strategy.

3. Reasons for Recommendation

3.1. To comply with the Audit Commission's Code of Audit Practice and relevant legislation and accord with good governance.

4. Supporting Information

4.1. Members will be aware that we have a legal requirement to produce a draft Statement of Accounts by the 31 May which is then subject to review by the Authority's external auditors, Mazars, and approval by Full Council by the 31 July. Consequently the Accounts are presented to both Corporate Governance Group and Full Council in late July.

4.2. The attached report details the approach that Mazars will use when auditing the 2018/19 Statement of Accounts. It specifies the work they will undertake, when they anticipate undertaking this work, and how they will liaise with Council staff. It also details the key risks with regards to both the year-end accounts and the Council achieving value for money. These include:

- The completeness and accuracy regarding the Council's valuation of property, plant and equipment;
- The Local Government Pension Scheme and the risk that the data is inaccurate and the impact of these inaccuracies on the financial accounts;
- The level of various provisions are reasonable including bad debt provision (referred to as 'impairment'), Business Rates appeals and Minimum Revenue Provision (MRP) are reasonable;
- Financial resilience – both potential changes to local government funding and the continued delivery of future savings to secure long term financial and operational sustainability remains challenging and therefore poses a risk to financial resilience; and
- The appropriateness of commercialisation decisions.

4.3. It should be noted that audit fees for 2018/19 are £31,792 plus VAT. As the new audit contract takes effect this represents a revenue efficiency of £9,496 or 23% (£41,288, 2017/18).

5. Alternative options considered and reasons for rejection

5.1. None

6. Risks and Uncertainties

6.1. The Mazars report highlights relevant risks (stated at paragraph 4.2 above).

7. Implications

7.1. Financial Implications

7.1.1. The audit fee relating to the costs of the audit work is included within existing budgets.

7.2. Legal Implications

7.2.1. To comply with the Audit Commission Act 1998.

7.3. Equalities Implications

7.3.1. None

7.4. Section 17 of the Crime and Disorder Act 1998 Implications

7.4.1. None

7.5. Other implications

7.5.1. None

8. Link to Corporate Priorities

Transforming the Council to enable the delivery of efficient high quality services

9. Recommendations

It is RECOMMENDED that the Corporate Governance Group accept the External Audit Strategy.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	**Appendix 1** – External Audit Strategy to 31 March 2019

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Audit Strategy Memorandum
Rushcliffe Borough Council
Year ending 31 March 2019

MAZARS

CONTENTS

Mazars LLP
Park View House
58 The Ropewalk
Nottingham
NG1 5DW

Corporate Governance Group Members
Rushcliffe Borough Council,
Rushcliffe Arena,
Rugby road
Nottingham
NG2 7YG

7 February 2019

Dear Sirs / Madams

Audit Strategy Memorandum – Year ending 31 March 2019

We are pleased to present our Audit Strategy Memorandum for Rushcliffe Borough Council for the year ending 31 March 2019.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, Section 7 of this document also summarises our considerations and conclusions on our independence as auditors.

We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Rushcliffe Borough Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

This document, which has been prepared following our initial planning discussions with management, is the basis for discussion of our audit approach, and any questions or input you may have on our approach or role as auditor.

This document also contains specific appendices that outline our key communications with you during the course of the audit, and forthcoming accounting issues and other issues that may be of interest.

Client service is extremely important to us and we strive to continuously provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact me on 0115 964 4744.

Yours faithfully

David Hoose
Mazars LLP

1. ENGAGEMENT AND RESPONSIBILITIES SUMMARY

Overview of engagement

We are appointed to perform the external audit of Rushcliffe Borough Council (the Council) for the year to 31 March 2019. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/.

Our responsibilities

Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below:

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements.

Our audit is planned and performed so to provide reasonable assurance that the financial statements are free from material error and give a true and fair view of the financial performance and position of the Council for the year.

Reporting to the NAO

We are required to issue an assurance statement to the National Audit Office confirming the income, expenditure, asset and liabilities of the Council.

Value for Money

We are required to conclude whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in it its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom.

Our audit does not relieve management or those charged with governance, of their responsibilities. The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However our audit should not be relied upon to identify all such misstatements.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. As auditors, we are required to consider the appropriateness of the use of the going concern assumption in the preparation of the financial statements and the adequacy of disclosures made.

For the purpose of our audit, we have identified the Corporate Governance Group as those charged with governance.

2. YOUR AUDIT ENGAGEMENT TEAM

David Hoose
Partner

E-Mail: david.hoose@mazars.co.uk
Tel: 0115 964 4744.

Anita Pipes
Manager

E-Mail: anita.pipes@mazars.co.uk
Tel: 07919 395251

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

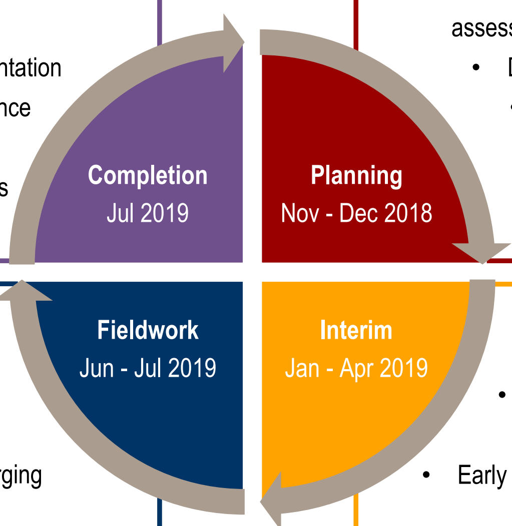
If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures) and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram below outlines the procedures we perform at the different stages of the audit.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to the Corporate Governance Group
- Reviewing post balance sheet events
- Signing our opinion

- Updating our understanding of the Council
  - Initial opinion and value for money risk assessments
    - Development of our audit strategy
      - Agreement of timetables
        - Preliminary analytical procedures



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions

3. AUDIT SCOPE, APPROACH AND TIMELINE (CONTINUED)

Reliance on internal audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Items of account	Management's expert	Our expert
Defined benefit liability	Barnett Waddingham *Actuary for Nottinghamshire Pension Fund*	PWC *Consulting actuary appointed by the NAO*
Property, plant and equipment valuation	Leanne Ashmore *The Council's internal valuer*	Gerald Eve *Valuations expert appointed by the NAO*
Financial instrument disclosures	Arlingclose *Treasury management advisors*	Not applicable

Service organisations

International Auditing Standards (UK) define service organisations as third party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Council and our planned audit approach.

Items of account	Service organisation	Audit approach
Pension cost (cost of services) Net interest on defined benefit liability Re-measurements of the net defined benefit liability (OCI) Net pension liability	Nottinghamshire Pension Fund *The IAS 19 pension entries that form part of the Council's financial statements are material and are derived from actuarial valuations. The process of obtaining these is co-ordinated by and uses information held and processed by the service organisation.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. Where we conclude that we do not have a sufficient understanding of the services provided by the service organisation we will seek to obtain assurance by using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.
Payroll Costs	Gedling Borough Council *The payroll entries that form part of the Council's financial statements are material and are derived from the processing of monthly payrolls. The payroll processing is undertaken and administered by Gedling Borough Council on behalf of the Council.*	We will review the controls operating at the Council over these transactions to gain an understanding of the services provided by the service organisation. We expect to be able to conclude that the Council has sufficient controls in place over the services provided by GBC and that we will be able to audit payroll based on the records held at the entity.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard, as defined below:

Significant risk A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

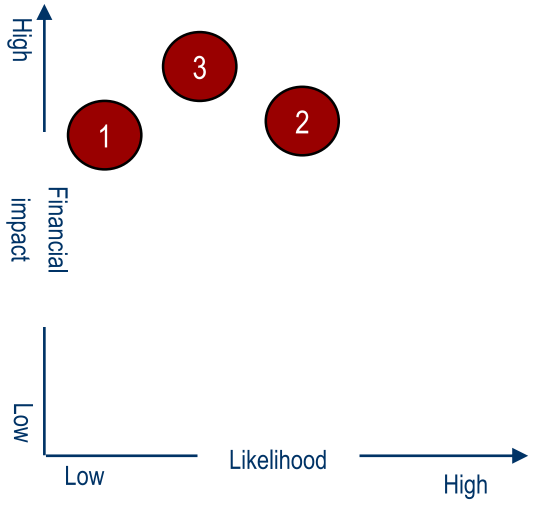
Enhanced risk An enhanced risk is an area of higher assessed risk of material misstatement at audit assertion level other than a significant risk. Enhanced risks incorporate but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

The summary risk assessment, illustrated in the tables below, highlight those risks which we deem to be significant or enhanced. We have summarised our audit response to these risks over the next pages.

At the time of writing this memorandum we are yet to complete our detailed risk assessment work over the Council's key financial systems and general IT controls. We aim to complete this work as part of our interim visit in February and will update the Corporate Governance Group where we subsequently identify any additional risks.



	Risk
1	Management override of control
2	Property, plant and equipment valuation
3	Defined benefit liability valuation

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

We provide more detail on the identified risks and our testing approach with respect to significant risks in the table below. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Corporate and Governance Group

Significant risks

	Description of risk	Planned response
1	**Management override of controls** Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	In relation to the management override of controls we will: • Document our understanding of the processes and controls in place to mitigate the risks identified, and walk through those processes and controls to confirm our understanding; • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Review the calculation of management's material accruals, estimates and provisions for evidence of management bias; • Evaluate the business rationale for any significant unusual transactions; • Understand the oversight given by those charged with governance of management process over fraud; • Sample test accruals and provisions based on established testing thresholds; and • Review material aspects of capital expenditure on property plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Significant risks (continued)

	Description of risk	Planned response
2	**Valuation of property, plant and equipment, investment properties and assets held for sale** The Council's accounts contain material balances and disclosures relating to its holding of property, plant and equipment, investment properties and assets held for sale, with the majority of land and building assets required to be carried at valuation. Due to high degree of estimation uncertainty associated with those held at valuation, we have determined there is a significant risk in this area.	In relation to the valuation of property, plant & equipment, investment properties and assets held for sale we will: • Critically assess the Council's valuer's scope of work, qualifications, objectivity and independence to carry out the required programme of revaluations; • Consider whether the overall revaluation methodologies used by the Council's valuer are in line with industry practice, the CIPFA Code of Practice and the Council's accounting policies; • Assess whether valuation movements are in line with market expectations by using our own valuation expert to provide information on regional valuation trends; • Critically assess the treatment of the upward and downward revaluations in the Council's financial statements with regards to the requirements of the CIPFA Code of Practice; • Critically assess the approach that the Council adopts to ensure that assets not subject to revaluation in 2018/19 are materially correct, including considering the robustness of that approach in light of the valuation information reported by the Council's valuer; and • Test a sample of items of capital expenditure in 2018/19 to confirm that the additions are appropriately valued in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Significant risks (continued)

	Description of risk	Planned response
3	**Valuation of net defined benefit liability** The Council's accounts contain material liabilities relating to the local government pension scheme. The Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. Due to the high degree of estimation uncertainty associated with this valuation, we have determined there is a significant risk in this area.	In relation to the valuation of the Council's defined benefit pension liability we will: • Critically assess the competency, objectivity and independence of the Nottinghamshire Pension Fund's Actuary, Barnett Waddingham; • Liaise with the auditors of the Nottinghamshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This will include the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS 19 valuation is complete and accurate; • Test payroll transactions at the Council to provide assurance over the pension contributions which are deducted and paid to the Pension Fund by the Council; • Review the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This will include comparing them to expected ranges, utilising information provided by PWC, the consulting actuary engaged by the National Audit Office; and • Agree the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Consideration of other mandatory risks

Auditing standards require us to consider two standard risks for all organisations:

- Management override of controls; and
- Fraudulent revenue recognition.

We have already considered and identified management override of controls as a significant risk above, but set out our considerations in respect of fraudulent revenue recognition below:

	Description of risk	Planned response
1	**Fraudulent revenue recognition** Our audit methodology incorporates this risk as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable.	We do not consider this to be a significant risk for Rushcliffe Borough Council as: • there is an overall low risk for local authorities; • there are no particular incentives or opportunities to commit material fraudulent revenue recognition; and • the level of income that does not derive from either grant or taxation sources is low relative to the Council's overall income streams, and generally represents a number of low value, high volume transactions. We therefore rebut this risk and do not incorporate specific risk procedures over and above our standard fraud procedures to address the management override of controls risk.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement

Enhanced risks and key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Area of management judgement	Planned response
1	**Debt impairment** Uncertainty exists that, in the current economic climate, the Council's provision for the impairment of doubtful debts would be sufficient.	We plan to address this judgement by: • Reviewing the level of reported debt as at 31 March 2019 and considering the implications for any material change; • Ensuring that management's methodology for calculating the provision has been consistently applied and is in line with the requirements of the Code; • Testing the collectability of both significant and a sample of other non-significant debtor balances; and • Re-performing the basis of the calculation for the impairment of debtors.
2	**Provision for business rate appeals against the rating list** The issue of a new rating list and a change in the appeals process has created delays in appeals being notified to the Council. Consequently management need to make an assumption over the likely level of appeals that will be successful based on their rating knowledge.	We plan to address this judgement by: • Reviewing the basis of the Council's calculation of its provision by recalculating the provision, evaluating the key assumptions of the provision, vouching movements in the provision and confirming completeness of entries; • Assessing whether the provision has been calculated and recorded in accordance with the Council's accounting policy; • Assessing whether the amount provided at the period end is appropriate, taking into account the Council's anticipated actual liability; and • Assessing whether the reconciliation of movements during the period and description of the nature of the provision have been adequately disclosed in the financial statements.

4. AUDIT RISKS AND KEY JUDGEMENT AREAS (CONTINUED)

Enhanced risks and key areas of management judgement (continued)

	Area of management judgement	Planned response
3	**Minimum revenue provision (MRP)** Local authorities are normally required each year to set aside some of their revenues as a provision for debt in respect of capital expenditure financed by borrowing or long term credit arrangements, by reference to the prior year's closing Capital Financing Requirement. The amount to be set aside each year is not prescribed although an overarching principle of prudency is expected to be adopted. This is supported by statutory guidance as to how this could be achieved and the Council is required to have regard to this in setting its MRP policy. Management judgement is therefore exercised is determining the level of its prudent provision.	We plan to address this judgement by: • Reviewing the Council's MRP policy to ensure that it has been developed with regard to the statutory guidance; • Assessing whether the provision has been calculated and recorded in accordance with the Council's policy; • Assessing whether the amount provided for the period is appropriate, taking into account the Council's Capital Financing Requirement; and • Confirming that any charge has been accounted for in accordance with the Code.

5. VALUE FOR MONEY

Our approach to Value for Money

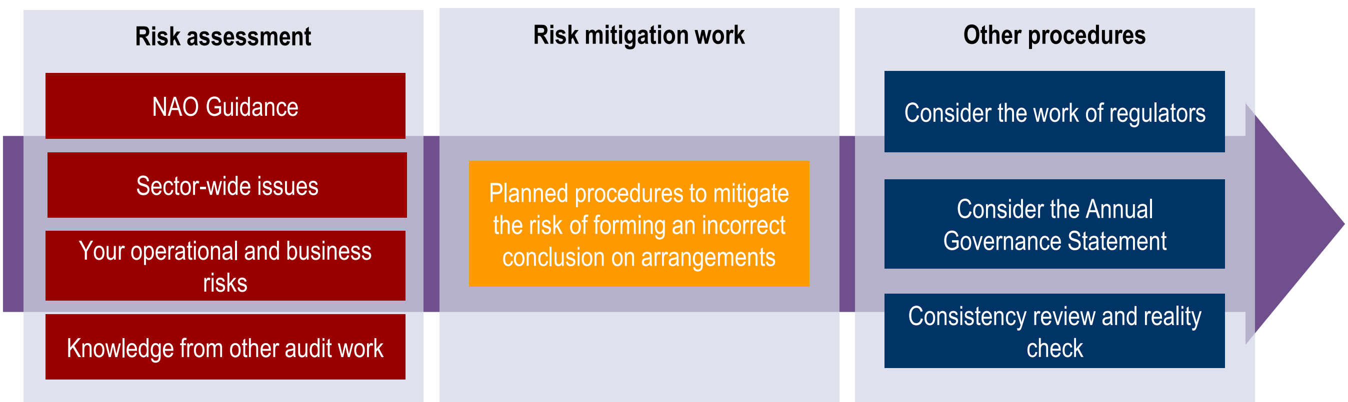
We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out, and sets out the overall criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.'

To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we undertake to reach our conclusion is provided below:



Significant risks

The NAO's guidance requires us to carry out work at the planning stage to identify whether or not a Value for Money (VFM) exists. Risk, in the context of our VFM work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. As outlined above, we draw on our deep understanding of the Council and its partners, the local and national economy and wider knowledge of the public sector.

5. VALUE FOR MONEY (CONTINUED)

Significant risks (continued)

For the 2018/19 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
Delivery of Budgets and Financial Resilience The continual pressures on Local Government finances are well documented and led to another challenging budget setting process for 2018/19. The Authority set a balanced budget on 5 Feb 2018 after identifying the need for an additional £195k savings in its MTFP. The Q3 outturn position projects a £1m underspend against the revenue budget. These savings are due in the main due to one off items, namely, additional planning income resulting from housing growth in the borough, additional business rates income from a renewable energy source and a return from the Nottinghamshire Business Rates Pool surplus for 2017/18. There has also been a £12.7m underspend in the capital budget. The Authority has a transformation strategy in place until 2022/23 and this ensures that the Authority can deliver a balanced budget by identifying and monitoring efficiency savings. In January 2019 the overall transformation plan savings are projected to be £924k against a planned outturn of £593k. The transformation plan and projects will need to be monitored on an ongoing basis to ensure all planned efficiencies are achieved and to ensure the £395k transformation savings required in 2019/20 as per the MTFP are met. Failure to do this will put additional pressure on the use of reserves which is due to be £294k in 2019/20, with additional calls in reserves in future years. Whilst the 2019/20 MTFS has yet to be approved by Full Council ongoing work with officers and members should ensure a balanced budget for 2019/20 with a revised Transformation Strategy until 2023/24. There will be significant changes in Local Government finances over the next few years, which will culminate in a major change in the way Local Government is financed from 2020/21 onwards. These include the 2019 Spending Review, the Fair Funding Review and the introduction of 75% local retention of business rates (up from 50% retention). As a result, the need for savings (or income generation) will continue to have a significant impact on the Authority's financial resilience and reduce the burden on the need to utilise reserves to plug any deficits in the budget.	We will critically review whether the Council has arrangements in place to ensure financial resilience, specifically that the MTFP has duly taken into consideration the latest available information on factors such as: • funding reductions; • business rate reform; • fair funding; • salary and general inflation; • demand pressures; • restructuring costs; and • sensitivity analysis given the degree of variability in the above factors. We will review the progress against the transformation strategy and also ensure planned transfers to the organisational stabilisation reserve were made as planned.

5. VALUE FOR MONEY (CONTINUED)

Significant risks (continued)

For the 2018/19 financial year, we have identified the following significant risk to our VFM work:

Description of significant risk	Planned response
Expenditure in relation to Commercialisation In response to falling central government funding levels, increases in service demands and to provide medium and long term resources for future capital expenditure many local authorities, including Rushcliffe, are looking at innovative ways of both securing additional income streams, in a move to becoming self-financing. The Council has specifically identified the use of its capital and treasury activities as one way of achieving these objectives and has proposed in 2018/19 that £20m is made available for commercialisation and the acquisition of commercial property/capital investment/commercial loans as a means of income generation (an increase of £4.5m from the prior year). Governance structures have been set up and all work is led by a newly established commercialisation board. Currently all investment is financed internally and no borrowing has occurred. The continuing challenges the Council faces are not new and are not unique to Rushcliffe Borough Council. However, the challenges do present a significant Value for Money risk in respect of the need to consider whether the Council has exposed itself to risks that it has not anticipated, including: • Poor financial forecasting; • Not having sufficient commercial expertise; and • Poor investment decisions by not undertaking sufficient legal and due diligence work and not investing in existing proven commercial property whose revenue stream can be more accurately valued. The Council has also set up a holding company in 2018/19 which sits above its subsidiary company Streetwise Environmental Limited. The holding company has been set up to enable any future work with joint ventures or to enable future subsidiary companies to be set up as quickly and efficiently as possible as part of the commercialisation strategy.	We will critically review whether the Council has: • Exposed itself to too much financial risk through its capital investment decisions; • Ensured that it has been mindful of changes in the accounting and regulatory environment within any sensitivity analysis being conducted as part of its capital investment decision making process; • Ensured that an appropriate level of legal and due diligence work has been undertaken prior to making specific capital investment decisions; • Responded appropriately to the revised Statutory Guidance on Local Government Investments, to ensure that there is appropriate transparency to understand the exposure that the Council has as a result of its borrowing and capital investment decisions; and • Ensured that Members have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving. We will review the set up of the holding company including its governance and legal structure to satisfy ourselves that the Council has not exposed itself to any potential legal or VFM risk.

6. FEES FOR AUDIT AND OTHER SERVICES

Fees for work as the Council's appointed auditor

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018.

Service	2017/18 fee	2018/19 fee
Code audit work	£41,288 plus VAT	£ 31,792 plus VAT

Fees for non-PSAA work

We are not carrying out any non –PSAA work in 2018-19.

Services provided to other entities within the Council's group

At the present time we are in negotiation with the Council to provide the audit services for Streetwise Environmental Limited in 2018/19 at a fee of £6,000. We have not yet had confirmation that we will be appointed to carry out this audit.

Fees for non-PSAA work

Should the Council or entities within the Council's group wish us to undertake any other additional work, before agreeing to this we will consider whether there are any actual, potential or perceived threats to our independence. Further information about our responsibilities in relation to independence is provided in section 7.

7. OUR COMMITMENT TO INDEPENDENCE

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually, in writing, that we comply with the Financial Reporting Council's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer-based ethics training;
- rotation policies covering audit engagement partners and other key members of the audit team;
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, and Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with David Hoose in the first instance.

Prior to the provision of any non-audit services David Hoose will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified in relation to our work on the pooling of housing capital receipts return. Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

8. MATERIALITY AND MISSTATEMENTS

Summary of initial materiality thresholds

Threshold	Initial threshold
Overall materiality	£820,000
Performance materiality	£533,000
Trivial threshold for errors to be reported to the Corporate Governance Group	£25,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our provisional materiality is set based on a benchmark of the 2017/18 total gross expenditure. We have calculated a headline figure for materiality but have also identified separate levels for procedures designed to detect individual errors, and also a level above which all identified errors will be reported to the Corporate Governance Group.

We consider that total gross expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. MATERIALITY AND MISSTATEMENTS (CONTINUED)

We have set our materiality threshold at 2% of the benchmark based on the 2017/18 audited financial statements.

Based on the 2017/18 audited financial statements we anticipate the overall materiality for the year ending 31 March 2019 to be £820,000.

After setting initial materiality, we continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In setting performance materiality we have taken into account that this is our first year of audit and accordingly we do not hold extensive cumulative audit knowledge about the Council's financial statements. We have therefore set our performance materiality at 65% of our overall materiality being £533,000.

As with overall materiality, we will remain aware of the need to change this performance materiality level through the audit to ensure it remains to be set at an appropriate level.

Specific items of lower materiality

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that misstatements of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We have set specific materiality for the following items of account:

Item of account	Specific materiality
Officers' remuneration	£5,000 *
Termination benefits	£10,000
Members' allowances and expenses	£41,000
External audit costs	£7,000

* Reflecting movement from one salary band to another

Misstatements

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Corporate Governance Group that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £25,000 based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with David Hoose.

Reporting to the Corporate Governance Group

To comply with International Standards on Auditing (UK), the following three types of audit differences will be presented to the Corporate Governance Group:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

APPENDIX A – KEY COMMUNICATION POINTS

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

Required communication	Audit Strategy Memorandum	Audit Completion Report
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

APPENDIX B – FORTHCOMING ACCOUNTING AND OTHER ISSUES

Changes relevant to 2018/19

IFRS 9 Financial Instruments - the standard replaces IAS 39 and introduces significant changes to the recognition and measurement of the Council's financial instruments, particularly its financial assets.

Although the accounting changes may be complex and may require the reclassification of some instruments, it is likely that the Council will continue to measure the majority of its financial assets at amortised cost. However, we are aware that consideration will need to be given to any holdings in property funds which may need to be reclassified from the available for sale category.

For Councils that hold instruments that will be required to be measured at fair value under the new standard, there may be instances where changes in these fair values are recognised immediately and impact on the general fund. We are aware that, following the Ministry of Housing, Communities and Local Government consultations, a statutory override, will be put in place to mitigate the impact of these fair value movements on the Council's general fund balance.

IFRS 15 Revenue from Contracts with Customers - the 2018/19 Code also applies the requirements of IFRS 15, but it is unlikely that this will have significant implications for most local authorities.

There are no other significant changes to the Code of Practice on Local Authority Accounting (the Code) for 2018/19.

Changes in future years

Accounting standard	Year of application	Implications
IFRS 16 – Leases	2020/21	We anticipate that the new leasing standard will be adopted by the Code for the 2020/21 financial year. IFRS 16 will replace the existing leasing standard, IAS 17, and will introduce significant changes, particularly for lessees. The requirements for lessors will be largely unchanged from the position in IAS 17. Lessees will need to recognise assets and liabilities for all leases (except short-life or low-value leases) as the distinction between operating leases and finance leases is removed. The introduction of this standard is likely to lead to significant work being required in order to identify all leases to which the Council is party to.

APPENDIX C – MAZARS' CLIENT SERVICE COMMITMENT

We are here because of our clients; serving them in the best way we can is part of our DNA. We operate a Code of Conduct which drives our client service commitment in all areas, as set out below.

Corporate Governance Group

Thursday, 7 February 2019

Internal Audit Strategy 2019 - 2022

Report of the Executive Manager - Finance and Corporate Services

1. Purpose of report

1.1. The rolling internal audit strategy for the years 2018/19 - 2020/21 was approved by this Group at the meeting on 10 May 2018. It was based on discussions with officers and the Chairman of the Corporate Governance Group.

1.2. On an annual basis members of the Internal Audit team examine the underlying risks facing the Council and update this strategy and the resultant audit plan with senior officers.

1.3. The detailed audit strategy and audit plan is appended to this report. A member of the internal audit team will attend the meeting to present the report and be available to answer questions.

2. Recommendation

2.1. It is RECOMMENDED that Members approve the updated Internal Audit Strategy and detailed Audit Plan 2019 to 2022.

3. Reasons for Recommendation

3.1. To conform with best practice and Public Sector Internal Audit Standards; and give assurance to the Corporate Governance Group regarding the Council's internal control environment.

4. Supporting Information

4.1. Each year the Council's Internal Auditors RSM Risk Assurance Services LLP, in consultation with senior officers, produce the audit strategy and audit plan. There are four questions to assist Members in their consideration of the audit plan. These are:

- Is the Corporate Governance Group satisfied that sufficient assurances are being received within their annual plan (as set out at Appendix A of the Strategy) to monitor the Council's risk profile effectively?

- Does the strategy for internal audit (as set out at Appendix B of the Strategy) cover the Council's key risks as they are recognised by the Corporate Governance Group?

- Are the areas selected for coverage this coming year appropriate?

- Is the Corporate Governance Group content that the standards within the charter (as set out in Appendix C of the Strategy) are appropriate to monitor the performance of internal audit?

4.2. RSM Risk Assurance Services LLP has been challenged to continue to provide value for money with their audit fee. RSM has confirmed that the audit fee for 2019/20 is £48,750 (excluding VAT). This compares to a budget of £47,250 in 2018/19 and £46,810 (in 2017/18).

4.3. On the assumption Members believe the four previous questions (at paragraph 4.1) are positively answered then the level of resource should be adequate. It should also be noted there are five contingency days to deal with any additional items of work or where further days are required if, for example, any issues arise from an audit resulting in the need for further resources. If the days are not utilised then there will be a budget underspend.

5. Alternative options considered and reasons for rejection

5.1. Not applicable

6. Risks and Uncertainties

6.1. There are no risks directly attributable to the report although the nature of the internal audit service and the audit plan helps manage risk. The audit fees are always subject to risk in terms of if an internal control weakness is identified fees can potentially exceed the budget or work may take less time than planned (ie there is both upside and downside risk).

7. Implications

7.1. Financial Implications

7.1.1. The audit fee relating to the costs of the audit work is included within existing budgets.

7.2. Legal Implications

7.2.1. None

7.3. Equalities Implications

7.3.1. None

7.4. **Section 17 of the Crime and Disorder Act 1998 Implications**

7.4.1. None

7.5. **Other implications**

7.5.1. None

8. Link to Corporate Priorities

8.1.1. Transforming the Council to enable the delivery of efficient high quality services

9. Recommendations

9.1. It is RECOMMENDED that Members approve the updated Internal Audit Strategy and detailed Audit Plan 2019 to 2022.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix A – Internal Audit Strategy 2019 to 2022

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RUSHCLIFFE BOROUGH COUNCIL

Internal Audit Strategy 2019 - 2022

Presented at the Corporate Governance Group meeting of: 7 February 2019

RSM

EXECUTIVE SUMMARY

Our Internal Audit Plan for 2019/20 is presented for consideration by the Corporate Governance Group.

The key points to note from our plan are:

2019 Internal Audit priorities: Internal audit activity for 2019/20 is based on analysing your corporate objectives, risk profile and assurance framework as well as other factors affecting you in the year ahead, including changes within the sector. Our detailed plan for 2019/20 is included at Section 1.

Level of Resource: The level of resource required to deliver the plan is consistent with 2018, with the daily rate inflated to with the agreement made upon our appointment. We will be introducing the use of technology when undertaking operational audits in 2019. This will strengthen our sampling, increasing the level of assurance provided. Refer to Appendix A.

Core Assurance: Key priorities and changes within the Council during the period have been reflected within the proposed audit coverage for 2019/20 and beyond. Local government continues to face significant financial pressure and a key theme of our work during 2019/20 will be focus on controls over income generation and maximisation, particularly in the areas of property leases, rents and garden waste. We will continue assess the implementation of previously agreed internal audit actions and report back to the Corporate Governance Group on the ongoing implementation status.

CONTENTS

1. YOUR INTERNAL AUDIT PLAN 2019/20

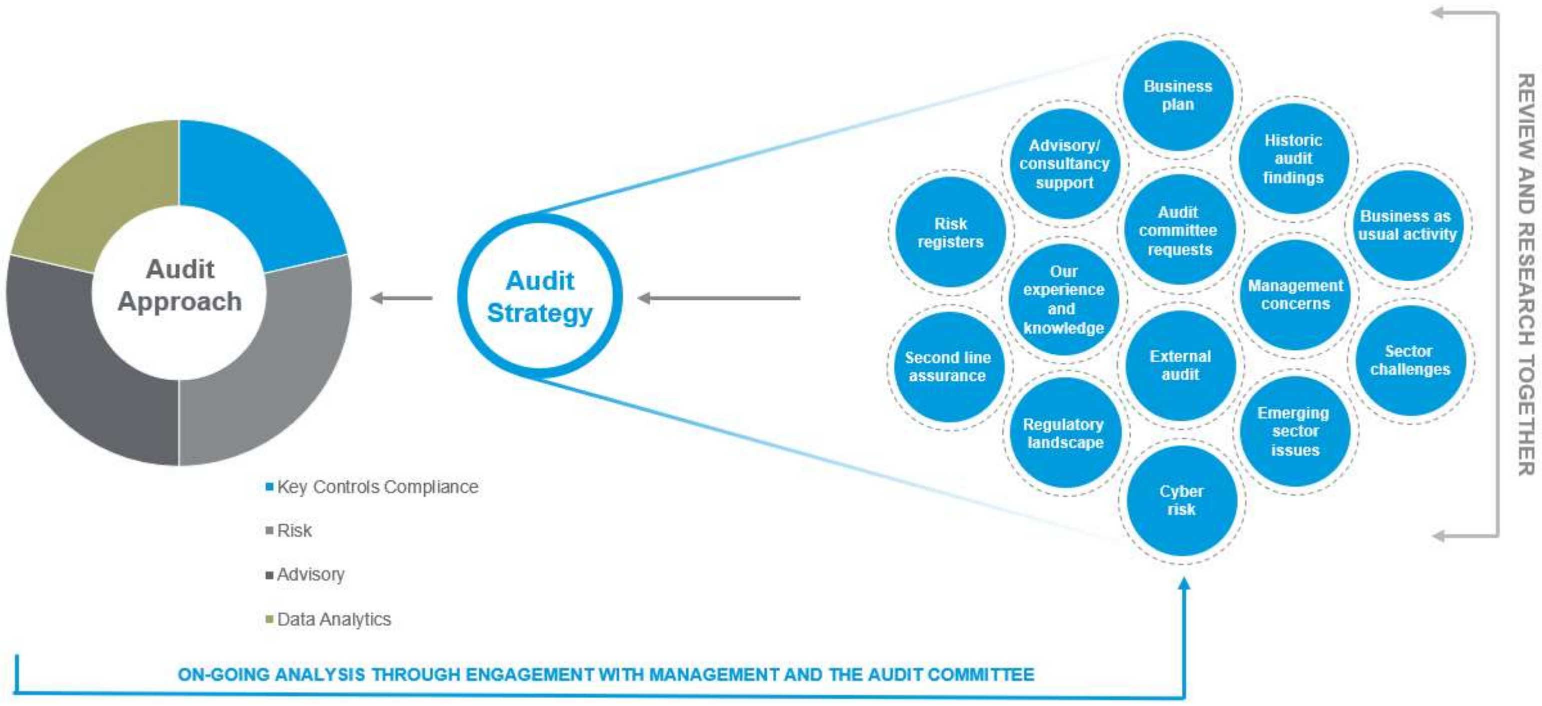
Our approach to developing your internal audit plan is based on analysing your corporate objectives, risk profile and assurance framework as well as other, factors affecting Rushcliffe Borough Council in the year ahead, including changes within the sector.

Risk management processes

We have evaluated your risk management processes and consider that we can place reliance on your risk registers to inform the internal audit strategy. We have used various sources of information (see Figure A below) and discussed priorities for internal audit coverage with the following people:

- Allen Graham, Chief Executive;
- Katherine Marriott, Executive Manager - Operations and Transformation;
- Peter Linfield, Executive Manager - Finance and Corporate Services;
- David Banks, Executive Manager - Neighbourhoods; and
- David Mitchell, Executive Manager - Communities.

• Figure A: Audit considerations – sources considered when developing the Internal Audit Strategy.



Based on our understanding of the organisation, the information provided to us by stakeholders, and the regulatory requirements, we have developed an annual internal plan for the coming year and a high level strategic plan (see Section 2 and Appendix B for full details).

2. INTERNAL AUDIT PLAN 2019/20

The table below shows each of the reviews that we propose to undertake as part of the internal audit plan for 2019/20. The table details the strategic objectives which may warrant internal audit coverage. This review of your risks allows us to ensure that the proposed plan will meet the organisation's assurance needs for the forthcoming and future years. As well as assignments designed to provide assurance or advisory input around specific risks, the strategy also includes: time for tracking the implementation of actions and an audit management allocation.

Objective of the review (Strategic area)	Audit approach	Fee (Days)	Proposed timing	Proposed Corporate Governance Group
Finance and Corporate Services				
Corporate Governance Continued annual assurance, focussing on the governance structures in place, which will also consider the key elements of governance and the effectiveness and ability to react to and provide informed decision. We will also consider data access by Members including training provided to Members on data access requirements and systems in use.	Key Controls Compliance	6	Qtr 1	To be confirmed
Insurance To ensure that all adequate insurance arrangements are in place to cover the Council's operations and assets and that claims are processed appropriately.	Risk Based	6	Qtr 2	To be confirmed
Treasury Management, Cash and Banking This review will consider whether all investments and withdrawals made, and loans taken, are subject to appropriate approval. We will also review the controls in place surrounding the levels of cash held both in Council bank accounts and in other institutions, and how the Council ensures sufficient cash is available to meet its ongoing liabilities. We will also provide assurance over the Councils cash receipting and banking processes, allocations to customer accounts, and receipt of income in the Councils bank accounts.	Key Controls Compliance	10	Qtr 2	To be confirmed
Main Accounting We will seek to provide assurance surrounding the operations of the general ledger, and include a review of the processes, segregations and approvals relating to journals and virements, amendments to the chart of accounts, key reconciliations and the rolling forward of closing to opening balances.	Key Controls Compliance	6	Qtr 4	To be confirmed
Creditors and e-Procurement This audit will include whether Financial Procedure Rules and policies and procedures are being adhered to, that invoices are only paid when matched to an appropriately authorised	Key Controls Compliance	8	Qtr 2	To be confirmed

Objective of the review (Strategic area)	Audit approach	Fee (Days)	Proposed timing	Proposed Corporate Governance Group
purchase order, and goods are received prior to payments being made. This review will also review the process in place to ensure that supplier details are accurate.				
Payroll We will seek to provide assurance that the processes in place for new starters, leavers and contractual changes affecting the payroll are well designed and operatively effectively. We will also review the payment process and ensure all staff receive the statutory paperwork due to them. We will look to use data interrogation software to supplement our testing.	Key Controls Compliance	8	Qtr 3	To be confirmed
Housing Benefits We will undertake a review to ensure that applications received are done so in line with policy, procedure, and are subject to an independent check. We will also ensure that changes in circumstances are processed correctly and in a timely manner. We will also ensure that Officers are not able to work on their own accounts, and that an annual declaration is completed. We will also include a review of the interfaces between the Housing Benefits, Council Tax and Housing Ledger, and how these link to the general ledger.	Key Controls Compliance	8	Qtr 2	To be confirmed
Fraud – Annual Report To summarise the incidence of fraud and fraud prevention activities at the Council during the year.	Advisory	3	Qtr 4	To be confirmed
Operations and Transformation				
Business Support Unit To review the performance of the recently introduced central Business Support Unit to ensure there is internal and external customer satisfaction.	Risk Based	6	Qtr 1	To be confirmed
IT To review the processes employed by the Council for the management of risks in relation to the Council's IT network. It has been agreed with management that we will undertake one IT review during the year and exact scope to be agreed with management.	Risk Based	10	Qtr 3	To be confirmed
Property Leases / Rent	Risk Based	8	Qtr 4	To be confirmed

Objective of the review (Strategic area)	Audit approach	Fee (Days)	Proposed timing	Proposed Corporate Governance Group
To ensure the Council has in place adequate processes for managing its property portfolio. Our review will include: policies and procedures, determination and approval of rents/leases, application of approved rent/leases and the collection of income due.				
Communities				
Land Charges The focus of this review will be to ensure that there are adequate procedural documentation and records in place to ensure a smooth transition of responsibilities. To allow us to form our opinion we will ensure that appropriate arrangements are in place to maintain the Land Charges register up to date, and that all applications and searches are handled in line with procedure, the relevant fees are received and that joint working is undertaken with other key Council departments.	Risk Based	7	Qtr 2	To be confirmed
Building Control Rushcliffe Borough Council has a partnership arrangement in place with South Kesteven District Council to provide a Building Control service. This review will seek to provide assurance over this partnership working and contract management.	Risk Based	8	Qtr 3	To be confirmed
Neighbourhoods				
Enforcement – Statutory Nuisance To ensure that all decisions made by the Council enforcing courses of action in line with statutory and other legal requirements are monitored for compliance and that appropriate further action is taken where necessary.	Risk Based	8	Qtr 3	To be confirmed
Disabled Facilities Grants We will review applications for grants to ensure that they are processed in line with statutory responsibilities and internal policies and procedures. We will also review the use of, and payments to, contractors, and tenant / applicant contributions made to the total cost following the eligibility assessment. Finally, we will review the budget monitoring process in place, and the level of management information reported.	Risk Based	8	Qtr 3	To be confirmed
Garden Waste	Risk Based	7	Qtr 3	To be confirmed

Objective of the review (Strategic area)		Audit approach	Fee (Days)	Proposed timing	Proposed Corporate Governance Group
This review will ensure that operational procedures are fit for purpose and are complied with. We will also ensure that income is collected appropriately and accounted for.					
Other Internal Audit Activity					
Follow up	To meet internal auditing standards, and to provide assurance on action taken to address recommendations previously agreed by management.	-	8	Qtr 4	To be confirmed
Contingency	To allow additional reviews to be undertaken in agreement with the Corporate Governance Group or management based in changes in risk profile or assurance needs as they arise during the year.	-	5	As required	-
Management	This will include: • Annual planning; • Preparation for, and attendance at, Corporate Governance Group; • Regular liaison and progress updates; • Liaison with external audit and other assurance providers; and • Preparation of the annual opinion.	-	20	Throughout the Year	-

A detailed planning process will be completed for each review, and the final scope will be documented in an Assignment Planning Sheet. This will be issued to the key stakeholders for each review.

2.1 Working with other assurance providers

The Corporate Governance Group is reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not, seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers, such as external audit to ensure that duplication is minimised, and a suitable breadth of assurance obtained.

APPENDIX A: YOUR INTERNAL AUDIT SERVICE

Your internal audit service is provided by RSM Risk Assurance Services LLP. The team will be led by Chris Williams as your Head of Internal Audit, supported by Amjad Ali as your Senior Manager.

Fees

Our fee to deliver the plan is £48,750 (excluding VAT).

Core team

The delivery of the 2019/20 audit plan will be based around a core team. However, we will complement the team with additional specialist skills where required.

Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the Public Sector Internal Audit Standards (PSIAS).

Under PSIAS, internal audit services are required to have an external quality assessment every five years. Our risk assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the International Professional Practices Framework (IPPF) published by the Global Institute of Internal Auditors (IIA) on which PSIAS is based.

The external review concluded that ""there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Corporate Governance Group and the supporting working papers." RSM was found to have an excellent level of conformance with the IIA's professional standards.

The risk assurance service line has in place a quality assurance and improvement programme to ensure continuous improvement of our internal audit services. Resulting from the programme, there are no areas which we believe warrant flagging to your attention as impacting on the quality of the service we provide to you.

Conflicts of interest

We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards.

APPENDIX B: INTERNAL AUDIT STRATEGY 2019/20 – 2021/22

The table below shows an overview of the audit coverage to be provided through RSM's delivery of the internal audit strategy. This has been derived from the process outlined in Section 1 above, as well as our own view of the risks facing the sector as a whole.

	Assurance Provided
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance)					
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Finance and Corporate Services						
Corporate Governance				✓		✓
Insurance				✓		
Treasury Management, Cash and Banking				✓		✓
Main Accounting				✓	✓	✓
Creditors and e-Procurement				✓		✓
Payroll				✓	✓	✓
Housing Benefits				✓		✓
Fraud – Annual Report				✓	✓	✓
Council Tax					✓	
NNDR					✓	

Assurance Provided
Red - Minimal Assurance / Poor Progress
Amber/red - Partial Assurance / Little Progress
Amber/green - Reasonable Assurance / Reasonable Progress
Green - Substantial Assurance / Good Progress
Advisory / AUP
IDEA

Internal Audit – Third Line of Assurance

(Independent review / assurance)

Audit Area	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Contract Management					✓	
Allowances						
Business Continuity						
Asset Investment						✓
Income and Debtors					✓	
Budget Control and Setting			TBC		✓	
Operations and Transformation						
Business Support Unit				✓		
IT				✓	✓	✓
Property Leases / Rent				✓		
Economic Development						
Human Resources					✓	

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Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

	Internal Audit – Third Line of Assurance (Independent review / assurance)					
Audit Area	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Risk Management					✓	
Review of the Arena Project						
Procurement of IT Equipment						
General Data Protection Regulation (GDPR) Readiness						
Markets						✓
Health and Safety			TBC		✓	
Bingham Leisure Centre					✓	
Hybrid Mail / Printing						✓
Crematorium Project					✓	
Equality and Diversity					✓	
Public Sector Partnerships						✓

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Assurance Provided	
	Red - Minimal Assurance / Poor Progress
	Amber/red - Partial Assurance / Little Progress
	Amber/green - Reasonable Assurance / Reasonable Progress
	Green - Substantial Assurance / Good Progress
	Advisory / AUP
	IDEA

Internal Audit – Third Line of Assurance

(Independent review / assurance)

Audit Area	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Communities						
Land Charges				✓		
Building Control				✓		
Country Parks					✓	
Community Facilities						✓
Safeguarding			TBC			✓
Planning					✓	
S106 Agreements					✓	
Homelessness						✓
Neighbourhoods						
Enforcement – Statutory Nuisance				✓		
Disabled Facilities Grants				✓		✓

Assurance Provided
Red - Minimal Assurance / Poor Progress
Amber/red - Partial Assurance / Little Progress
Amber/green - Reasonable Assurance / Reasonable Progress
Green - Substantial Assurance / Good Progress
Advisory / AUP
IDEA

Audit Area	Internal Audit – Third Line of Assurance (Independent review / assurance)					
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Garden Waste				✓		
Licensing					✓	
Contract Management – Garages and Fleet						
Contract Management – Car Parking						
Pest and Dog Control					✓	
Other Internal Audit Activity						
Follow Up			TBC	✓	✓	✓
A Review of the Actions taken following NNDR Refund Fraud – August 2017 to October 2017						

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APPENDIX C: INTERNAL AUDIT CHARTER

Need for the charter

This charter establishes the purpose, authority and responsibilities for the internal audit service for Rushcliffe Borough Council. The establishment of a charter is a requirement of the Public Sector Internal Audit Standards (PSIAS) and approval of the charter is the responsibility of the Corporate Governance Group.

The internal audit service is provided by RSM Risk Assurance Services LLP ("RSM").

We plan and perform our internal audit work with a view to reviewing and evaluating the risk management, control and governance arrangements that the organisation has in place, focusing in particular on how these arrangements help you to achieve its objectives. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Core principles for the professional practice of internal auditing;
- Definition of internal auditing;
- Code of ethics; and
- The Standards.

Mission of internal audit

As set out in the PSIAS, the mission articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the mission.

"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

Independence and ethics

To provide for the independence of internal audit, its personnel report directly to Chris Williams, Partner (acting as your Head of Internal Audit). The independence of RSM is assured by the internal audit service reporting to the Chief Executive and Executive Manager – Finance & Corporate Services.

The Head of Internal Audit has unrestricted access to the chair of Corporate Governance Group to whom all significant concerns relating to the adequacy and effectiveness of risk management activities, internal control and governance are reported.

Conflicts of interest may arise where RSM provides services other than internal audit to Rushcliffe Borough Council. Steps will be taken to avoid or manage transparently and openly such conflicts of interest so that there is no real or perceived threat or impairment to independence in providing the internal audit service. If a potential conflict arises through the provision of other services, disclosure will be reported to the Corporate Governance Group. The nature of the disclosure will depend upon the potential impairment and it is important that our role does not appear to be compromised in reporting the matter to the Corporate Governance Group. Equally we do not want the organisation to be deprived of wider RSM expertise and will therefore raise awareness without compromising our independence.

Responsibilities

In providing your outsourced internal audit service, RSM has a responsibility to:

- Develop a flexible and risk based internal audit strategy with more detailed annual audit plans. The plan will be submitted to the Corporate Governance Group for review and approval each year before work commences on delivery of that plan.
- Implement the internal audit plan as approved, including any additional tasks requested by management and the Corporate Governance Group.
- Ensure the internal audit team consists of professional audit staff with sufficient knowledge, skills, and experience.
- Establish a quality assurance and improvement program to ensure the quality and effective operation of internal audit activities.
- Perform advisory activities where appropriate, beyond internal audit's assurance services, to assist management in meeting its objectives.
- Bring a systematic disciplined approach to evaluate and report on the effectiveness of risk management, internal control and governance processes.
- Highlight control weaknesses and required associated improvements together with corrective action recommended to management based on an acceptable and practicable timeframe.
- Undertake follow up reviews to ensure management has implemented agreed internal control improvements within specified and agreed timeframes.
- Report regularly to the Corporate Governance Group to demonstrate the performance of the internal audit service.

For clarity, we have included the definition of 'Internal Audit', 'Executive Management Team' and 'Cabinet'.

- Internal audit – a department, division, team of consultant, or other practitioner (s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
- Executive Management Team - who are the team of individuals at the highest level of organisational management who have the day-to-day responsibilities for managing the organisation.
- Cabinet - the highest level governing body charged with the responsibility to direct and/or oversee the organisation's activities and hold organisational management accountable. Furthermore, "Cabinet" may refer to a committee or another body to which the governing body has delegated certain functions (eg a Corporate Governance Group).

Client care standards

In delivering our services we require full cooperation from key stakeholders and relevant business areas to ensure a smooth delivery of the plan. We proposed the following KPIs for monitoring the delivery of the internal audit service:

- Discussions with senior staff at the client take place to confirm the scope four weeks before the agreed audit start date.
- Key information such as: the draft assignment planning sheet are issued by RSM to the key auditee four weeks before the agreed start date.
- The lead auditor to contact the client to confirm logistical arrangements at least 10 working days before the commencement of the audit fieldwork to confirm practical arrangements, appointments, debrief date etc.
- Fieldwork takes place on agreed dates with key issues flagged up immediately.
- A debrief meeting will be held with audit sponsor at the end of fieldwork or within a reasonable time frame.
- Draft reports will be issued within 10 working days of the debrief meeting and will be issued by RSM to the agreed distribution list / Sharefile.
- Management responses to the draft report should be submitted to RSM.
- Within three working days of receipt of client responses the final report will be issued by RSM to the assignment sponsor and any other agreed recipients of the report.

Authority

The internal audit team is authorised to:

- Have unrestricted access to all functions, records, property and personnel which it considers necessary to fulfil its function.
- Have full and free access to the Corporate Governance Group.
- Allocate resources, set timeframes, define review areas, develop scopes of work and apply techniques to accomplish the overall internal audit objectives.
- Obtain the required assistance from personnel within the organisation where audits will be performed, including other specialised services from within or outside the organisation.

The head of internal audit and internal audit staff are not authorised to:

- Perform any operational duties associated with the organisation.

- Initiate or approve accounting transactions on behalf of the organisation.
- Direct the activities of any employee not employed by RSM unless specifically seconded to internal audit.

Reporting

An assignment report will be issued following each internal audit assignment. The report will be issued in draft for comment by management, and then issued as a final report to management, with the executive summary being provided to the Corporate Governance Group. The final report will contain an action plan agreed with management to address any weaknesses identified by internal audit.

The internal audit service will issue progress reports to the Corporate Governance Group and management summarising outcomes of audit activities, including follow up reviews.

As your internal audit provider, the assignment opinions that RSM provides the organisation during the year are part of the framework of assurances that assist the Cabinet in taking decisions and managing its risks.

As the provider of the internal audit service we are required to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Cabinet is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The annual opinion will be provided to the organisation by RSM Risk Assurance Services LLP at the financial year end. The results of internal audit reviews, and the annual opinion, should be used by management and the Cabinet to inform the organisation's annual governance statement.

Data protection

Internal audit files need to include sufficient, reliable, relevant and useful evidence in order to support our findings and conclusions. Personal data is not shared with unauthorised persons unless there is a valid and lawful requirement to do so. We are authorised as providers of internal audit services to our clients (through the firm's terms of business and our engagement letter) to have access to all necessary documentation from our clients needed to carry out our duties.

Quality Assurance and Improvement

As your external service provider of internal audit services, we have the responsibility for maintaining an effective internal audit activity. Under the standards, internal audit services are required to have an external quality assessment every five years. In addition to this, we also have in place an internal quality assurance and improvement programme, led by a dedicated team who undertake these reviews. This ensures continuous improvement of our internal audit services.

Any areas which we believe warrant bringing to your attention, which may have the potential to have an impact on the quality of the service we provide to you, will be raised in our progress reports to the Corporate Governance Group.

Fraud

The Corporate Governance Group recognises that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Corporate Governance Group recognises that internal audit is not responsible for identifying fraud; however internal audit will be aware of the risk of fraud when planning and undertaking any assignments.

Approval of the internal audit charter

By approving this document, the internal audit strategy, the Corporate Governance Group is also approving the internal audit charter.

FOR FURTHER INFORMATION CONTACT

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Corporate Governance Group

7 February 2019

Capital and Investment Strategy 2019/20

Rushcliffe
Borough Council

Report of the Executive Manager – Finance and Corporate Services

1. **Purpose of report**

1.1 The purpose of this report is to provide members with details of the Capital and Investment Strategy for 2019/20 to 2023/2 focusing on both traditional treasury activity and the Council's commercial property investments.

1.2 The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.

1.3 In 2018 revised guidance was issued by MHCLG on Local Authority Investments. In addition the CIPFA Prudential Code and CIPFA Treasury Code were updated in December 2017.

1.4 The objectives of the CIPFA Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with the treasury management strategy.

1.5 The Capital and Investment Strategy 2018/19 reflects the changes in Government Guidance and CIPFA Treasury and Prudential Codes.

2. **Recommendations**

2.1. It is recommended that the Corporate Governance Group scrutinise the following for approval by Full Council:

- The Capital strategy and Prudential Indicators and Limits for 2019/20 to 2023/24 contained within Appendix A (paragraphs 5 to 13) of the report.
- The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 19) which sets out the Council's policy on MRP.
- The Treasury Management Strategy 2019/20 to 2023/24 and the Treasury Indicators contained within Appendix A (paragraphs 20 to 63).
- The Commercial Investments Indicators and Limits for 2019/20 to 2023/24 contained within Appendix A (paragraphs 64 to 77)

3. Reasons for Recommendation

3.1 To comply with Council Financial Regulations, and the Local Government Act 2003 which requires the Council to adhere to the CIPFA Prudential Code for Capital Finance in Local Authorities.

4. Supporting Information

Capital Prudential Indicators

4.1 Appendix A (paragraphs 5 to 13) of this report details the Capital Strategy and Capital prudential Indicators for 2019/20 to 2023/24.

4.2 The Capital prudential Indicators highlight the following:

- Projected capital expenditure plans and funding;
- The Council's Borrowing Need (the Capital Financing Requirement CFR);
- The on-going impact of the capital programme on the investment balance.

Minimum Revenue Provision Policy

4.3 Appendix A (paragraph 19) contains the Minimum Revenue Provision (MRP) Policy Statement, which details the methodology used to calculate the charge to the revenue account for the cost of borrowing to fund capital expenditure.

4.4 The Government Guidance and the Council's MRP Policy includes limits to the period over which the cost of borrowing can be recovered from the revenue account (a maximum of 40 and 50 years respectively for property and land).

Treasury Management Strategy

4.5 Appendix A (paragraph 20) details the Treasury Management Strategy which covers:

- The current economic climate and prospects for interest rates;
- The Council's debt and investment projections;
- The limits and prudence of future debt levels;
- The affordability impact of the capital programme;
- The Council's borrowing and investment strategies;
- Specific limits on treasury activities; and
- Any local treasury issues.

Commercial Investments

4.6 The revised definition of investments in the CIPFA Treasury Code includes assets which the organisation holds primarily for financial returns, such as investment property portfolios.

4.7 Appendix A (Paragraphs 64 to 77) details the appraisal techniques used to assess commercial investments, and provides a risk assessment of the level of commercial investments by identifying:

- The limit on the Council's dependency on commercial income
- How risk is spread across;
  - The size of individual investments
  - The commercial sectors the Council's investments are spread across

Conclusion

4.8 The Capital Prudential Indicators and Treasury Management Strategy give both a position statement and details of the future position of the Council's Capital, Commercial Investment and Treasury plans. The documents comply with best professional practice and as such are recommended for approval by Full Council.

5 Other Options Considered

5.1 There are no other options

6 Risk and Uncertainties

6.1 The report identifies the risks relating to interest rates, use of counterparties for investments and the returns from commercial investments, particularly in the light of prevailing uncertainty in the global financial markets.

7 Implications

7.1 Finance

Financial implications are covered in the body of the report.

7.2 Legal

None.

7.3 Corporate Priorities

Efficient treasury management enables the Council to achieve its Corporate Priorities.

7.4 Other Implications

None.

8 Recommendations

It is recommended that the Corporate Governance Group scrutinise the following for approval by Full Council:

- The Capital strategy and Prudential Indicators and Limits for 2019/20 to 2023/24 contained within Appendix A (paragraphs 5 to 13) of the report.
- The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 19) which sets out the Council's policy on MRP.
- The Treasury Management Strategy 2019/20 to 2023/24 and the Treasury Indicators contained within Appendix A (paragraphs 20 to 63).
- The Commercial Investments Indicators and Limits for 2019/20 to 2023/24 contained within Appendix A (paragraphs 64 to 77)

For more information contact:	Name: Peter Linfield Executive Manager (Finance and Corporate Services) 0115 914 8439 Email plinfield@rushcliffe.gov.uk
Background papers available for inspection	Council Financial Regulations Treasury Management in the Public Services: Code of Practice (CIPFA) The Prudential Code for Capital Finance in Local Authorities (CIPFA) Guidance on Local Government Investments (CLG) Statutory Guidance on Minimum Revenue Provision (CLG)
List of Appendices (if any):	Appendix A – Capital and Investment Strategy 2019/20 – 2023/24

CAPITAL AND INVESTMENT STRATEGY 2019/20 – 2023/24

Introduction

1. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out capital and treasury management activities.

2. The Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in February last year that requires the Council to approve an investment strategy before the start of each financial year.

3. This revised guidance, which is effective for financial years commencing on or after 1 April 2018,focuses on:

   a) MRP and restrictions relating to its calculation
   b) Assets held by the organisation primarily for financial returns, such as investment property portfolios

4. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

The Capital Strategy

5. The Council's capital expenditure plans are summarised below and forms the first of the prudential indicators. Capital expenditure needs to have regard to:

   - Corporate objectives (e.g. strategic planning);
   - Stewardship of assets (e.g. asset management planning);
   - Value for money (e.g. option appraisal);
   - Prudence and sustainability (e.g. implications for external borrowing and whole life costing);
   - Affordability (e.g. implications for council tax); and
   - Practicability (e.g. the achievability of the Corporate Plan)

6. Each year the Council will produce a Capital Programme to be approved by Full Council in March as part of the Council Tax setting.

7. Each scheme is supported by a detailed appraisal, as set out in the Council's Financial Regulations. The capital appraisals will address the following:
   a) A detailed description of the project;
   b) How the project contributes to the Council's aims and objectives;
   c) Anticipated outcomes;
   d) A consideration of alternative solutions;
   e) An estimate of the capital costs and sources of funding;

f) An estimate of the revenue implications, including any savings and/or future income generation potential;

g) Any other aspects relevant to the appraisal of the scheme as the S151 Officer may determine.

The appraisal requirement applies to all schemes except where there is regular grant support and if commercial negatiations are due to take place and further reporting to Cabinet or Full Council is therefore required.

8. From time to time unforeseen opportunities may arise, or new priorities may emerge, which will require swift action and inclusion in the Capital Programme. These schemes are still subject to the appraisal process and the Capital Programme will contain a contingency sum to allow such schemes to progress without disrupting other planned capital activity.

Capital Prudential Indicators

a) Capital Expenditure Estimates

9. Capital expenditure can be financed immediately through the application of capital resources, for example, capital receipts, capital grants or revenue resources. However, if these resources are insufficient or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need. Table 1 summarises the capital expenditure projections and anticipated financing.

Table1: Projected Capital Expenditure and Financing

	2018/19 Estimate £'000	**2018/19 Revised £'000**	**2019/20 Estimate £'000**	**2020/21 Estimate £'000**	**2021/22 Estimate £'000**	**2022/23 Estimate £'000**	**2023/24 Estimate £'000**
Capital Expenditure	11,906	16,258	16,506	19,829	7,874	1,574	1,967
Less Financed by:							
Capital Receipts	5,995	9,789	4,414	12,004	5,506	947	1,340
Capital Grants/ Contributions	1,009	2,845	2,439	2,532	1,577	577	577
Reserves	370	600	50	70	50	50	50
Underlying need to Borrow	**4,532**	**3,024**	**9,603**	**5,223**	**741**	**-**	**-**

10. The key risks to the capital expenditure plans are that the level of grants estimated is subject to change, anticipated capital receipts are not realised in the medium term and the impact of the changes to New Homes Bonus.

b) The Council's Underlying Need to Borrow and Investment position

11. The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow for capital expenditure. This underlying need to borrow will increase the CFR (i.e. the use of internal borrowing, which reduces our investment balance). This increase is offset by MRP raised through Council Tax, as a result of financing requirements in relation to the Arena development, and in later years Bingham Leisure Hub.

12. The Council also holds usable reserves and working capital which represent the underlying resources available for investment. The Council's current strategy is to use these resources to avoid borrowing, sometimes known as internal borrowing.

13. The table below summarises the overall position with regard to borrowing and available investments:

Table 2: CFR and Investment Resources

	2018/19 Estimate £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000
Opening CFR	9,300	11,324	19,927	24,150	23,817	22,508
CFR in year	3,024	9,603	5,223	741	-	-
Less: MRP etc	(1,000)	(1,000)	(1,000)	(1,074)	(1,309)	(1,309)
Closing CFR	**11,324**	**19,927**	**24,150**	**23,817**	**22,508**	**21,199**
Less: External Borrowing	-	-5,000	-9,793	-9,586	-9,171	-8,756
Internal Borrowing	11,324	14,927	14,357	14,231	13,337	12,443
Less:						
Usable Reserves	-16,830	-15,421	-16,114	-16,805	-18,970	-20,555
Working Capital	-12,000	-12,000	-12,000	-12,000	-12,000	-12,000
Available for Investment(-)	-17,506	-12,494	-13,757	-14,574	-17,633	-20,112

The Council is currently debt free although there is an underlying assumption in the capital expenditure plans that the Council may need to externally borrow £5 million in both 2019-20 and 2020-21. Available resources (Usable reserves and working capital) are forecast to fall initially, as usable reserves are used to finance both capital and revenue expenditure over time.

The total amount borrowed will not exceed the authorised borrowing limit of £25m. The maximum period between borrowing and expenditure is expected to be 2 years, although the Authority is not required to link particular loans with particular items of expenditure.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Authority expects to comply with this recommendation.

Minimum Revenue Provision Policy

19. Revised CLG Regulations have been issued which require the Corporate Governance Group to consider a Minimum Revenue Provision (MRP) Statement in advance of each year. Further commentary regarding financing of the debt is provided within the Treasury Management Strategy Statement (paragraphs 29-35). A variety of options are provided to Councils, so long as there is prudent provision. The Council has chosen the Asset Life Method (Option 3 within the Guidance) with the following recommended MRP Statement:

- *MRP will be based on the estimated life of the assets, in accordance with Option 3 of the regulations. Estimated life periods within this limit will be determined under delegated powers, subject to any statutory override. (DCLG revised guidance states maximum asset lives of 40 and 50 years for property and land respectively)*

  As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

  This option provides for a reduction in the borrowing need over approximately the asset's life.

Treasury Management Strategy 2019/20 to 2023/24

20. The CIPFA Treasury Management Code defines treasury management activities as:

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

    The code also covers non-cash investments which is covered at paragraph 65 below.

21. The CIPFA Code of Practice for Treasury Management in the Public Services (the "CIPFA Treasury Management Code") and the CIPFA Prudential Code require local authorities to produce a Treasury Management Strategy Statement on an annual basis.

22. This Strategy Statement includes those indicators that relate to the treasury management functions and help ensure that the Council's capital investment plans are affordable, prudent and sustainable, while giving priority to the security and liquidity of those investments.

The Current Economic Climate and Prospects for Interest Rates.

23. The major external influence on the Authority's treasury management strategy for 2019/20 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy remains relatively robust, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years.

24. Economic growth is projected to remain modest at 1.4% in 2018 and 1.3% in 2019, owing to high uncertainties about the outcome of Brexit negotiations. There is little slack in the economy following years of strong growth, and unemployment is projected to remain below 5%.

25. The Bank of England base rate informs the rates than can be obtained on investments. On 2nd August 2018 the Monetary Policy Committee increased the Bank rate by 0.25% to 0.75%. Arlingclose (the Council's Treasury Management advisors) expect the Bank rate to increase to 1.25% over the coming year, but point out that negotiations on exiting the EU continues to cast a shadow over monetary policy decisions.

26. The table below shows the assumed average interest (which reflects a prudent approach) that will be made over the next five years for budget setting purposes.

Table 3: Budgetary Impact of Assumed Interest Rate Going Forward

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Anticipated Interest Rate (%)	0.75	0.75	1.00	1.00	1.25
Expected interest from investments (£)	201,300	186,700	213,800	232,400	292,200
Other interest (£)	83,700	80,000	77,000	74,000	71,000
Total Interest (£)	**285,000**	**266,700**	**290,800**	**306,400**	**363,200**

27. As previously reported in the event that a bank suffers a loss the Council could be subject to bail-in to assist with the recovery process. The impact of a bail-in depends on the size of the loss incurred by the bank or building society, the amount of equity capital and junior bonds that can be absorbed first and the proportion of insured deposits, covered bonds and other liabilities that are exempt from bail-in.

28. The Council has managed bail-in risk by both reducing the amount that can be invested with each institution to £5 million and by investment diversification. There are also proposals for EU regulatory reform to Money Market Funds which could result in these funds moving to variable net asset value and losing their credit ratings. Diversification of investments between creditworthy counterparties to mitigate bail-in risk will become even more important with these developments.

Borrowing Strategy 2019/20 to 2023/24

Prudential Indicators for External Debt

29. Table 2 above identifies that the Council may need to externally borrow over the MTFS if it is not possible to internally borrow. This would result in borrowing costs. Possible levels of external borrowing are reflected in the figures.

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

- Internal borrowing
- Public Works Loan Board (or the body that will replace the PWLB in the future)
- Local authorities
- UK public and private sector pension funds
- Commercial banks
- Building Societies in the UK
- Money markets
- Leasing
- Capital market bond investors
- Special purpose companies created to enable local authority bond issue

a) Authorised Limit for External Debt

31. The authorised limit is the “affordable borrowing limit” required by section 3 (1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It shows the maximum amount the Council could afford to borrow in the short term to maximise treasury management opportunities and either cover temporary cash flow shortfalls or use for longer term capital investment.

Table 4: The Authorised Limit

	2018/19 Estimate £’000	2019/20 Estimate £’000	2020/21 Estimate £’000	2021/22 Estimate £’000	2022/23 Estimate £’000	2023/24 Estimate £’000
Authorised Limit	25,000	25,000	25,000	25,000	25,000	25,000

b) Operational Boundary for External Debt

32. The operational boundary is the expected borrowing position of the Council during the course of the year. The operational boundary is not a limit and actual borrowing can be either below or above the boundary subject to the authorised

limit not being breached. The Operational Limit has been set at £20,000 as the Council is expected to borrow over the period of the MTFS.

Table 5: The Operational Boundary

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Operational Boundary	0	20,000	20,000	20,000	20,000	20,000

Prudential Indicators for Affordability

33. Affordability indicators provide details of the impact of capital investment plans on the Council's overall finances.

a) Actual and estimates of the ratio of net financing costs to net revenue stream

34. This indicator identifies the trend in net financing costs (borrowing costs less investment income) against net revenue income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs (a credit indicates interest earned rather than cost) is changing over time. The trend below is consistent with the fact that our investments will decline due to the investment in the Arena Redevelopment, the Asset Investment Strategy and our other capital commitments; as will the Councils net budget.

Table 6: Proportion of Financing Costs to Net Revenue Stream

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund	6.89%	6.88%	8.52%	9.83%	11.35%	11.00%

Investment Strategy 2018/19 to 2022/23

35. The movement in investments per Table 2 above are as follows:

Table 7: Investment Projections

£'000	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Investments at 31 March	17,506	12,494	13,757	14,574	17,633	20,112

36. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return. The Council'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 unsuitable low investment income. Accordingly, the Council ensures that robust due diligence procedures cover all external investment.

37. The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole of the Council's inflation exposures.

38. The Council will invest its surplus funds with approved counterparties. Where appropriate, the Council is registered as a professional client (under "MIFID II") with the counterparty limits shown below in Table 8 and counterparties included at Appendix B:

Table 8: Counterparty Details

Credit Rating	Banks* Unsecured	Banks* Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 Years	n/a	n/a
AAA	£3.0m 5 years	£5.0m 20 years	£5.0m 50 years	£3.0m 20 years	£3.0m 20 years
AA+	£3.0m 5 years	£5.0m 10 years	£5.0m 25 years	£3.0m 10 years	£3.0m 10 years
AA	£3.0m 4 years	£5.0m 5 years	£5.0m 15 years	£3.0m 5 years	£3.0m 10 years
AA-	£3.0m 3 years	£5.0m 4 years	£5.0m 10 years	£3.0m 4 years	£3.0m 10 years
A+	£3.0m 2 years	£5.0m 3 years	£5.0m 5 years	£3.0m 3 years	£3.0m 5 years
A	£3.0m 13 months	£5.0m 2 years	£5.0m 5 years	£3.0m 2 years	£3.0m 5 years
A-	£3.0m 6 months	£5.0m 13 months	£5.0m 5 years	£3.0m 2 years	£3.0m 5 years
None	£1.0m 6 months	n/a	£5.0m 25 years	£3.0m 5 years	£3.0m 5 years
Pooled Funds**	£5m per fund				

*Banks includes Banks and Building Societies.

**Pooled funds do not have a defined maturity date. Monies in Money Market Funds can be withdrawn on the same date; monies in other pooled funds can be withdrawn giving the requisite notice, generally between 1 and 7 days.

**Pooled funds includes monies in the CCLA Property Fund which can be withdrawn on each monthly redemption date, if required; it is the Council's intention to hold its investment over a reasonable time frame for property investments, which is 5 years, subject to cash flow requirements.

39. Although the above table details the counterparties that the Council could invest funds with it would not invest funds with counterparties against the advice of Arlingclose even if they met the criteria above.

40. Changes to any of the above can be authorised by the Section 151 Officer or the Financial Services Manager and thereafter will be reported to the Corporate Governance Group. This is to cover exceptional circumstances so that instant decisions can be made in an environment which is both fluid and subject to high risk.

41. 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 £2,000,000 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.

42. Credit rating information is provided by Arlingclose on all active counterparties that comply with the criteria above. A counterparty list will be maintained from this information and any counterparty not meeting the criteria will be removed from the list.

43. 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 all other existing investments with the affected counterparty.

44. 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.

Credit Risk

45. The CIPFA Treasury Management Code recommends that organisations should clearly specify the minimum acceptable credit quality of its counterparties; however they should not rely on credit ratings alone and should recognise their limitations. 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 and reports in the quality financial press. No investments will be made with an organisation if there are substantial doubts about its credit quality, even though it may meet the credit rating criteria.

46. 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.

Current investments

47. The Council uses its own processes to monitor cashflow and 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

48. Surplus funds are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain the maximum benefit from the Council's cash position throughout the year. Funds are separated between specified and non-specified investments as detailed below.

Specified investments

49. The CLG guidance defines specified investments as those:

- Denominated in pound sterling,
- Due to be repaid within 12 months of arrangements,
- Not defined as capital expenditure by legislation, and
- Invested with one of:
  - The UK Government
  - A UK local authority, parish council, or community council, or
  - A body or investment scheme of "high credit quality"

50. The Council now defines "high credit quality" organisations as those having a credit rating of A-and above.

Non-specified investments

51. Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and scheme not meeting the definition on high credit quality. Limits on non-specified investments are shown in the following table:

Table 9: Non-specified Investment Limits

	Cash Limit
Total long-term investments	£15m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£3m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£3m
Total non-specified investments	£15m

Investment Limits

52. The Authority’s revenue reserves available to cover investment losses in a worst case scenario are forecast to be £12.6 million on 31st March 2020. In order that no more than 40% 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) will be £5.0 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.

Table 10: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£7.5m per manager
Negotiable instruments held in a broker’s nominee account	£7.5m per broker
Foreign countries	£3m per country
Registered providers	£7.5m in total

Unsecured investments with any building society	£3m in total
Loans across unrated corporates	£5m in total
Money Market Funds	£25m in total

Treasury Management limits on activity

53. The Council measures and manages its exposures to treasury management risks using the following indicators.

a) Interest Rate Exposures

54. This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net interest payable will be:

Table 11: Interest Rate Exposure

	2019/20	2020/21	2021/22	2022/23	2023/24
Upper Limit on fixed interest rate exposure	50%	50%	50%	50%	50%
Upper Limit on variable interest rate exposure	100%	100%	100%	100%	100%

55. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Principal Sums Invested over 1 year

56. This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. The limits on the long term principle sum invested to final maturities beyond the period end are set at 50% of the sum available for investment (to the nearest £100k), as follows:

Table 12: Principal Sums Invested over 1 year

	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Limit on Principal invested beyond year end	11,800	6,800	5,100	5,600	7,400	8,800

Policy on the use of financial derivatives

57. 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).

58. The Council 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.

59. 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.

Treasury Management Advisors

60. The Council uses Arlingclose as its treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters and capital finance issues
- Economic and interest rate analysis
- Generic investment advice on interest rates, timing and investment instruments; and
- Credit ratings/market information service comprising the three main credit rating agencies.

61. Whilst the treasury management advisors provide support to the internal treasury function, the current market rules and the CIPFA Treasury Management Code confirms that the final decision on treasury management matters rests with the Council. The service provided by the Council's treasury management advisors is subject to regular review.

Member and Officer Training

62. The increased member consideration of treasury management matters and the need to ensure that officers dealing with treasury management are trained and kept up to date requires a suitable training process for members and officers. In general, members training needs are reported through the Member Development Group, however, the Council will also specifically address this important issue by:

- Periodically facilitating workshops for members on finance issues;
- Interim reporting and advising members of Treasury issues via CGG;

- Identifying officer training needs on treasury management related issues through the Performance Development and Review appraisal process;

With regards to officers:

- Attendance at training events, seminars and workshops; and
- Support from the Council's treasury management advisors.

Other Options Considered

63. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Manager – Finance and Corporate Services, having consulted the Cabinet Member for Finance, 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

Commercial Investments

64. The definition of investments in CIPFA's definition of treasury management activities above (paragraph 20) covers all financial assets of the organisation as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework, which is outlined below.

65. The Council is committed to becoming self-sustainable as Central Government funding reduces. This includes ensuring that the Council maximises any income from existing assets and, where there is a business case, invests in assets where there is a commercial return. The Council is holding significant capital funding resources although going forward it may need to undertake borrowing. Current resources are invested with various financial institutions in line with the Treasury Management Strategy. However, other investments represent an opportunity to generate higher returns on these funds.

66. In recent years the Council identified specific sums for its Asset Investment Strategy (AIS) within the Capital Programme which has totalled £20m and

includes commercial investment in areas such as investment in property and subsidiaries, or loans that support service outcomes.

67. The Council will maintain a summary of current material investments, subsidiaries, joint ventures and liabilities, including financial guarantees and the organisation's risk exposure. The current summary is included at Appendix C.

68. Individual commercial investment proposals included within the Asset Investment Strategy are subject to specific business appraisals. The governance surrounding such decisions is included in the AIS. As well as considering the Net Present Value, Internal Rate of Return and impact on the General Fund of any commercial investment proposals, the decision to invest also takes into account the following assessment matrix:

ASSESSMENT CRITERIA	Excellent / very good	Good	Satisfactory	Marginal	Uncertain
Tenancy strength	Multiple tenants with strong financial covenant	Single tenant with strong financial covenant	Single or multiple tenants with good financial covenant	Tenants with average financial covenant	Tenants with poor financial covenant strength
Lease length and break (for main tenants/income)	>15 years	11 - 15 years	10 - 8 years (10 year lease)	7 - 5 years (5 year break)	<5 years or vacant (break Dec 2021 &
Rate of Return - % rent against capital	>8%	7%-8%	5%-7%	3%-5%	<3%
Portfolio mix (asset type is balanced in portfolio - no more than x% of	<50%	50%-60%	>60%-70%	70%-80%	>80% of portfolio
Property Sector & Risk	Industrial (lower risk)	Office (lower-mid risk)	Warehouse Retail (med risk)	Retail, Leisure (higher risk)	Residential (not part of investment strategy)
Void (after Lease end including marketing, fit out and rent free)	0-9 months	9-12 months	12-18 months	18-24 months	>24 months
Location	Prime	Not prime but in established location	Secondary	Remote from other developments	Isolated, undeveloped area, limited infrastructure links
Tenure	Freehold	Lease >200 years	Lease 100 - 199 years	Lease 75 - 99 years	Lease <75 years
Repairing terms links to Building quality	Full repairing & insuring	Interal repairing 100% recoverable	Internal repairing partially recoverable	Internal repairing non recoverable	Landlord
Building Quality/Age	<10 years	10-20 years	21-30	31-35	>35
Rental Growth	within 1 year	within 2-5 years	within 5-7 years	within 7-10 years	>10 years
Purchase Price	<£2m	Between £2m and £3m	Between £3m and £4m	Between £4m and £7m	>£7m
Proximity to Borough	within Borough	within Nottinghamshire	within East Midlands	within the Midlands	National
Energy Rating (2018 legislation can't let with F/G assessment)	A/B	C	D	E	F/G

69. To be considered for investment 50% of the criteria above must be excellent, good or satisfactory.

70. The matrix above is supplemented by additional contextual information covering resale opportunities (liquidity), location, risks, benefits and economic conditions.

71. The Government has issued revised guidance on Local Government Investments, effective from April 2018. This guidance introduces additional disclosure requirements some of which are specific to investments of a commercial nature. These disclosures and indicators cover items included in the Council's Asset Investment Strategy, as well as pre-existing commercial investments and are detailed below:

a. **Dependence on commercial income and contribution non-core investments make towards core functions**

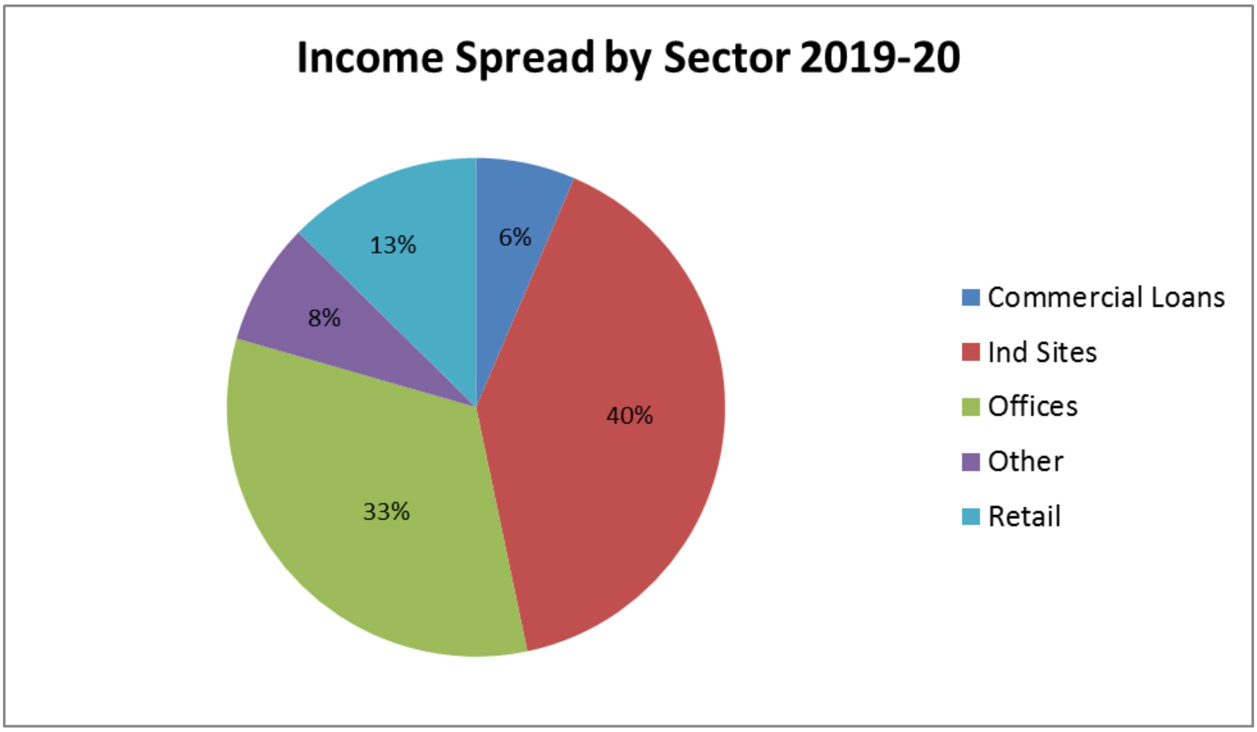
72. The expected contributions from commercial investments included in the Asset Investment Strategy are shown in Table 13. In order to manage the risk to the Council's budget, income from commercial investments should not be a significant proportion of the Council's income. Our objective is that this ratio should not exceed 30%, subject to annual review (as demonstrated below).

Table 13: Commercial Investment income and costs

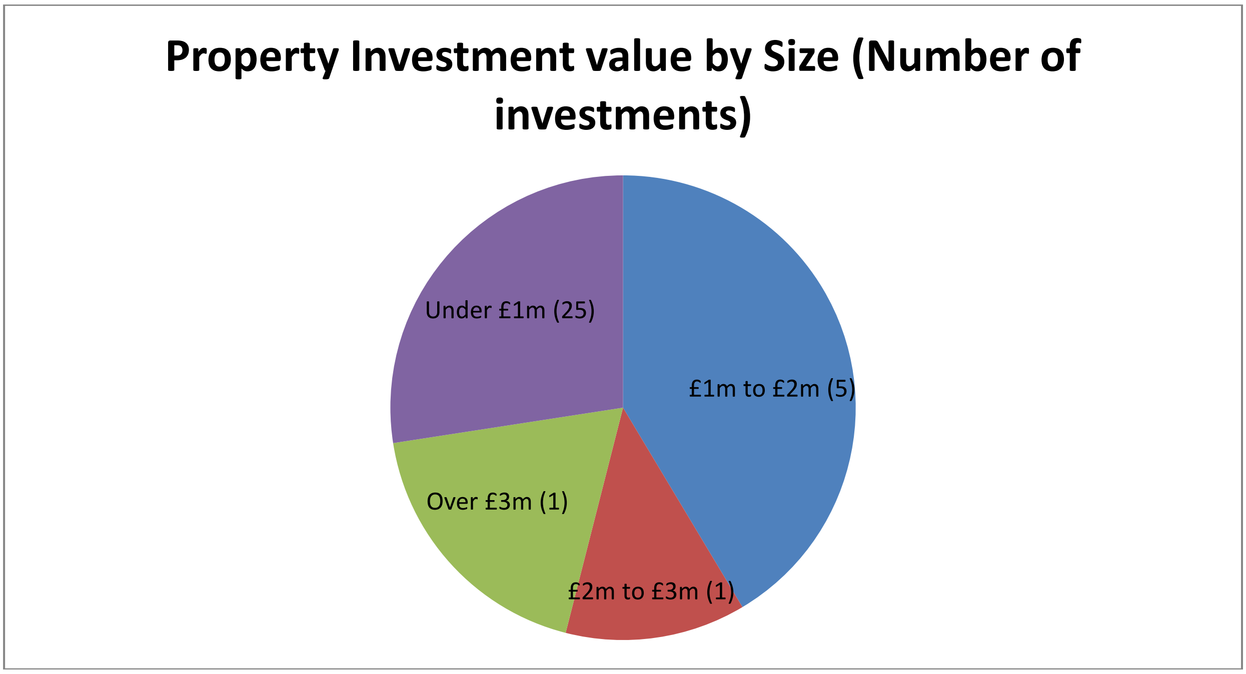
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Commercial Property Income	(1,481)	(1,758)	(2,303)	(2,410)	(2,451)
Running Costs	341	321	321	321	321
Net Contribution to core functions	(1,140)	(1,437)	(1,982)	(2,089)	(2,130)
Interest from Commercial Loans	(84)	(80)	(77)	(74)	(71)
Total Contribution	(1,224)	(1,517)	(2,059)	(2,163)	(2,201)
Sensitivity:					
+/- 10% Commercial Property Income	148	176	230	241	245
Indicator:					
Investment Income as a % of total Council Income	20.4%	23.4%	28.4%	29.3%	29.5%

b) Risk Exposure Indicators

73. The Council can minimise its exposure to risk by spreading investments across sectors and by avoiding single large scale investments. Generally there is a spread of investment across sectors. The Council's commitment to economic regeneration (not purely financial return) has meant that many of its investments have been in industrial units, which have been very successful.



c) Security and Liquidity



74. Commercial investments are held for longer term asset appreciation as well as yield. Investments or sales decisions will normally be planned as part of the consideration of the 5 year capital strategy to maximise the potential return. Nevertheless, the local and national markets are monitored to ensure any gains are maximised or losses minimised.

75. To help ensure asset values are maintained the assets are given quarterly inspections, together with a condition survey every 3 years. Any works required to maintain the value of the property will then form part of Council's spending plans.

76. The liquidity of the assets is also dependent on the condition of the property, the strength of the tenants and the remaining lease lengths. The Council keeps these items under review with a view to maximising the potential liquidity and value of the property wherever possible.

77. The liquidity considerations for commercial investments are intrinsically linked to the level of cash and short term investments, which help manage and mitigate the Council's liquidity risk.

Counterparty Registrations under MIFID II

The Council is registered with the following regulated financials services organisations who may arrange investments with other counterparties with whom they have themselves registered:

- BGC Brokers LP
- Royal London Asset Management
- Tradition Uk Ltd
- King & Shaxson
- Aberdeen Asset Management
- Aviva
- Institutional Cash Distributors Ltd
- Federated Investors (UK) LLP
- NEX Treasury
- Invesco Asset Management Ltd
- CCLA
- Goldman Sachs Asset Management
- Black Rock
- HSBC Asset Management

Existing Material Investments

	Book Value £000
The Point Office Accommodation	3.200
Colliers Business Park Phase 2	1.200
Bridgford Hall Aparthotel and Registry Office	1.300
Hollygate Lane, Cotgrave Industrial Units	2.421
Bardon Single Industrial Unit	1.800
Bingham Land off Chapel Lane	1.593
New Offices Cotgrave	1.080
Cotgrave Precinct	1.080
Trent Boulevard	1.445
Finch Close	0.925
TOTAL INVESTMENT PROPERTY*	**16.044**
Notts County Cricket Club Loan	2.700
TOTAL	**18.744**

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Corporate Governance Group

7 February 2019

Revenue and Capital Budget Monitoring 2018/19 – Quarter 3 Financial Update

Rushcliffe Borough Council

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

1.1. This report presents the budget position for revenue and capital as at 31 December 2018 along with the appropriate recommendations for referral to Cabinet. Given the current financial climate, it is imperative that the Council maintains due diligence with regards to its finances and ensures necessary action is taken to maintain a robust financial position.

1.2. The revenue financial position has moved from a relatively small adverse variance to £1.01m favourable variance. This is due to largely to three one-off 'windfall' items of income. The position on planning income has improved linked to housing growth within the Borough, contributing towards the £406k positive service position. Business Rates Income has also increased by £455k as a result of 100% receipt in renewable energy business rates; and there is £127k as a result of the 2018/19 surplus on the Nottinghamshire business rates pool. The overall position of a £1.007m favourable variance represents a -9.63% variation against the net expenditure budget.

1.3. This has resulted in an increase to the amount expected to be transferred to reserves to £2.09m which is £313k more than the original budget or 17.6%. This is to be used to mitigate future deficits on the collection fund and the impact of any future risks associated with changes to the retention of Business Rates and Fairer Funding expected in 2020/21, consistent with the MTFS.

1.4. The capital programme shows a planned underspend of £12.698m due to reasons such as a 'slow down' in asset investment (with there being much property market risk) and the decision to no longer build a replacement Depot.

2. Recommendation

2.1 It is RECOMMENDED that the Corporate Governance Group forward the report for Cabinet approval noting:

a) the projected revenue position for the year with a -9.63% variation (£1.007m) in the revenue position; and

b) the capital underspend of £12.698m as a result of capital scheme re-phasing and projected savings.

3. Reasons for Recommendation

3.1. To demonstrate good governance in terms of scrutinising the Council's on-going financial position and compliance with Council Financial Regulations.

4. Supporting Evidence

Revenue Monitoring

4.1 The revenue monitoring statement by service area is attached at **Appendix A** with detailed variance analysis as at 31 December 2018 attached at **Appendix B**. The overall £1.007m variation represents -9.63% against the net expenditure budget and we currently anticipate £2.09m to be transferred to reserves, to meet, in particular business rates risk going forward (see paragraph 5.3). Reasons for this include additional income from planning applications (£275k) and an improved position on Business Rates (£455k) as a result of a renewable energy asset for which 100% business rates is retained by the Council (notified by the Valuation Office in Quarter 3).

4.2 The Nottinghamshire Business Rates Pool has an uncommitted surplus. The Nottinghamshire Chief Executives agreed that the surplus for 2017/18 business rates pool should be shared proportionately according to the pool contributions made towards the surplus by each Council. For Rushcliffe this amounts to £127k. This will help support our strategic growth and economic development initiatives.

4.3 **Appendix A** includes a Minimum Revenue Provision (MRP) of £1m. This is a provision that the Council is required to make each year to cover the internal borrowing costs for the Arena which will be funded by the New Homes Bonus.

4.4 As documented at **Appendix B,** the financial position to date reflects a number of positive variances totalling £1,235k including a steady rise in income from planning applications (stated above), rental income on investment properties, additional grant income and salary savings. There are several adverse variances totalling £829k including Planning public inquiries, the rising costs of diesel, and an increase in the Streetwise Contract (mainly due to flytipping).

4.5 The overall position may still change in the final quarter of 2018/19 as managers continue to drive cost savings, and raise income, against existing budgets

Capital Monitoring

4.6 The updated Capital Programme monitoring statement as at 31 December 2018 is attached at **Appendix C.** This provides further details about the progress of the schemes, any necessary re-phasing and highlights savings of £12.698m A summary of the projected outturn and funding position is shown in the table:

CAPITAL PROGRAMME MONITORING - DECEMBER 2018			
EXPENDITURE SUMMARY	**Current**	**Projected**	**Projected**
	Budget	**Actual**	**Variance**
	£	**£**	**£**
Transformation	10,299	7,364	-2,935
Neighbourhoods	3,104	2,417	-687
Communities	864	874	10
Finance & Corporate Services	10,384	1,298	-9,086
Contingency	48.5	48.5	0
	24,699	**12,002**	**-12,698**
FINANCING ANALYSIS			
Capital Receipts	-14,091	-6,271	7,821
Government Grants	-1,026	-1,026	0
Other Grants/Contributions	-1,966	-1,966	0
Use of Reserves	-600	-355	245
Internal Borrowing	-7,016	-2,384	4,632
	-24,699	**-12,002**	**12,698**
NET EXPENDITURE	**-**	**-**	**-**

4.7 The original Capital Programme of £11.91m has been supplemented by a net brought forward and in-year adjustments of £12.79m giving a revised total of £24.70m. The net efficiency position of £12.698m is due to the decision to no longer construct a new Depot, and a slow down with regards to Asset Investments. This has a corresponding impact on the funding required during the year.

4.8 **Conclusion**

The overall financial position for both revenue and capital is overall positive. It should be noted that opportunities and challenges can arise during the year which may impact on the projected year-end position. There remain external financial pressures from developing issues such as business rates retention, the fair funding review, and continued uncertainty surrounding BREXIT. Against such a background, it is imperative that the Council continues to keep a tight control over its expenditure, identifies any impact from changing income streams and maintains progress against its Transformation Strategy.

5 Risk and Uncertainties

5.1 Failure to comply with Financial Regulations in terms of reporting on both revenue and capital budgets could result in criticism from stakeholders, including both Councillors and the Council's external auditors.

5.2 Areas such as income can be volatile responding to external pressures such as the general economic climate. For example, planning income is variable according to the number and size of planning applications received dependent on factors such as business and housing growth.

5.3 Business rates is subject to specific risk given the volatile nature of the taxbase with a small number of properties accounting for a disproportionate amount of tax revenue, notably in Rushcliffe Ratcliffe-on-Soar power station. Furthermore, changes in central government policy influences business rates received and their timing, for example policy changes on small business rates relief. Such uncertainty is exacerbated by the impending changes in the Business Rates system and the impact of Fairer Funding for 2020/21.

5.4 The Council needs to be properly insulated against such risks hence the need to ensure it has a sufficient level of reserves, as well as having the ability to use such reserves to support projects where there is 'upside risk'.

6 Implications

6.1 Financial Implications

Financial implications are covered in the body of the report.

6.2 Legal Implications

None

6.3 Equalities Implications

None

6.4 Other Implications

None

6.5 Link to Corporate Priorities

Changes to the budget enable the Council to achieve its corporate priorities.

7. Recommendation

7.1 It is RECOMMENDED that the Corporate Governance Group forward the report for Cabinet approval noting:

a) the projected revenue position for the year with a -9.63% variance (£1.01m) in the revenue position; and
b) the capital underspend of £12.698m as a result of capital scheme re-phasing and projected savings.

For more information contact:	Peter Linfield Executive Manager – Finance and Corporate Services 0115 914 8439 plinfield@rushcliffe.gov.uk
Background papers Available for Inspection:	Council 8 March 2018 – 2018-19 Budget and Financial Strategy Cabinet 9 October 2018 – Revenue and Capital Budget Monitoring Period 4 Cabinet 11th December 2018 - Revenue and Capital and Budget Monitoring - Q2 2018/19
List of appendices (if any):	**Appendix A** – Revenue Outturn Position 2018/19 – December 2018 **Appendix B** – Revenue Variance Explanations **Appendix C** – Capital Programme 2018/19 – December 2018 Position

Appendix A

Revenue Outturn Position 2018/19 – December 2018

	Period 9			
	Original Budget £'000	Revised Budget £'000	Projected Actual £'000	Variance £'000
Communities	1,103	1,301	1,184	-117
Finance & Corporate Services	3,470	3,391	3,222	-169
Neighbourhoods	4,611	4,723	4,663	-60
Transformation	2,501	2,965	2,905	-60
Sub Total	**11,686**	**12,380**	**11,974**	**-406**
Capital Accounting Reversals	-2,234	-2,234	-2,234	0
Minimum Revenue Provision	1,000	1,000	1,000	0
Total Net Service Expenditure	**10,452**	**11,146**	**10,740**	**-406**
Grant Income (including New Homes Bonus & RSG)	-1,632	-1,632	-1,651	-19
Business Rates (including SBRR)*	-2,990	-2,990	-3,572	-582
Council Tax	-6,346	-6,346	-6,346	0
Collection Fund Surplus	-1389	-1389	-1389	0
Total Funding	**-12,357**	**-12,357**	**-12,958**	**-601**
Surplus (-)/Deficit on Revenue Budget	**-1,905**	**-1,211**	**-2,218**	**-1,007**
Capital Expenditure financed from reserves	129	129	129	0
Net Transfer to (-)/from Reserves	**-1,776**	**-1,082**	**-2,089**	**-1,007**

Revenue Variance Explanations (over £10k)

ADVERSE VARIANCES in excess of £10,000	Projected Outturn Variance £'000
Communities	
Planning - Legal costs from Public Enquiries and Advertising	69
Land Charges - Search Fees	17
Community Development Income	15
Income from facility hire – eg reduced bookings at Gresham, Lutterell Hall	39
Finance & Corporate Services	
Performance & Reputation - Printing of lamp post banners and local plan documents. Delivery of Spring Rushcliffe Report in April which were budgeted for in 2017/18	17
Finance - additional staffing costs linked to staff vacancies	45
Neighbourhoods	
Homelessness - more single priority need homeless cases	15
Streetwise - Additional items in the prime contract mostly flytipping	58
Fleet & Garage - Diesel price increase	14
Car Parks - Equipment at Bunny Lane and increase to maintenance contracts	15
Transformation	
IT Holding Account - agency costs	10
Property Services - Staffing to meet increased asset base	20
Premises - service maintenance contracts and responsive works	30
Human resources - Occupational health counselling	20
Sum of Minor Adverse Variances	445
Total Adverse Variances	**829**

FAVOURABLE VARIANCES in excess of £10,000	Projected Outturn Variance £'000
Communities	
Planning Income	-275
Building Control saving on partnership costs	-10
Sponsorship Income	-12
Nottingham City Council Contribution to Strategic Sites Delivery Officer	-13
Finance	
Investment Income - hold on funding Asset Investment Strategy, therefore greater balances being invested	-22
Transformation, Constitutional Services, Revenues - Vacant post salary saving	-80
HB Overpayments Recovered	-80
HB Admin - Government grants received in excess of budget (Verify Earnings and Pensions Alert Service and UC Transitional Protection grants)	-19
Neighbourhoods	
Waste Collection and Recycling - Green waste income above target offset by overtime	-20
Leisure Centres - contract payments reduced due to change to Lex Leisure	-28
Repaid Disabled Facilities Grants	-18
Environmental Health Fees and Charges (eg Primary Authority)	-23
Recycling Credits - greater tonnage of recycling	-15
Hire of Transport linked to less breakdowns	-12
Various grant Income and costs recovered	-79
Transformation	
Economic Development - ERDF Digital Growth	-17
Income from Investment Properties	-17
Corporate Training & Postage (Hybrid Mail)	-20
Employee Vacancies (various)	-43
Sum of Minor Favourable Variances	-432
Total Favourable Variances	**-1235**
TOTAL VARIANCE	**-406**

Capital Programme 2018/19 – December 2018 Position

CAPITAL PROGRAMME MONITORING - DECEMBER 2018

	Original Budget	Current Budget £000	Budget YTD £000	Actual YTD £000	Projected Actual £000	Variance £'000	
TRANSFORMATION							
Cotgrave Regeneration & MSC	-	3,188	2,281	1,274	2,688	(500)	Works have started on site but there has been some slippage. £0.5m to be slipped into 2019-20
Cotgrave Phase 2	-	387	-	115	387	-	As agreed by Cabinet 12 June 2018
Bingham Land off Chapel Lane	438	645	329	-	645	-	Land acquisition completed in 2017-18. Remediation costs still to be incurred.
Manvers Business Park	100	100	-	-		(100)	Roof refurbishment work needed, this sum needs to be carried forward and added to the £100k in the 19/20 Capital Programme to commission works more efficiently.
Property Heating Upgrades	-	180	-	115	180	-	One provision created to commission priority works more efficiently. Works 2/3rds completely.
The Point	-	19	-	-	19	-	Sum to upgrade car park lighting, out to tender after Christmas.
Arena Car Park Enhancements	-	562	349	514	562	-	Works at practical completion. Final contract costs to be released.
Colliers Way Industrial Units	-	20	-	-	20	-	Sum to improve mains service connections to original Colliers Business Units 1 – 4

CAPITAL PROGRAMME MONITORING - DECEMBER 2018

	Original Budget	Current Budget £000	Budget YTD £000	Actual YTD £000	Projected Actual £000	Variance £'000	
New Depot	2,500	2,385	-	12	150	(2,235)	Options currently being assessed. No longer building a new depot. Projected actual for professional costs. £100k of the underspend committed (Cabinet 13.11.18)
RCCC Enhancements	-	100	-	-		(100)	Works on hold
Finch Close	-	50	50	37	50	-	Fees on the acquisition
Trent Boulevard	-	1,478	1,478	1,473	1,478	-	Acquisition and professional fees
6 Boundary Court	-	860	-	1	860	-	Acqusition approved AIG 01.11.18
Transport Safety Infrastructure	-	10	-	-	10	-	
Footpath Enhancements	-	19	-	-	19	-	
Information Systems Strategy	130	297	223	144	297	-	-
	3,168	**10,299**	**4,709**	**3,684**	**7,364**	**(2,935)**	
NEIGHBOURHOODS							
Wheeled Bins	80	90	-	58	90	-	Budget to be fully spent by year end
Vehicle Replacement	200	200	167	177	177	(23)	Refuse freighter purchased and Facilities Van purchased
Support for Registered Housing Providers	250	1,146	-	-	1,146	-	£896k brought forward from 2017-18, no commitments at this stage, some schemes being scoped
Hound Lodge - Heating	40	-			-	-	Provision moved to Property Heating Upgrades
Assistive Technology	13	12	9	10	12	-	Agreed BCF allocation
Discretionary Top Ups	57	57	43	4	57	-	Agreed BCF allocation
Disabled Facilities Grants	447	465	349	410	465	-	Agreed BCF allocation

CAPITAL PROGRAMME MONITORING - DECEMBER 2018

	Original Budget	Current Budget £000	Budget YTD £000	Actual YTD £000	Projected Actual £000	Variance £'000	
Arena Enhancements	-	140	-	-	140		For identified capital works post completion of the new build
Car Park Resurfacing	220	220	-	-		(220)	Works will be procured 18/19 and delivered 19/20
Car Park Improvements - Lighting WB	-	50	-	-		(50)	Works to be undertaken with a view to achieving Safer Car Parks Standard. To be delivered 19/20.
WB Car Park Improvements - Lighting Other	110	110	-	-		(110)	Works will be procured 18/19 and delivered 19/20
Bowls Floor & Carpet	-	65	65	58	65	-	Works completed
KLC Dry Change/Sports Hall Floor	30	30	-	-	13	(17)	£13k for Sports Hall Floor contribution to be released. The balance for the changing rooms to be assessed for carry forward.
KLC Filter Replacement	30	30	-	1	30	-	Contractor on site
BLC Improvements	159	267	-	-		(267)	Provision for essential health and safety work. £100k earmarked for the upgrade of the athletics track. This work likely to be carried out in 19/20. Any unspent provision needs to be carried forward.
CLC Pool Handling Ventilation System	100	200	-	-	200	-	Scheme expected to cost £200K, approval sought for the extra.
EGC Fire Alarm System		13	13	12	13	-	Works complete.
EGC Upgrade Facilities	-	9	7	2	9	-	Improvements largely complete
	1,736	**3,104**	**652**	**732**	**2,417**	**(687)**	
COMMUNITIES							
Capital Grant Funding	48	94	71	12	94	-	Outstanding commitments from 2017-18 £20k, £65k available for future allocation

CAPITAL PROGRAMME MONITORING - DECEMBER 2018

	Original Budget	Current Budget £000	Budget YTD £000	Actual YTD £000	Projected Actual £000	Variance £'000	
Play Areas - Special Expense	50	90	-	-	90	-	£90k balance remaining for Play Areas
The Hook Skatepark	-	210	-	-	210	-	£100k Skateboard funding secured and £50k Sport England Grant.
West Park Fencing and Drainage	-	11	-	-	11	-	Fencing element complete, drainage work to be commissioned
West Park Car Park Lighting	-	25	-	-		(25)	To be procured with WB Car Parks in 18/19. Scheme delivered in 19/20.
West Park Public Toilet Upgrade	20	20	-	-	20	-	Scheme under review
West Park Sports Pavilion	40	-	-	-	-	-	Scheme under review
West Park Julien Cahn Pavilion	40	40	-	-	40	-	Scheme under review
RCP - Car Park	-	45	41	39	45	-	Works complete and retention released.
Gresham Pavilion	35	-			-	-	Provision moved to Property Heating Upgrades
Lutterell Hall	35	-	-	-	-	-	Provision moved to Property Heating Upgrades
Skateboard Parks	250	250	19	-	285	35	Grant awards to date are £125k Radcliffe on Trent Parish Council, £100k RBC The Hook (as above), £60k East Leake Parish Council. Budget Acceleration from 2019-20 NB Radlcliffe funding draw down will be in 2019/20
Arena Public Art	-	25	-	-	25	-	Funds will be spent this year
Gamston Community Centre - Heating	30	-			-	-	Provision moved to Property Heating Upgrades
Warm Homes on Prescription	54	54	41	27	54	-	Agreed BCF allocation
	602	**864**	**171**	**78**	**874**	**10**	
FINANCE & CORPORATE SERVICES							

CAPITAL PROGRAMME MONITORING - DECEMBER 2018

	Original Budget	Current Budget	Budget YTD	Actual YTD	Projected Actual	Variance	
		£000	£000	£000	£000	£'000	
NCCC Loan	-	822	-	-		(822)	No further tranches of loan to be released, balance to be carried forward to 2019/20
Asset Investment Strategy	6,300	9,562	-	-	1,298	(8,264)	Projected actual covers: 2 acquisitions in the pipeline and staff costs. £8.291m of the underspend is earmarked for 4 schemes included in the provisional capital programme for 19/20 and this sum can be taken out of the 18/19 programme
	6,300	**10,384**			**1,298**	**(9,086)**	
CONTINGENCY							
Contingency	100	49	-	-	49	-	Allocation made for Fire Alarm System at EGC £13k, additional Wheeled Bins £10K, Footpath Enhancements £18.5k and £10k Transport Safety
	100	**49**			**49**		
TOTAL	**11,906**	**24,699**	**5,532**	**4,495**	**12,002**	**(12,698)**	

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Corporate Governance Group

Thursday, 7 February 2019

Certification of Grants and Return Annual Report 2017/18

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

1.1. The report from KPMG summarises the work undertaken during 2018/19 in relation to grant claims and returns for the financial year 2017/18.

2. Recommendation

It is RECOMMENDED that the Corporate Governance Group accept the report.

3. Reasons for Recommendation

To conform with best audit practice, good governance and the requirements of the Council's external auditors.

4. Supporting Information

4.1. The attached report summarises the results of the audit of the Housing Benefit Subsidy Claim 2017/18 and the resultant costs of the audit. The audit identified no significant issues or errors and KPMG certified the claim without amendment. Overall, the claim was unqualified and KPMG made no recommendations to improve the claims completion process. The actual fee was £6,898; the same as the indicative fee set by the Public Sector Audit Appointments.

5. Alternative options considered and reasons for rejection

Not applicable.

6. Risks and Uncertainties

6.1. If recommendations are not acted upon there is a risk internal controls are weakened and the risk materialises.

7. Implications

7.1. Financial Implications

7.1.1. Financial implications are covered in paragraph 4.1.

7.2. **Legal Implications**

7.2.1. There are no legal implications to this report.

7.3. **Equalities Implications**

7.3.1. There are no equalities implications to this report.

7.4. **Section 17 of the Crime and Disorder Act 1998 Implications**

7.4.1. There are no Section 17 implications to this report.

7.5. **Other implications**

7.5.1. There are no other implications.

8. Link to Corporate Priorities

- Transforming the Council to enable the delivery of efficient high quality services

9. Recommendations

It is RECOMMENDED that the Corporate Governance Group accept the report.

For more information contact:	Peter Linfield Executive Manager - Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for Inspection:	None
List of appendices:	Appendix – KPMG Annual Report

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Our ref KPMG/BEN01

Contact Andrew Bush
0115 9353560

18 January 2019

Dear Peter

Rushcliffe Borough Council - Certification of claims and returns - annual report 2017/18

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on only one claim or return, the Housing Benefit Subsidy claim. The certified value of the claim was £16.72 million, and we completed our work and certified the claim on 27 November 2018.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

— agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;

— sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;

— undertaking an analytical review of the claim form considering year-on-year variances and key ratios;

— confirming that the subsidy claim had been prepared using the correct benefits system version; and

— completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work did not identify any significant issues or errors and we certified the claim without amendment.

Consequently we have made no recommendations to the Authority to improve its claims completion process, and there are no further matters to report to you regarding our certification work.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2017/18 of £6,898. Our actual fee was the same as the indicative fee, and this compares to the 2016/17 fee for this claim of £6,898.

Yours sincerely

Andrew Bush
Engagement Lead

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Bush, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to andrew.sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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Rushcliffe Borough Council	**Corporate Governance Group** **7 February 2019** **Work Programme**

Report of the Executive Manager – Finance and Corporate Services

1. Summary

1.1. This report sets out a proposed work programme for the next year. In determining the proposed work programme due regard has been given to matters usually reported to the Group and the timing of issues to ensure best fit within the Council's decision making process.

1.2. The table does not take into account any items that need to be considered by the Group as special items. These may occur, for example, through changes required to the Constitution or financial regulations, which have an impact on the internal controls of the Council.

2. Recommendation

It is RECOMMENDED that the Group agrees the work programme as set out in the table below.

3. Reasons for Recommendation

9 May 2019

- Internal Audit Progress Report 2018/19
- Internal Audit Annual Report 2018/19
- IT Progress Report
- Risk Management Progress Report
- Annual Governance Statement

Work Programme **For more information contact:**	Peter Linfield Executive Manager – Finance and Corporate Services 0115 914 8349 plinfield@rushcliffe.gov.uk
Background papers Available for Inspection:	None.
List of appendices (if any):	None.

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