



Shropshire Council  
Legal and Democratic Services  
Shirehall  
Abbey Foregate  
Shrewsbury  
SY2 6ND

Date: 17 February 2020  
My Ref:  
Your Ref:

**Committee:**  
**Audit Committee**

**Date:** Tuesday, 25 February 2020  
**Time:** 1.30 pm  
**Venue:** Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury,  
Shropshire, SY2 6ND

You are requested to attend the above meeting.  
The Agenda is attached

Claire Porter  
Director of Legal and Democratic Services (Monitoring Officer)

**Members of Audit Committee**

Peter Adams (Chairman)  
Ioan Jones  
Chris Mellings

Brian Williams (Vice Chairman)  
Michael Wood

Your Committee Officer is:

**Michelle Dulson** Committee Officer  
Tel: 01743 257719  
Email: [michelle.dulson@shropshire.gov.uk](mailto:michelle.dulson@shropshire.gov.uk)

# AGENDA

## **1 Apologies for Absence / Notification of Substitutes**

## **2 Disclosable Pecuniary Interests**

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

## **3 Minutes of the previous meeting held on the 5 December 2019 (Pages 1 - 8)**

The Minutes of the meeting held on the 5 December 2019 are attached for confirmation.

Contact Michelle Dulson (01743) 257719

## **4 Public Questions**

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 1.30pm on Friday 21 February 2020.

## **5 First Line Assurance: Children's Direct Payments Update (Pages 9 - 12)**

The report of the Interim Assistant Director Children's Social Care and Safeguarding is attached.

Contact: Sonya Miller 01743 254264

## **6 Second Line Assurance: Treasury Strategy (Pages 13 - 64)**

The report of the Director of Finance, Governance and Assurance (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

## **7 Second Line Assurance: Strategic Risks Update (Pages 65 - 68)**

The report of the Risk and Insurance Manager is attached.

Contact: Angela Beechey (01743) 252073

## **8 Governance Assurance: Draft Audit Committee Annual Work Plan and Future Training Requirements (Pages 69 - 96)**

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

## **9 Third Line Assurance: Report of the Audit Review of Risk Management (Pages 97 - 100)**

The report of the Principal Auditor is attached.

Contact: Katie Williams (01743) 257737

**10 Third Line Assurance: Internal Audit Performance Report and Revised Annual Audit Plan 2019/20** (Pages 101 - 116)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

**11 Third Line Assurance: Draft Annual Internal Audit Risk Based Plan 2020/21** (Pages 117 - 128)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

**12 Third Line Assurance: External Audit, Audit Progress Report and Sector Update**

The report of the Engagement Lead is to follow.

Contact: Richard Percival (0121) 232 5434

**13 Third Line Assurance: External Audit, Audit Plan**

The report of the Engagement Lead is to follow.

Contact: Richard Percival (0121) 232 5434

**14 Third Line Assurance: External Audit, Informing the Risk Assessment**

The report of the Engagement Lead is to follow.

Contact: Richard Percival (0121) 232 5434

**15 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on the Thursday 25 June 2020 at 1.30 pm.

**16 Exclusion of Press and Public**

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following item(s).

**17 Exempt Minutes of the previous meeting held on the 5 December 2019 (Exempted by Categories 1, 2, 3, 5 and 7)** (Pages 129 - 132)

The exempt minutes of the meeting held on the 5 December 2019 are attached for confirmation.

Contact Michelle Dulson (01743) 257719

**18 First Line Assurance: Highways Term Maintenance Update (Exempted by**

**Category 5)**

The report of the Director of Place and Enterprise is to follow.

Contact: Mark Barrow 01743 258919

**19 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 1, 2, 3 and 7) (Pages 133 - 140)**

The report of the Principal Auditor is attached.

Contact: Katie Williams (01743) 257737



## Committee and Date

Audit Committee

25 February 2020

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 5 DECEMBER 2019 1.30 - 4.25 PM**

**Responsible Officer:** Michelle Dulson

Email: michelle.dulson@shropshire.gov.uk    Tel: 01743 257719

### **Present**

Councillor Peter Adams (Chairman)

Councillors Ioan Jones, Chris Mellings, Brian Williams (Vice Chairman) and Michael Wood

### **47 Apologies for Absence / Notification of Substitutes**

47.1 No apologies were received.

### **48 Disclosable Pecuniary Interests**

48.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

### **49 Minutes of the previous meeting held on the 12 September 2019**

#### **49.1 RESOLVED:**

That the Minutes of the meeting held on 12 September 2019 be approved and signed by the Chairman as a correct record.

### **50 Public Questions**

50. No public questions had been received.

### **51 First line assurance: Commercial Strategy Update**

51.1 The Committee received the report of the Assistant Director Commercial Services – copy attached to the signed Minutes – which gave an update on progress of audit recommendations after the unsatisfactory assurance level received following an internal audit of the Commercial Strategy and plans for 2018/19.

- 51.2 In response to a query, the Assistant Director Commercial Services explained that the 'Hopper' process was an assessment method used to appraise proposals coming forward with potential commercial prospects. He drew attention to the key recommendations identified in the audit report, set out at paragraph 1.3 of the report, along with the actions undertaken to address these recommendations, set out at paragraph 2.1 of the report.
- 51.3 The risk of failure to deliver the Commercial Strategy and of the Council being unable to meet the corporate outcomes was considered quarterly by Directors and the Cabinet. In respect of the lack of investment fund, the Assistant Director Commercial Services informed the Committee that an investment fund of up to £40m had been identified to help deliver additional revenue. Following a review of all proposed projects, three were currently being delivered, three had been approved by Council and others in the pipeline required further appraisal.
- 51.4 The Assistant Director Commercial Services addressed the issue of the revision of the target to deliver a minimum of £5m of new revenue income down to £2m in the revenue budget. He explained that it had been recognised that the Council had not been on course to achieve £5m in this financial year and it had therefore been accepted that £2m would be a more realistic target.
- 51.5 Referring to paragraph 2.1.2 of the report, the Assistant Director Commercial Services gave an example of what had been learnt whilst going through the process of reviewing the Commercial Strategy. An issue had been identified whereby not all the proposals had gone through the Hopper process and where the commercial opportunities had not been considered.
- 51.6 Concern was expressed about the financial return expected to be achieved when funding of £40m had been identified to achieve £2m of additional income. In response, the Assistant Director Commercial Services pointed out that this was a 5% return and that currently property yields in Shropshire were around 6-7%. 20% had been an ambition but had not been achieved. He reported that work was currently being undertaken to demonstrate how the savings target of £2m as set out in the Financial Strategy would be achieved.
- 51.7 The Head of Commercial Services updated the Committee in relation to the latest position with regard to the review of the Commercial Strategy and the recruitment of additional staff to the team. She explained that other strategic objectives were also considered along with income however all projects must demonstrate that they will generate more money than they cost. She confirmed that a more robust development appraisal procedure was currently being written.
- 51.8 In terms of recruitment, the Head of Commercial Services informed the Committee that a Performance Manager was currently being sought along with crucial finance posts. Job Descriptions and Person Specifications were currently with HR and would be released the following week.
- 51.9 The Assistant Director Commercial Services and the Head of Commercial Services answered a number of further queries from Members of the Committee. The Assistant Director Commercial Services explained that more work was being done with Managers to ensure they think more commercially and consider commercial opportunities before taking decisions on restructuring/staffing.

51.10 In response to a query the Director of Finance, Governance and Assurance (Section 151 Officer) explained that in relation to commercial returns, as costs go up, returns come down. There was an element of risk that things could change, for example the durability of income into the future (eg not one-off but ongoing income) that may have to be mitigated against but each project was assessed to see whether it stacked up. He went on to say that the Council would not always need to borrow money when it had cash balances. If returns were above 10% but there was a risk that a particular project was not viable, this would not be an issue however, at this time, there was an expectation of delivery, but if it did not stack up, the project would not go ahead.

51.11 The Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Financial Strategy had made an assumption of £2m over 4 years being generated from a £20m investment with the cost of borrowing being factored in. The Financial Strategy has since been updated and this £2m removed and replaced by £2m from the Council's property company.

**51.12 RESOLVED:**

That the contents of the report be noted.

**52 First line assurance: Children's Direct Payments Update**

52.1 It was confirmed that this item had been deferred to the next meeting of the Audit Committee scheduled to take place on Tuesday 25 February 2020.

**53 Second line assurance: Treasury Strategy Mid-Year Report 2019/20**

53.1 The Committee received the report of the Head of Finance, Assurance and Governance (Section 151 Officer) – copy attached to the signed Minutes – which provided an economic update for the first six months of 2019/20; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio; the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2019/20.

53.2 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the Council lent money (cash) to other Local Authorities for a return over time. Further to a comment that the interest rate appeared higher than normal, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the increase in the rate was due to the impact of Bank base rate changes. It was unclear whether the increase would continue and was partly dependent on the outcome of Brexit.

**53.3 RESOLVED:**

- A. That the position as set out in the report be noted.
- B. To note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.

**54 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative**

54.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and provided an update to Members in response to national and local issues.

54.2 The Head of Audit drew attention to paragraph 6.18 of her report, which set out the results of the 2018/19 data matching exercise. The Committee were very satisfied with how efficient the Council were in deterring people who might otherwise commit fraud and felt this should be publicised more widely to create a further deterrent. In response, the Head of Audit explained that there was a Communications Plan in place and that internal controls were indeed robust however further resources would be required if more were to be done.

54.3 In response to concerns around the protection against unfair treatment of whistleblowers, especially in relation to contractors, the Head of Audit confirmed that a whistleblowing contractor would be covered by this protection as a non-employee in the same way as a member of the public.

54.4 In response to a further query, the Head of Audit reported that only those cases where there was enough evidence and a sound business case for doing so would be prosecuted. She agreed to verify how many cases had been prosecuted and would get back to the Committee outside of the meeting.

**54.5 RESOLVED:**

That the Counter Fraud, Bribery and Anti-Corruption Strategy be endorsed and that the measures undertaken and detailed in the report to monitor systems to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption be noted.

**55 Governance Assurance: Annual review of Audit Committee Terms of Reference**

55.1 The Committee received the report of the Director of Finance, Governance and Assurance (S151 Officer) – copy attached to the signed Minutes – which set out the Audit Committee Terms of Reference, attached at Appendix A. A revision to the Terms of reference was tabled, as follows:

‘Appendix A

Section 1, Membership proposed revision:

Membership

1. The Audit Committee must remain apolitical. It must display unbiased attitudes, treating auditors, the executive and management equally. It can also challenge



the Leader and the Head of Paid Service when required. The Audit Committee will comprise:

- a) Five Members in accordance with the political balance rules ~~being three Conservative, one Labour and one Liberal Democrat~~ **being three** who may be represented by designated substitutes in their absence. Any designated substitute must be appropriately trained. None of the Members should be Members of the Executive, Scrutiny Chairs or Vice Chairs.
- b) Normally the Section 151 Officer and the Head of Audit will attend every meeting. Should the Section 151 Officer feel there is an item on the agenda which would benefit from the Leader's presence, or the presence of a Portfolio Holder, the Chairman of the Audit Committee would be informed and he could invite the Leader or Portfolio Holder to attend.'

55.2 The following further amendment was also agreed:

- 'a) Five Members in accordance with the current political balance rules ~~being three Conservative, one Labour and one Liberal Democrat~~ **being three Conservative, one Labour and one Liberal Democrat**'

### 55.3 **RESOLVED:**

That the Audit Committee Terms of Reference be endorsed, subject to the above amendments.

## 56 **Governance Assurance: Annual Audit Committee Self-Assessment**

- 56.1 The Committee received the report of the Director of Finance, Governance and Assurance (S151 Officer) – copy attached to the signed Minutes – which requested Members to review and comment on the self-assessment of good practice questionnaire which allowed them to assess the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made which would improve the Committee's overall effectiveness.
- 56.2 The Director of Finance, Governance and Assurance (S151 Officer) confirmed that high levels of compliance had been identified along with four areas of partial compliance, as set out on page 82. Concern was raised in relation to question 4 ('Is the role and purpose of the audit committee understood and accepted across the authority?') and whether this should be partial compliance as it was felt some of the Members, especially the newer ones, did not understand the role and purpose of the Audit Committee. It was suggested that a briefing on the role of Audit Committee be included as part of Councillors Induction training.
- 56.3 The Head of Audit drew attention to page 92 which set out the evidence to back up the assertion of compliance/partial compliance. The Director of Finance, Governance and Assurance (S151 Officer) explained that this question was a challenge back to the Committee in that if they did not feel that they were compliant in this area, what could be done to ensure compliance.
- 56.4 Concern was also raised in relation to question 5 ('Does the audit committee provide support to the authority in meeting the requirements of good governance?') as it was felt that the audit committee did indeed provide this support.

**56.5 RESOLVED:**

- A. That the self-assessment of good practice attached at Appendix A be endorsed, subject to the above.
- B. That the analysis of training requirements attached at Appendix B be endorsed.
- C. That the action plan be reviewed and revised to improve areas of weakness.

**57 Exclusion of Press and Public**

**57.1 RESOLVED:**

That in accordance with the provisions of Schedule 12A of the Local Government Act 1972 and paragraph 10.2 of the Council's Access to Information Procedure Rules, the public and press be excluded during consideration of the following items as defined by the categories specified against them.

**58 Exempt minutes (Exempted by Categories 2, 3 and 7)**

**58.1 RESOLVED:**

That the exempt minutes of the meeting held on 12 September 2019 be approved and signed by the Chairman as a correct record.

**59 First line assurance: Theatre Severn update (Exempted by Categories 1, 2 and 3)**

59.1 Members received the exempt report of the Interim Head of Culture and Heritage - copy attached to the exempt signed minutes- which gave an update on progress on audit recommendations for Theatre Severn

**59.2 RESOLVED:**

That the contents of the report be noted.

**60 Third line assurance: Highways Term Maintenance Contract Kier 2019/20 (Exempted by Category 5)**

60.1 The Committee received the exempt report of the Head of Audit – copy attached to the exempt signed Minutes – which updated Members with the key findings following a review of the Term Maintenance Contract with Kier and actions that management were taking.

**60.2 RESOLVED:**

That the contents of the report be noted.

**61 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7)**

61.1 The Committee received the exempt report of the Principal Auditor - copy attached to the exempt signed Minutes - which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

**61.2 RESOLVED**

That the contents of the report be noted.

The following items were considered in public session.

**62 Third line assurance: Internal Audit Charter**

62.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which proposed only one change being the introduction, for clarity and completeness, of the Overall Assurance Opinion set out in Annex A.

**62.2 RESOLVED:**

That the Internal Audit Charter be endorsed.

**63 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2019/20**

63.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the three months since the previous Audit Committee.

63.2 The Head of Audit informed the meeting that the team were on target to achieve 90% delivery by year end. She drew attention to the audit recommendations and the decrease in the higher levels of assurance along with a corresponding increase in unsatisfactory assurances, set out in paragraph 5.9 of the report.

63.3 In response to a query, the Head of Audit explained that it was too early to say whether the reviews to be undertaken in the final quarter would reveal a risk to the internal control environment, but she confirmed that it was a risk to the direction of travel.

63.4 The Principal Auditor responded to a query in relation to the Dog Warden service for which a fundamental recommendation had been made.

63.5 The Head of Audit drew attention to the Limited and Unsatisfactory assurance opinions set out in Table 3 of Appendix A and reminded Members that they could request that a particular Manager(s) be invited to attend a future meeting of the Audit Committee to give an update and provide assurance.

**63.6 RESOLVED:**

- a) That performance to date against the 2019/20 Audit Plan as set out in the report be noted;
- b) That the adjustments required to the 2019/20 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

**64 Third line assurance: External Audit, Audit progress report and sector update**

64.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Audit Committee with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.

64.2 The Engagement Manager drew attention to the progress to date. She confirmed that they were currently finalising the Teachers’ Pension claim for the 2018/19 accounts and that discussions were ongoing with Management in relation to the additional fee relating to additional work undertaken in 2018/19.

64.3 The Engagement Manager then highlighted the risk to the Council’s Value for Money Conclusion and explained that a detailed risk assessment would be undertaken following discussions with the Chief Executive and the Chief Financial Officer.

**64.4 RESOLVED:**

That the contents of the report be noted.

**65 Date and Time of Next Meeting**

65.1 Members were reminded that the next meeting of the Audit Committee would be held on Tuesday 25 February 2020 at 1.30pm.

Signed ..... (Chairman)

Date: .....



<u>Committee and Date</u>
Audit Committee
25 February 2020

<u>Item</u>
<u>Public</u>

## Children's Direct Payments Update

### Responsible Officer

e-mail: [sonya.miller@shropshire.gov.uk](mailto:sonya.miller@shropshire.gov.uk) Tel: 01743 254264

### 1. Summary

- 1.1 As part of the approved internal audit plan for 2018 / 19 Audit Services undertook a review of Direct payments Children. The audit work was undertaken to give assurance on the extent to which management control objectives were being achieved. The final report and its findings were issued in March 2019 and from the findings an audit action plan was devised.
- 1.2 The managers for the Disabled Children Team have continued to address the recommendations that they are responsible for and have previously reported back to Cabinet on progress.
- 1.3 It has been six months since the last review and update report to Cabinet, primarily, due to Steve Ladd Service Manager for the Disabled Children's Team being long-term sick since September 2019. An interim Service Manager Ms Donessa Gray has been appointed and has conducted the most recent review alongside the Team Manager and Short Breaks Reviewing Officer which took place on 15<sup>th</sup> January 2020.
- 1.4 The attached action plan (Appendix 2) demonstrates the progress that has been made. Seven of the nine significant recommendations have been evaluated as having been sufficiently attended to and rated green following the most recent management review. Five of the eight requires attention recommendations have been evaluated as having been sufficiently attended to and rated green. Five actions remain outstanding.

### 2. Recommendations

- 2.1 That Committee members note the review that took place on 15<sup>th</sup> January 2020 in relation to the recommendations made from the audit.
- 2.2 That Committee members note the progress that has been made to address the recommendations since the last report to Cabinet.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

(NB This will include the following: Impact on Children and Vulnerable Adults, Risk Management, Human Rights, Equalities, Community and other Consultation)

- 3.1 It was noted in the last review report that the appointment of the Short Breaks Reviewing Officer in December 2018 had strengthened system controls. Unfortunately, the position became vacant in January 2020 with the departure of the postholder, however, in recognition of the need for this vital role, recruitment is in progress and interviews for a replacement are scheduled for 14<sup>th</sup> February 2020.
- 3.2 To ensure that we do not disadvantage children and families by develop a backlog of direct payment requests and short break reviews during this period of recruitment, we have agreement from the Senior Business Support and Finance Manager that she will lead on dealing with the financial aspects of direct payments and have appointed a Social Worker in the Disabled Children's Team to take responsibility for undertaking short break reviews.
- 3.3 The Team Managers Matrix has now been developed and has been up and running since July 2019. The Matrix provides live data on: -
1. The number of children accessing short breaks
  2. The timeliness of short break reviews
  3. The timeliness of visits and plans.
- 3.4 Discussions between Children's Social Care and Adult Social Care stalled in September 2020, however, these have now resumed, and Ms Gray is in process of writing a business case to support children's involvement in the adult and children's all age payment service.
- 3.5 The strategic board continues to meet bi monthly to oversee the development and implementation of the all age payment service and each sub group is making progress in moving it forward. There has been progress in: -
1. Developing a database of personal assistants on SharePoint
  2. Marketing to recruit and increase the pool of personal assistants.
  3. Having monthly meetings with the Reconciliation Team.
  4. Updating paperwork, policy, guides, factsheets, etc.
  5. Development of a new Direct Payment Agreement / Contract for employers and employees.
  6. Updating the checklist for social workers to discuss with carers / personal assistants to ensure they have covered all the HR issues.
  7. Setting up Peer Support Sessions
  8. A Direct Payment newsletter has been developed by Adult Social Care which was sent out to Adults who access direct payments in December 2019. The newsletter has been sent out to parents of children with

disabilities in February 2020. Going forward the newsletter will be sent to all families who access direct payments.

- 3.6 It is recognised that Adult Social Care have progressed further along in moving the new service forward and that Children's Social Care have some work to do to come in line.

#### **4. Financial Implications**

- 4.1 The improvements outlined above (and in appendix 1) alongside management oversight of the process will ensure that costs associated with direct payments are identified, processed, reviewed and reconciled in a timely manner.
- 4.2 Direct payments will now be discussed in monthly budget monitoring meetings with finance. This will ensure that spend is in line with the budget and should there be a variance this can be picked up promptly and investigated.
- 4.3 The Short Breaks Reviewing Officer has worked closely with the Reconciliation Team over the last year to quality assurance and review non-compliance around direct payments. In this current financial year, the Reconciliation Team have so far recoup £60,227.11 in overpayments.

#### **5. Climate Change Appraisal**

There are no implications for climate change.

#### **6. Background**

##### **6.1 Direct Payments, Children with a Disability**

- 6.1.1 A direct payment is money given to children aged 16 years or over who have a disability and to parents or carers, aged 16 or over of young people who have a disability, by the authority to enable them to buy in support that is assessed as being needed, instead of the authority providing that support through their own services.
- 6.1.2 Children who have been assessed as meeting the criteria for disabled children's services aged 16 or over. Children and young people who have Education, Health and Care Plans and their parents have the right to request a personal budget, which may contain elements of education, social care and health funding, and may be delivered by way of direct payments. Under the Children and Families Act 2014, this covers those aged 0 – 25 having special educational needs and disabilities. Direct payments are available if a child or young person is disabled and aged 16 or over or is a carer or parent aged 16 or over for a child with disabilities. No one can be forced to have a direct payment.

6.1.3 Direct payments can also be made to a willing and appropriate person on a disabled person's behalf if they lack the mental capacity to agree to and manage direct payments themselves.

6.1.4 Direct payments generally cannot be used to pay for services from a spouse, partner or close relative living in the household unless the local authority consider it is necessary to do so.

## 7. Additional Information

### Conclusions

There is evidence of progress on the actions since the last review in June 2019, however, it is acknowledged that there is still outstanding work both on the action plan as well as the all age payment service to be completed.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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Children's Direct Payments Audit Report March 2019
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<b>Cabinet Member (Portfolio Holder)</b>
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Cllr Ed Potter
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<b>Local Member</b>
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All Members
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<b>Appendices</b>
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Appendix 1 – Action Plan
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<u>Committee and Date</u>	<u>Item</u>
Cabinet 12 February 2020	
Audit Committee 25 February 2020	
Council 27 February 2020	
	Public

## TREASURY STRATEGY 2020/21

**Responsible Officer** James Walton  
e-mail: james.walton@shropshire.gov.uk

Tel: (01743) 258915

### 1. Summary

1.1 The report proposes the Treasury Strategy for 2020/21 and recommends Prudential and Treasury Indicators for 2020/21 to 2022/23. The report is technical in nature but the key points to note are:-

- Borrowing is largely driven by the requirements of the approved Capital Programme. From 2011/12 the Council's borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council's capital expenditure and providing capital grants rather than supported borrowing approval with on-going (as it was defined at the time) revenue support grant to meet the financing costs of the borrowing. Currently the approved borrowing requirement identified within the Capital Programme 2020/21 to 2022/23 is prudential borrowing of £94.956m.
- In late December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20 all local authorities are required to prepare an additional report, a Capital Strategy report. The Council is developing both the Capital Strategy report and business cases for a number of large schemes linked to proposals set out in the Council's Finance Strategy. Any updates required as a result of future decisions will be reported accordingly.
- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Money Market Funds and Part Nationalised Institutions which meet Link Asset Services creditworthiness policy, other Local Authorities and the UK Government.
- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy.
- The bank rate was increased to 0.75% in August 2018, only the second increase since 2009. We are unlikely to see any further action from the Monetary Policy Committee (MPC) until the uncertainties over Brexit clear.

Every 0.25% increase in the bank rate equates to around £250,000 of additional interest receivable per annum on the Council's current average investment balances.

- Long term borrowing rates are expected to be higher than investment rates during 2020/21 therefore long term borrowing may be postponed in order to maximise savings in the short term. Currently the borrowing requirement identified within the Capital Programme 2020/21 to 2022/23 is prudential borrowing of £94.956m. Any changes to this requirement as a result of future decisions will be reported accordingly.
- The Council has agreed to offer to lend funds to Shropshire Housing Ltd (which incorporates both South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate. It has previously been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.
- In December 2017, Cabinet & Council approved the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres. This reduced cash balances available for investment in 2018/19 by £52.6m which represents the actual payment made on 23 January 2018. This investment is classified as a short term capital investment and has been financed from internal cash balances in the short to medium term.
- Following Council approval on 28<sup>th</sup> February 2019, Shropshire Council formed a Wholly Owned Local Housing Company, known as Cornovii Developments Limited. An initial unsecured loan to the Company of £0.250m was also approved to provide funding for operating and set up costs. The Council has subsequently approved funding in the form of equity and a loan to facilitate land purchases and development costs. The loan element, totalling £14m, is anticipated to be released to the Company over the financial years 2020/21 and 2021/22.

## **2. Recommendations**

### **2.1. Recommendations to Cabinet**

Cabinet recommend that Council:-

- a) Approve, with any comments, the Treasury Strategy for 2020/21.
- b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the MHCLG Guidance on Local Government Investments.
- d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.

- e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- f) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

## 2.2. Recommendations to Audit Committee

- g) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2020/21.

## 2.3. Recommendations to the Council

- h) Approve, with any comments, the Treasury Strategy for 2020/21.
- i) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- j) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the MHCLG Guidance on Local Government Investments.
- k) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- l) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- m) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

# REPORT

## 3. Risk Assessment and Opportunities Appraisal

- 3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

## 4. Financial Implications

- 4.1 The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 As at 31 December 2019 the Council held £133 million in investments and borrowing of £308 million at fixed interest rates. The amount held in investments has reduced by £52.6m following the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres on 23 January 2018.

## 5. Background

- 5.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.
- 5.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 5.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 5.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 5.5. The Council defines its treasury management activities as "the management of the authority's borrowing, 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".
- 5.6. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision

(MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

- 5.7. This strategy statement has been prepared in accordance with CIPFA's revised Code of Practice on Treasury Management. Accordingly, the Council's Treasury Strategy will be approved annually by full Council and there will also be a mid year review report. In addition, treasury management update reports will be submitted quarterly to Directors and Cabinet. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of policies and practices, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.
- 5.8. In late December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions particularly focused on non-treasury investments and the requirement for all local authorities to produce a detailed Capital Strategy as from 2019/20. The majority of these requirements are already included in an appendix to the Council's Financial Strategy but this will now be included as a separate Capital Strategy report. This report will provide the following:-
- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - an overview of how the associated risk is managed
  - the implications for future financial sustainability
- 5.9. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 5.10. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:
- The corporate governance arrangements for these types of activities;
  - Any service objectives relating to the investments;
  - The expected income, costs and resulting contribution;
  - The debt related to the activity and the associated interest costs;
  - The payback period (MRP policy);
  - For non-loan type investments, the cost against the current market value;
  - The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

- 5.11. Attached in appendix 2 is the Council's Annual Investment Strategy which includes a list of additional responsibilities for the Section 151 Officer role following the issue of the revised Treasury Management Code of Practice and Prudential Code.

- 5.12. The revised codes have clarified CIPFA's position that there is a clear separation between treasury and non-treasury investments and on the role of the treasury management team. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, such as the acquisition of units in relation to the Shrewsbury Shopping Centres, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.
- 5.13. The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

<b>Area of Responsibility</b>	<b>Council/Committee/Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement	Full Council/Cabinet	As required
Treasury Strategy/Annual Investment Strategy/MRP Policy	Full Council/Cabinet	Annually before the start of the financial year
Capital Strategy	Full Council/Cabinet	Annually before the start of the financial year
Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report	Full Council/Cabinet	Mid year
Treasury Strategy/Annual Investment Strategy/MRP Policy – updates or revisions at other times	Full Council/Cabinet	As required
Annual Treasury Report	Full Council/Cabinet	Annually by 30 September after the end of the financial year
Quarterly Treasury Management Update Reports	Directors/Cabinet	Quarterly
Treasury Management Monitoring Reports	Reports prepared by Investment Officer to the Head of Treasury & Pensions who reports to the Section 151 Officer	Monthly
Treasury Management Practices	Section 151 Officer	As required
Scrutiny of Treasury Strategy	Audit Committee	Annually before the start of the financial year
Scrutiny of the treasury management performance	Audit Committee	Half yearly

## 6. Treasury Strategy 2020/21

- 6.1. The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.
- 6.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.
- 6.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 6.4. The proposed Strategy for 2020/21 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.
- 6.5. The proposed strategy will focus on the following areas of treasury activity:-
- Treasury limits in force which will limit the treasury risk and activities of the Council.
  - The determination of Prudential and Treasury Indicators.
  - The current treasury position.
  - Prospects for interest rates.
  - Capital borrowing strategy.
  - Policy on borrowing in advance of need.
  - Debt rescheduling.
  - Investment strategy.
  - Capital plans.
  - Creditworthiness policy.
  - Policy on use of external service providers.
  - The MRP strategy.
  - Leasing.
- 6.6. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-
- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
  - any increase in running costs from new capital projects
- are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

## **7. Treasury Limits for 2020/21 to 2022/23**

- 7.1. It is a statutory requirement under Section 3 of the Local Government Act 2003 and supporting Regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. This authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.
- 7.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.
- 7.3. Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate those planned to be financed by both internal/external borrowing and other forms of liability, such as credit arrangements. The Authorised Borrowing Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years and is the limit which the Council must not breach. All of the other Prudential Indicators are estimates only and can be breached temporarily but this is very rarely the case. If this did happen it would be reported to Members outlining the reasons for this temporary breach.
- 7.4. The Council are asked to approve these Prudential Indicators in Appendix 1.

## **8. Prudential & Treasury Indicators for 2020/21 to 2022/23**

- 8.1. The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. Following the December 2017 publication of the revised CIPFA Treasury Management Code of Practice, there is no longer a requirement to include the prudential indicator showing the incremental impact on the Council tax / Housing rents of Capital Investment decisions so this has been removed. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.
- 8.2. It should be noted that these indicators should not be used for comparison with indicators from other local authorities. Use of them in this way would be likely to be misleading and counter-productive as other authorities Treasury Management policies and practices vary. The most important indicator is prudential indicator number 4 which specifies the authorised limit which cannot be breached under any circumstances. In the event that this indicator was breached a separate report would be brought to Council.
- 8.3. **Prudential Indicator 1** - The ratio of financing costs indicator shows the trend in the cost of financing capital expenditure as a proportion of the Authority’s net revenue. This indicator also shows the ratio of the HRA financing costs to the HRA net revenue stream.



<b>Prudential Indicator No. 1</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Non HRA ratio of financing costs (gross of investment income) to net revenue stream	8.7	9.1	7.0	7.7
Non HRA ratio of financing costs (net of investment income) to net revenue stream	7.9	8.4	6.3	7.0
HRA Ratio of financing costs to HRA net revenue stream	39.0	38.0	37.1	36.2

8.4. **Prudential Indicator 2** - A key indicator of prudence is that gross external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012. The 2017/18 Non HRA Capital Financing Requirement includes £53.1 million (which represents the gross capital cost of the acquisition of £52.6m net payment plus £0.5m capitalised rental top ups) in relation to the Shrewsbury Shopping Centres.

<b>Prudential Indicator No. 2</b>	<b>2018/19 Actual</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>Net Borrowing &amp; Capital Financing Requirement:</b>					
Non HRA Capital Financing Requirement	389	384	390	394	378
HRA Capital Financing Requirement	85	85	95	105	115
Commercial activities/non-financial investments Capital Financing Requirement	0	10	48	76	102
<b>Total CFR</b>	<b>474</b>	<b>479</b>	<b>533</b>	<b>575</b>	<b>595</b>
<b>Movement in CFR</b>	<b>-2</b>	<b>5</b>	<b>54</b>	<b>42</b>	<b>20</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	41.4	9.3	37.5	29.4	28.1
Less MRP/VRP and other financing movements	-43.8	-4.2	16.2	12.1	-7.9
<b>Movement in CFR</b>	<b>-2.4</b>	<b>5.1</b>	<b>53.7</b>	<b>41.5</b>	<b>20.2</b>

Gross Borrowing including HRA	312	308	304	292	292
Investments	127	110	110	110	110
Net Borrowing	<b>185</b>	<b>198</b>	<b>194</b>	<b>182</b>	<b>182</b>

8.5. **Prudential Indicator 3** - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2019/20, and the estimated expenditure for 2020/21, 2021/22 and 2022/23. This indicator also includes details on the financing of capital expenditure. In 2017/18 the net financing need for the year includes £53.1m gross cost invested in the acquisition of units in relation to the Shopping Centres. This has been funded in the short to medium term by the use of cash balances therefore there is no requirement to borrow at the current time but this will be reviewed going forward.

<b>Prudential Indicator No. 3</b>	<b>2018/19 Actual</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Non HRA Capital expenditure	41.9	51.9	64.4	51.1	64.4
HRA Capital expenditure	5.5	5.5	22.3	18.7	18.7
Commercial activities/non-financial investments	3.7	3.9	32.4	20.0	20.0
<b>Total Capital expenditure</b>	<b>51.1</b>	<b>61.3</b>	<b>119.1</b>	<b>89.8</b>	<b>103.1</b>
<b>Financing of capital expenditure</b>					
Capital receipts	0.3	9.3	8.4	5.4	0.0
Capital grants	38.5	35.4	43.7	34.2	61.5
Other Contributions	2.6	3.6	14.0	13.6	5.0
Major Repairs Allowance	4.3	4.6	5.0	3.7	3.7
Revenue	0.6	3.0	4.2	2.0	2.0
<b>Net financing need for the year</b>	<b>4.8</b>	<b>5.4</b>	<b>43.8</b>	<b>30.9</b>	<b>30.9</b>
<b>Commercial activities/non-financial investments</b>	<b>2018/19 Actual</b>	<b>2019/20 Estimate</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Capital expenditure	3.7	3.9	32.4	20.0	20.0
Financing Costs	0.0	0.0	0.0	0.0	0.0
<b>Net financing need for the year</b>	<b>3.7</b>	<b>3.9</b>	<b>32.4</b>	<b>20.0</b>	<b>20.0</b>
Percentage of total net financing need	100%	100%	100%	100%	100%

8.6. **Prudential Indicator 4 which must not be breached** - The authorised limit is the borrowing limit set for Shropshire Council and includes the HRA borrowing. This

indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

<b>Prudential Indicator No. 4</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>External Debt</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>Authorised Limit for External Debt:</b>			
Borrowing	531	519	505
Other long term liabilities	97	95	97
Commercial activities/ non-financial investments	37	29	28
<b>Total</b>	<b>665</b>	<b>643</b>	<b>630</b>

8.7. Previously, the Council was limited to a maximum HRA debt limit through the HRA self-financing regime. This limit was as follows:

<b>Prudential Indicator</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
HRA Debt Limit*	N/A	N/A	N/A	N/A
HRA CFR	85	95	105	115
HRA Headroom	N/A	N/A	N/A	N/A

*\*Abolition of HRA debt cap. In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18.*

8.8. **Prudential Indicator 5** – The more likely outcome for the level of external debt is shown in the operational boundary which the Council is required to set. This is calculated on the same basis as prudential indicator number 4, however, this is the limit which external debt is not normally expected to exceed.

<b>Prudential Indicator No. 5</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>External Debt</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>Operational Boundary:</b>			
Borrowing	438	476	465
Other long term liabilities	97	95	97
Commercial activities/ non-financial investments	37	29	28
<b>Total</b>	<b>572</b>	<b>600</b>	<b>590</b>

8.9. **Prudential Indicator 6** - The estimated external debt is based on the capital programme for 2019/20.

<b>Prudential Indicator No. 6</b>	<b>2018/19 Actual</b>	<b>2019/20 Estimate</b>
<b>Actual External Debt</b>	<b>£ m</b>	<b>£ m</b>
Borrowing	312	308
Other long term liabilities	103	101
<b>Total</b>	<b>415</b>	<b>409</b>

8.10. **Prudential Indicator 7** - The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments.

<b>Prudential Indicator No. 7*</b> <b>Internal Indicator No. 1 **</b> <b>No. 7^</b> <b>Internal Indicator No. 2 ^^</b>	<b>2020/21</b>	<b>2021/20 22</b>	<b>2022/20 23</b>
<b>Borrowing Limits</b>			
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Upper Limit for Fixed Interest Rate Exposure *	531	519	505
Upper Limit for Variable Interest Rate Exposure ^	266	260	253
Lower Limit for Fixed Interest Rate Exposure **	265	259	252
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Link, however, this limit is never likely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Upper limit for fixed rate exposure

**Calculation:**

A maximum of 100% of the Authorised Limit (£531m in 2020/21) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

**Calculation:**

For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£266m in 2020/21) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

**Calculation:**

Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates

Lower limit for variable rate exposure

**Calculation:**

To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

Prudential Indicator No. 8*	2020/21	2021/22	2022/23
Internal Indicator No. 3 **			
No. 8^			
Internal Indicator No. 4 ^^			
<b>Investment Limits</b>			
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Upper Limit for Fixed Interest Rate Exposure *	220	220	220
Upper Limit for Variable Interest Rate Exposure ^	220	220	220
Lower Limit for Fixed Interest Rate Exposure **	0	0	0
Lower Limit on Variable Interest Rate Exposure ^^	0	0	0

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

Upper limit for fixed rate exposure

**Calculation:**

Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.

Upper limit for variable rate exposure

**Calculation:**

For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £220m in 2020/21 is recommended.

Lower limit for fixed rate exposure

**Calculation:**

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Lower limit for variable rate exposure

**Calculation:**

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

8.11. **Prudential Indicator 9** - The upper and lower limit for the maturity structure of borrowings is detailed below.

<b>Prudential Indicator No. 9</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
<b>Maturity Structure of Fixed/Variable Rate Borrowing 2020/21*</b>	<b>%</b>	<b>%</b>
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years to 10 years	75	0
10 years to 20 years	100	0
20 years to 30 years	100	0
30 years to 40 years	100	0
40 years to 50 years	100	0
50 years and above	100	0

- **The internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.**

8.12. **Prudential Indicator 10** - The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed.

<b>Prudential Indicator No. 10</b>	<b>2020/21</b>	<b>2022/22</b>	<b>2023/24</b>
<b>Investment Limits</b>			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	50	50	50
Shrewsbury Shopping Centres	90	90	90

**Rationale:** The limit for the external cash fund manager has been set at £30 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward. This includes the lending to date to local housing associations. A separate limit of £90 million is included for the investment in units held within the JPUT for the Shrewsbury Shopping Centres. This limit is higher than the gross capital investment cost of £53.1m as it includes headroom for any future capital investment requirements.

## 9. Current Treasury Position

9.1. The Council's treasury position at 31 December 2019 is set out below:-

<b>Outstanding debt for capital purposes</b>	<b>Actual</b>
	<b>£m</b>
Long-term fixed rate PWLB	258.8
Long term fixed rate – Market	49.2
<b>Total</b>	<b>308.0</b>
<b>Investments</b>	<b>£m</b>
Internally managed - long term (1 Year)	53.0
- short term cash flow	80.3
<b>Total</b>	<b>133.3</b>

## 10. Prospects for Interest Rates

10.1. The Council retains the services of Link Asset Services as adviser on treasury matters and part of the service provided is to help the Council to formulate a view on interest rates. The following table gives the latest Link central view:-

### Link's interest rate forecast as at December 2019

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

Link's current interest rate view is that Bank Rate will: -

- remain at its current level of 0.75% until March 2021 when it is expected to rise to 1.00%.
- reach 1.25% by June 2022.

The effect on interest rates for the UK is expected to be as follows:-

### Short-term interest rates (investments)

10.2. The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK and EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

### **Long-term interest rates (borrowing)**

- 10.3. The 50 year PWLB rate is expected to rise gradually to reach 3.5% by the end of March 2021. It is expected to continue rising gradually to reach 4.0% by the end of December 2022. There is scope for it to move around the central forecast by + or – 0.25%. The 25 year PWLB rate is also expected to rise slightly to reach 3.6% by the end of March 2021 and 4.1% by the end of December 2022. The 10 year PWLB rate is expected to rise gradually to 2.9% by the end of March 2021. Again further gradual rises are expected in 2021/22 & 2022/23. The 5 year PWLB rate is also expected to rise gradually from 2.3% to 2.6% by the end of March 2021 and to 3.2% by the end of December 2022. The PWLB rates and forecasts shown above take into account the 0.2% certainty rate reduction effective as of the 1 November 2012.
- 10.4. On 9 December 2019, the PWLB unexpectedly decided to increase their margin over gilt yields by 100bps to 180bps on loans lent to local authorities. As a consequence, consideration will also need to be given to sourcing funding at cheaper rates.

### **11. Borrowing Strategy**

- 11.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 11.2. The approved external borrowing requirement for 2020/21 to 2022/23 within the Capital Programme is £94.956m self-financing prudential borrowing. The Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-
- i) As long term borrowing rates are expected to be higher than investment rates and look likely to be for the next couple of years or so all new external borrowing may be deferred in order to maximise savings in the short term. The running down of investments also has the added benefit of reducing exposure to interest rate and credit risk. However, in view of the overall



forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.

- ii) Temporary borrowing from the money markets or other local authorities.
- iii) PWLB variable rate loans for up to 10 years.
- iv) Long term fixed rate market loans (including loans offered by the Municipal Bond Agency) at rates below PWLB rates for the equivalent maturity period.
- v) Short term PWLB rates are expected to be cheaper than longer term borrowing therefore borrowing could be undertaken in the under 10 year period early on in the financial year when rates are expected to be at their lowest. This will also have the added benefit of spreading debt maturities away from a concentration in longer dated debt.
- vi) If it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

11.3. Delegated authority is sought for the Section 151 Officer to exercise the borrowing powers contained in the Local Government Act 2003 to manage the debt portfolio.

## **12. External versus internal borrowing**

12.1. The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £308 million and net debt (after deducting cash balances) of £175 million. The next financial year is expected to see the Bank Rate increase by 0.25% to reach 1.00%. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. This is referred to as internal borrowing and maximises short term savings. This is subject to change as the Brexit negotiations are yet to be finalised.

12.2. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

12.3. The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred and such levels of premiums cannot be justified on value for money grounds.

12.4. Against this background caution will be adopted with the 2020/21 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

## **13. Policy on borrowing in advance of need**

13.1. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

13.2. In determining whether borrowing will be undertaken in advance of need the Council will:-

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balance and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

#### **14. Debt Rescheduling**

14.1. Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

- in order to generate cash savings at minimum risk.
- to help fulfil the strategy set out above.
- in order to enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

#### **15. Investment Strategy**

15.1. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

15.2. The Council is required, under CIPFA's Treasury Management Code of Practice, to formulate an Annual Investment Strategy (Appendix 2). This outlines the Council's approach to:-

- Security of capital
- Creditworthiness policy
- Monitoring of credit ratings
- Specified and Non Specified Investments

- Temporary Investments

15.3 The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk as outlined in the Annual Investment Strategy.

15.4 The Council are asked to approve the Investment Strategy set out in Appendix 2.

## **16. Minimum Revenue Provision (MRP) Statement**

16.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP) although it is also allowed to undertake additional voluntary payments if required. MHCLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

## **17. Leasing**

17.1. In the past the Council has used operating leases to finance the purchase of vehicles and equipment. The Section 151 Officer will assess the relative merits of operating and finance leases on a case by case basis and enter into the most advantageous. Schools I.T equipment will continue to be internally financed by borrowing against a small fund set against school balances with schools repaying their borrowing over a period of 3 years.

## **18. Lending to Housing Associations**

18.1. As previously approved by full Council, the Council has offered to lend funds to Shropshire Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing Association) and Severnside Housing at an agreed rate.

18.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association. Officers have sought advice from Wragge & Co who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £9,770,000 has been drawn down by Shropshire Housing Ltd and £10,000,000 by Severnside Housing.

18.3. Following Council approval on 28<sup>th</sup> February 2019, Shropshire Council formed a Wholly Owned Local Housing Company, known as Cornovii Developments Limited. An initial unsecured loan to the Company of £0.250m was also approved to provide funding for operating and set up costs. The Council has subsequently approved funding in the form of equity and a loan to facilitate land purchases and development costs. The loan element, totalling £14m, is anticipated to be released to the Company over the financial years 2020/21 and 2021/22.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Treasury Management Practices

Treasury Strategy 2019/20 (Council 28 February 2019)

Treasury Strategy 2019/20 Mid-Year Review (Council 12 December 2019)

Financial Strategy Report 2020/21 to 2022/23 (Cabinet 16 December 2019)

Shrewsbury Shopping Centres Report (Council 14 December 2017)

Cornovii Initial loan approval paper, (Council 28 February 2019)

**Cabinet Member** : David Minnery, Portfolio Holder for Finance

**Local Member**

N/A

**Appendices:**

1 – Prudential Indicators

2 – Council's Annual Investment Strategy

3 – Minimum Revenue Provision Policy Statement

## Prudential Indicators

Prudential Indicator	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	8.7	9.1	7.0	7.7
HRA ratio of financing costs to HRA net revenue stream	39.0	38.0	37.1	36.2

Prudential Indicator	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	7.9	8.4	6.3	7.0

Prudential Indicator	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
<b>Net Borrowing &amp; Capital Financing Requirement:</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Non HRA Capital Financing Requirement	389	384	390	394	378
HRA Capital Financing Requirement	85	85	95	105	115
Commercial activities/non-financial investments Capital Financing Requirement	0	10	48	76	102
<b>Total CFR</b>	<b>474</b>	<b>479</b>	<b>533</b>	<b>575</b>	<b>595</b>
<b>Movement in CFR</b>	<b>-2</b>	<b>5</b>	<b>54</b>	<b>42</b>	<b>20</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	41.4	9.3	37.5	29.4	28.1
Less MRP/VRP and other financing movements	-43.8	-4.2	16.2	12.1	-7.9
<b>Movement in CFR</b>	<b>-2.4</b>	<b>5.1</b>	<b>53.7</b>	<b>41.5</b>	<b>20.2</b>
Gross Borrowing (including HRA)	312	308	304	292	292
Investments	127	110	110	110	110
Net Borrowing	<b>185</b>	<b>198</b>	<b>194</b>	<b>182</b>	<b>182</b>

Prudential Indicator	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	41.9	51.9	64.4	51.1	64.4
HRA Capital expenditure	5.5	8.4 5.5	22.3	18.7	18.7
Commercial activities/non-financial investments	3.7	3.9	32.4	20.0	20.0
<b>Total Capital expenditure</b>	<b>51.1</b>	<b>61.3</b>	<b>119.1</b>	<b>89.8</b>	<b>103.1</b>
<b>Financing of capital expenditure</b>					
Capital receipts	0.3	9.3	8.4	5.4	0.0
Capital grants	38.5	35.4	43.7	34.2	61.5
Other Contributions	2.6	3.6	14.0	13.6	5.0
Major Repairs Allowance	4.3	4.6	5.0	3.7	3.7
Revenue	0.6	3.0	4.2	2.0	2.0
<b>Net financing need for the year</b>	<b>4.8</b>	<b>5.4</b>	<b>43.8</b>	<b>30.9</b>	<b>30.9</b>
<b>Commercial activities/non-financial investments</b>					
	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£ m	£ m	£ m	£ m	£ m
Capital expenditure	3.7	3.9	32.4	20.0	20.0
Financing Costs	0.0	0.0	0.0	0.0	0.0
<b>Net financing need for the year</b>	<b>3.7</b>	<b>3.9</b>	<b>32.4</b>	<b>20.0</b>	<b>20.0</b>
Percentage of total net financing need	100%	100%	100%	100%	100%

Prudential Indicator	2020/21	2021/22	2022/23
<b>External Debt</b>	£ m	£ m	£ m
<b>Authorised Limit for External Debt:</b>			
Borrowing	531	519	505
Other long term liabilities (PFI)	97	95	97
Commercial activities/ non-financial investments	37	29	28
<b>Total</b>	<b>665</b>	<b>643</b>	<b>630</b>

Prudential Indicator	2019/20	2020/21	2021/22	2022/23
	£ m	£ m	£ m	£ m
HRA Debt Limit*	N/A	N/A	N/A	N/A
HRA CFR	85	95	105	115
HRA Headroom	N/A	N/A	N/A	N/A

**\*Abolition of HRA debt cap.** In October 2018, Prime Minister Theresa May announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29.10.18

Prudential Indicator	2020/21	2021/22	2022/23
<b>External Debt</b>	£ m	£ m	£ m
<b>Operational Boundary:</b>			
Borrowing	438	476	465
Other long term liabilities (PFI)	97	95	97
Commercial activities/ non-financial investments	37	29	28
<b>Total</b>	<b>572</b>	<b>600</b>	<b>590</b>

Prudential Indicator	2018/19 Actual	2019/20 Estimate
<b>External Debt</b>	<b>£ m</b>	<b>£ m</b>
Borrowing	312	308
Other long term liabilities (PFI)	103	101
<b>Total</b>	<b>415</b>	<b>409</b>

Prudential Indicator	2020/21	2021/22	2022/23
<b>Borrowing Limits</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Upper Limit for Fixed Interest Rate Exposure	531	519	505
Upper Limit for Variable Interest Rate Exposure	266	260	253
Lower Limit for Fixed Interest Rate Exposure	265	259	252
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	2020/21	2021/22	2022/23
<b>Investment Limits</b>	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
Upper Limit for Fixed Interest Rate Exposure	220	220	220
Upper Limit for Variable Interest Rate Exposure	220	220	220
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

Prudential Indicator	Upper Limit	Lower Limit
<b>Maturity Structure of Fixed/Variable Rate Borrowing During 2020/21 **</b>	<b>%</b>	<b>%</b>
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

**\*\* Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year.**

Prudential Indicator	2020/21	2021/22	2022/23
<b>Investment Limits</b>			
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	30	30	30
Internally Managed	50	50	50
Shrewsbury Shopping Centres	90	90	90

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### The Council's Annual Investment Strategy

The Council's investment policy has regard to the MHCLG Guidance on Local Government Investments and the CIPFA Treasury Management Code of Practice which requires the Council to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use, for the prudent management of its treasury balances, any of the investments highlighted under the headings of **Specified Investments** and **Non-Specified Investments** as detailed on the attached table (Appendix 2A).

#### Creditworthiness Policy

The Council uses the creditworthiness service provided by its treasury advisor, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the Treasury Management Code of Practice, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Link's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:-

- Yellow – 5yrs e.g. AAA rated Government debt, UK Gilts, Collateralised Deposits
- Dark Pink – 5 years for Ultra-Short Dated Bond Funds or Enhanced Money Market Funds with a credit score of 1.25 (Not currently used)
- Light Pink - 5 years for Ultra-Short Dated Bond Funds or Enhance Money Market Funds with a credit score of 1.5 (Not currently used)
- Purple - 2yrs (Council currently has maximum of 1 year)
- Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green – 100 days
- No colour – not to be used

The Link Asset Services creditworthiness service uses ratings from all three agencies and uses a wider array of information than just primary credit ratings to determine creditworthy counterparties. By using this approach and applying it to a risk weighted scoring system, it does not give undue over reliance to just one agency's ratings.

### **Monitoring of Credit Ratings**

All credit ratings will continue to be monitored continuously and formally updated monthly if any changes are required. The Council is alerted to interim changes in ratings from all three agencies by Link Asset Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the S151 Officer.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a daily basis via the Passport website. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will monitor the financial press and also use other market data and information e.g. information on external support for banks.

### **UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be

focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

The Council currently has investments with HSBC, Barclays & Lloyds. HSBC and Lloyds are classified as ring fenced banks and Barclays as non ring fenced. All these institutions appear on Link Asset Services approved lending list and meet the council’s creditworthiness criteria.

### **Country Limits**

It is recommended that the Council will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Link’s revised creditworthiness policy if required.

### **Security of Capital**

The Council’s current policy is to not place investments with any Foreign banks. The only exception to this is a call account set up with the Swedish bank, Handelsbanken, but this is a highly credit rated institution and the sovereign rating of Sweden is AAA as stated above. Funds are also repayable immediately if required. Following approval of the S151 Officer, lending to AAA rated Money Market Funds has also recommenced. Lending to other Foreign banks which comply with Link’s creditworthiness policy may be considered again but only with the express approval of the S151 Officer.

In addition, in order not to solely rely on an institution’s credit ratings there have also been a number of other developments which require separate consideration and approval for use:

**Part Nationalised banks** in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. Link are still supportive of the Council using these institutions with a maximum 12 month duration. For this reason Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS Group are included on the approved counterparty list.

**Local Authorities** are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part

Nationalised Institutions the maximum amount is currently limited to £20m. Any changes to the maximum limit must be approved by the S151 Officer.

### **MHCLG Investment Guidance**

Guidance from the MHCLG requires Councils to give priority to the security and portfolio liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either "specified" or "non-specified" investments.

#### **(i) Specified Investments**

Specified investments are deemed as "safer" investments and must meet certain conditions, ie they must :-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
  
- either:           be invested in the UK government or a local authority  
                          or a body or investment scheme with a "high" credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having high credit quality in line with Link's creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Link Asset Services.

#### **(ii) Non Specified Investments**

These are any investments which do not meet the specified investment criteria outlined above. The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer

- priority should be given to security and portfolio liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £5m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £50m of the total investment portfolio (excluding the Shrewsbury Shopping Centre acquisition). Any changes to the maximum limits must be approved by the S151 Officer.

### **Temporary Investment Strategy**

The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank rate to 0.75% in August 2018. It is felt that the bank rate will remain at its current level of 0.75% until March 2021 when it is expected to rise to 1.00%. The Bank rate is then expected to rise to 1.25% by June 2022. This view is based on the latest forecasts obtained by the Authority's treasury advisor, Link Asset Services.

If an external fund manager is appointed in 2020/21 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council's Annual Investment Strategy and their agreement must stipulate guidelines and other limits in order to contain and control risk.

The market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise instant access accounts, Money Market Funds and short dated deposits (1-3 months) in order to benefit from the compounding of interest.

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been some what reduced due to the reduction in the number of institutions which we can lend to, however, by taking this course of action the credit risk has been reduced. The portfolio as at 31 December 2019 is set out in paragraph 9.1 of the Treasury Strategy 2020/21 report. The amount held in investments has reduced by £52.6m following the purchase of units held in a Jersey Property Unit Trust (JPUT) for the acquisition of 100% of the units for the Shrewsbury Shopping Centres on 23 January 2018. Performance of the in-house operation will continue to be monitored on a monthly basis by your officers in conjunction with the treasury advisor.

All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **Policy on the use of external service providers**

The Council currently uses Link Asset Services, as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to review.

## **Scheme of Delegation**

### **Full Council**

- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid-Year Strategy Report.
- Budget consideration and approval

### **Cabinet**

- Receiving & reviewing Treasury Strategy, Mid-Year Strategy Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

### **Audit Committee**

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report.

## **Role of the Section 151 Officer**

The role of the S151 Officer in relation to treasury management is as follows:-

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- Approval of segregation of responsibilities.
- Approval of the Treasury Policy Statement and Treasury Management Practices.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

The above list of specific responsibilities of the s151 Officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
  - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
  - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

## **Pension Fund Cash**

The Council complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and does not pool pension fund cash with its own balances for investment purposes.



**LOCAL GOVERNMENT INVESTMENTS (England)****SPECIFIED INVESTMENTS**

*All investments listed below must be sterling-denominated.*

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
<b>Term deposits</b> with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although most LAs not credit rated.	No	In-house and by external fund manager	1 year
<b>Term deposits</b> with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band green	No	In-house and by external fund manager	1 year
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) up to 1 year.  <i>Custodial arrangement required prior to purchase</i>	No	Yes	Yes – Minimum colour band green	No	In house buy and hold and External fund managers	1 year
<b>Banks nationalised by high credit rated (sovereign rating) countries – non UK</b>	No	Yes	Minimum Sovereign Rating AA-	No	In house and external fund managers	1 year



Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
<b>UK Nationalised &amp; Part Nationalised banks</b>	No	Yes	Yes – Minimum colour band green	No	In House and external managers	1 year
<b>Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries</b>	No	Yes	Yes – Minimum Sovereign Rating AA- / UK Sovereign Rating	No	In house and external fund managers	1 year
<b>Bonds issued by multilateral development banks</b> (Euro Sterling Bonds as defined in SI 2004 No 534) <b>Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail</b>	No	Yes	AAA	No	In-House on a buy and hold basis after consultation/advice from Link also for use by External fund manager	1 year
<i>Custodial arrangement required prior to purchase</i>	No	Yes	UK sovereign rating	No		
Gilt Funds and Bond Funds (including Ultra-Short Dated Bond Funds)	No	Yes	AAA	No	In House and by external fund managers	1 year
<b>Gilts : up to 1 year</b>	No	Yes	Govt-backed UK Sovereign Rating	No	In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them	1 year
<i>Custodial arrangement required prior to purchase</i>						

Page 47



Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
<b>Money Market Funds (CNAV), Enhanced Money Market Funds (LVNAV &amp; VNAV) &amp; Government Liquidity Funds (including CCLA Fund)</b>	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	No	In-house and by external fund managers subject to the guidelines and parameters agreed with them	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements.  Deposits are repayable at call.
<b>Treasury bills</b> [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]  Custodial arrangement required prior to purchase	No	Yes	Govt-backed UK Sovereign Rating	No	In House or external fund managers subject to the guidelines and parameters agreed with them	1 year

Page 49

**Monitoring of credit ratings:**

All credit ratings will be monitored continuously and formally updated on a monthly basis if required. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.



## LOCAL GOVERNMENT INVESTMENT (England)

### NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated (with the exception of the WME US dollar account).

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum credit</u> <u>rating</u>	<u>Capital</u> <u>Expen-</u> <u>diture?</u>	<u>Circumstance of</u> <u>use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
<b>Certificates of Deposit</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) tradable more liquid than fixed term deposits (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD. (ii) Although in theory tradable, are relatively illiquid.	No	Yes	UK Sovereign rating	No	In house on a buy and hold basis after consultation/advice from Link & external cash fund manager(s) subject to the guidelines and parameters agreed with them.	50%	<i>Suggested limit :</i>  Average duration in the portfolio not to exceed 5 years
<b>Collateralised deposit</b>	Deposits are backed by collateral of AAA rated local authority	No	Yes	UK Sovereign rating	No	In house & External Manager	25%	<i>5 years</i>
<b>UK government gilts</b> with maturities in excess of 1 year  <i>Custodial arrangement required prior to purchase</i>	(A)((i) Excellent credit quality. (ii)Very Liquid). (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	UK Sovereign rating	NO	In house on a buy & hold basis following advice from Link and for trading by external cash fund manager subject to the guidelines and parameters agreed with them	50%	<i>Suggested limit :</i>  Average duration in the portfolio not to exceed 5 years





Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investment s	Maximum maturity of investment
<b>Term deposits</b> with UK government, other Local Authorities, and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year	(A)(i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment.  (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Minimum colour band purple	NO	In-House  For trading by external cash fund manager subject to the guidelines and parameters agreed with them	£40 million  50%	<i>Suggested limit:</i>  3 years
<b>Sovereign bond issues</b> ex UK Government Gilts: any maturity	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) “Market or interest rate risk” : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	No	Yes	AAA	No	For trading by external cash fund manager only subject to the guidelines and parameters agreed with them	50%	<i>Suggested limit:</i>  5 years
<b>Bonds issued by multilateral development banks</b> (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government  Custodial arrangement required prior to purchase	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) “Market or interest rate risk” : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	AAA	No	In house on a buy and hold basis after consultation/advice from Link.  Also for use by external fund managers	10%  50%	5 years

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investment s	Maximum maturity of investment
<b>Corporate Bonds &amp; Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)</b>	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	<i>Suggested limit:</i>  5 years
<b>Jersey Property Unit Trust (JPUT)</b>	Required to facilitate the acquisition of the Shrewsbury Shopping Centres via a Jersey based Property Unit Trust – required only subject to full Council approval of the acquisition method on 14 <sup>th</sup> December 2017.	No	No	No Minimum Credit rating – assets held within the fund to undergo annual valuation to determine value of Units within the Trust.	Yes	In House use following specialist technical and legal advice.	£60m	5 years
<b>Pooled property funds including CCLA Local Authorities Property Fund</b>	Enhanced return but increased risk, only to be used following advice from Link	No	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Link	No	In House Use & External Fund managers following advice from Link	20%	5 years
<b>Floating Rate notes</b>	(A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some circumstances may have access to banks which meet minimum credit criteria but generally don't take small fixed term deposit cash amounts  (B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall	Yes	Yes	Minimum Colour band green	No	In House Use & External Fund managers following advice from Link	10%	3 years
<b>US Dollar Deposits (WME Only)</b>	US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of	No	Yes	Minimum Colour band green	No	West Mercia Energy Only	N/A	3 Months

	exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.							
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## **The Council's Annual Minimum Revenue Provision Statement**

### **Statutory Requirements**

The Council is required by statute to set aside a minimum revenue provision (MRP) to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]*. In regulation 28, detailed rules were replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

### **Policy for Calculation of Prudent Provision**

The options for the calculation of a Prudent Provision are detailed in appendix 3(a) to this report. Authorities must always have regard for the guidance and the decision on what is prudent is for the authority to conclude, taking into account detailed local circumstances, including specific project timetables and revenue-earning profiles.

Following a review of the MRP policy from 2018/19 the prudent provision for Supported Borrowing has been calculated based on the expected useful life of the asset on an annuity calculation basis.

Option 3a - Asset life method (Unsupported Borrowing) - equal instalment method will continue to be used for unsupported borrowing agreed prior to 2018/19 and specific treatment for PFI Assets and assets held under Finance Leases and long-term capital loans. For any approved unsupported borrowing from 2018/19 the prudent provision will be calculated on an annuity basis linked to the expected useful life of the asset for consistency with the Supported Borrowing calculation, Option 3b.

### **Supported Borrowing**

From 2016/17 the approach for calculating the MRP was on a straight line (equal instalments) calculation basis on the remaining asset life of the assets linked to the borrowing. An analysis of the average remaining asset life of the assets financed from

previous supported borrowing, determined the average remaining life to be around 45 years and this was used as the basis of calculation.

From 2018/19 Council approved to adopt the annuity calculation method for supported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

CIPFA puts forward the following reasons for using the annuity method in CIPFA's "The Practitioner's Guide to Capital Finance in Local Government" (2008) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 year's time, is less of a burden than paying £100 now.
- The schedule of charges produced by the annuity method results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
- The annuity method is a prudent basis for providing for assets that provide a steady flow of benefits over their useful life.

For 2018/19 and onwards the Council has adopted the annuity-based calculation on a 45-year basis.

### **Unsupported Borrowing - Asset Life Method**

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with Option 3 Asset Life Method. Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option 3 it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. For energy efficiency schemes the payback period of scheme is used as the basis for calculating the period over which MRP is calculated.

This method is a straightforward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

Provision for debt under Option 3 will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This “MRP holiday” would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable.

Prior to 2018/19 the Council adopted the Option 3a Straight Line calculation for unsupported borrowing. From 2018/19 Council approved to adopt the Option 3b annuity calculation method for new unsupported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

The authority can still make voluntary extra provision for MRP in any year.

### **Adjustment A**

This is an accounting adjustment to the MRP calculation that ensures consistency with previous capital regulations. Once calculated, the amount remains constant within the MRP calculations.

Between 2016/17 and 2017/18 the adjustment A was not included in the MRP calculation but continues to be a legitimate part of the calculation under the 2003 Regulations (Regulation 28) and can therefore continue to be used to reduce the supported borrowing CFR for MRP purposes. It has been considered to be prudent to include the Adjustment A value from 2018/19 onwards to calculate the CFR value. For Shropshire the fixed Adjustment A calculation is £4,446,483.75

### **PFI Assets and Assets Held Under Finance Leases**

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

### **Long Term Capital Loans**

The Council has made available a small number of capital loans to Housing Associations and Village Halls, financed from the Councils balances. The annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

### **Housing Revenue Account MRP**

As at 31/03/20 the HRA CFR is £84.8m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA

against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

### **2020/21 Annual MRP Statement**

Appendix 3(b) provides the MRP statement for the 2020/21 financial year.

### **Capital Receipts Set Aside**

The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus, the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2018/19, a balance was retained as set aside as at the end of each financial year to enable a further MRP saving in the following financial years. In the 2020/21 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2020 to reduce the CFR will be offset by an increase in the CFR in 2020/21 from capital expenditure incurred in 2020/21. In the event that the level of capital expenditure in 2020/21 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2021/22. This will be reported for approval as part of the Capital Outturn report 2019/20.



## Appendix 3(a): Options for Prudent Provision

### Option 1: Regulatory Method (Supported borrowing)

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

### Option 2: CFR Method (Supported borrowing)

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

### Option 3: Asset Life Method (Unsupported borrowing)

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

#### (a) Equal Instalment Method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

**A** is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

**B** is the total provision made before the current financial year in respect of that expenditure

**C** is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third-party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e)	"C" equals the estimated life of the assets

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Expenditure on works to assets not owned by the authority	
Regulation 25(1)(ea) Expenditure on assets for use by others	“C” equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	“C” equals 25 years

**(b) Annuity Method**

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

**Option 4: Depreciation Method (Unsupported borrowing)**

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose, standard depreciation accounting procedures should be followed, except in the following respects.

- (a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.
- (b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
- (c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

## Appendix 3(b): Minimum Revenue Provision Statement 2020/21

	£
<b><u>Supported Borrowing - Asset Life (45 years)</u></b>	
<b>General Fund</b>	
Closing CFR 2018/19	193,885,725
Proposed use of capital receipts voluntarily set aside to be applied in 2019/20	8,182,852
Adjustment A	(4,446,484)
	<u>197,622,093</u>
Less LGR (98) Debt	(87,659)
	<u>197,534,434</u>
Less MRP 2019/20	(2,441,000)
Add Back LGR (98) Debt	87,659
	<u>195,181,094</u>
<b>CFR for Supported Borrowing MRP Calculation</b>	<b>195,181,094</b>
Add Back Adjustment A	4,446,484
	<u>199,627,577</u>
<b>Closing CFR 31/03/20 - Supported Borrowing (GF)</b>	<b>199,627,577</b>
<b>Housing Revenue Account</b>	
Closing CFR 2018/19	84,804,619
Add transfer of asset from GF to HRA	0
Less MRP 2019/20 (none budgeted as per HRA MRP policy)	0
	<u>84,804,619</u>
<b>Closing CFR 31/03/20 - Supported Borrowing (GF&amp;HRA)</b>	<b>284,432,197</b>
<b><u>Unsupported Supported Borrowing – Asset Life (based on individual assets)</u></b>	
Unsupported Borrowing brought forward	74,178,793
Add profiled prudential borrowing 2019/20	9,326,659
Less MRP – 2019/20	(1,957,590)
<b>Closing CFR 31/03/20 - Unsupported Supported Borrowing</b>	<b>81,547,863</b>
<b>Closing CFR (GF&amp;HRA) 31/03/20 - Borrowing Requirement</b>	<b>365,980,060</b>
<b>Additional items included:</b>	
Village Hall Loans	284,973
Housing Association Loans	17,257,609
	<u>383,522,642</u>
<b><u>Summary MRP</u></b>	
MRP 2020/21 at on Annuity Basis at 45 year life from 2018/19	2,476,921
LGR (98) Debt MRP	30,840
Prudential Borrowing MRP	2,262,256
<b>Total MRP 2020/21</b>	<b>4,770,018</b>

*N.B. The above excludes the CFR and MRP charges in relation to the on-balance sheet PFI schemes and finance leases.*

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<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 25 <sup>th</sup> February 2020		

## STRATEGIC RISK REPORT FEBRUARY 2019

**Responsible Officer** Angela Beechey

e-mail: Angela.beechey@shropshire.gov.uk

Tel: (01743)  
252073

Fax: (01743)  
252858

### 1. Summary

- 1.1 This report sets out the current strategic risk exposure following the December 2019 quarterly review.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report.

## REPORT

### 3. Current Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.
- 3.2 Our strategic risks are reviewed on a quarterly basis ensuring that the level of risk exposure is monitored regularly in our rapidly changing environment.
- 3.3 The review was achieved through scheduled meetings with key officers, Directors and the Chief Executive. The outcome of each review is then reported to Directors and Informal Cabinet.
- 3.4 The Risk Profile & Action Plans for managing our strategic risks are completed and fully embedded. These detail the direction of travel for each strategic risk over the year and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged.
- 3.5 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year.
- 3.6 The previous review in September saw several changes to the strategic risk profile with three low strategic risks being removed – Contract Management, Governance and ICT Provision. It was agreed by Directors that these areas of risk should now be embedded in the operational service areas and managed accordingly. The existing risk; Failure to Safeguard adults with care and support needs including adhering to legislation in relation to DoLs, was separated into two separate risks and a new risk profile was developed to

manage adhering to legislation in relation to DoLs. It also saw the introduction of two new risks – Ability to Fund Children’s Services and the Ability to Fund Adult Services – both of these were scored a high risk. Audit Committee members have since had the opportunity to discuss these two new risks with the Directors of each at a training session in November 2019.

3.6 As at the December 2019 review there were 17 strategic risks on the strategic risk register and these are each managed by specific Directors. This is an increase of one strategic risk relating to the effects of Climate Change. These are detailed as follows:

Risk	Risk Owner	L	I	Status
Ability to fund Adult Social Services	Andy Begley	5	5	25
Ability to fund Children’s Services	Karen Bradshaw	5	5	25
Staffing	Michele Leith	5	4	20
Work Related Stress	Michele Leith	5	4	20
Sustainable Budget	James Walton	4	5	20
Commercial Strategy	Mark Barrow	4	5	20
Future Funding Levels	James Walton	4	5	20
Digital Transformation Programme	Michele Leith	4	4	16
Economic Impact of Brexit	Clive Wright	4	4	16
The effects of Climate Change	Mark Barrow	4	4	16
Failure to Safeguard Vulnerable Children	Karen Bradshaw	3	4	12
Economic Growth Strategy	Mark Barrow	3	4	12
Reputation	Michele Leith	3	4	12
Strategic Vision and Strategy	Clive Wright	2	4	8
Health & Social Care	Andy Begley	4	2	8
Failure to Safeguard Adults with care and support needs	Andy Begley	2	3	6
Failure to adhere to legislation in relation to DOLs	Andy Begley	2	3	6

<b>High Risks</b>
<b>Medium Risks</b>
<b>Low Risks</b>

3.7 **The Effects of Climate Change** - The review has seen one new risk being added – the announcement that Shropshire Council has declared a Climate Change Crisis has led to a strategic risk being created. The risk has currently been scored as Likelihood 4 x Impact 4 giving it a High score of 16. Adrian Cooper has been appointed the lead officer on climate change and we have been liaising with him for completion of the risk profile.

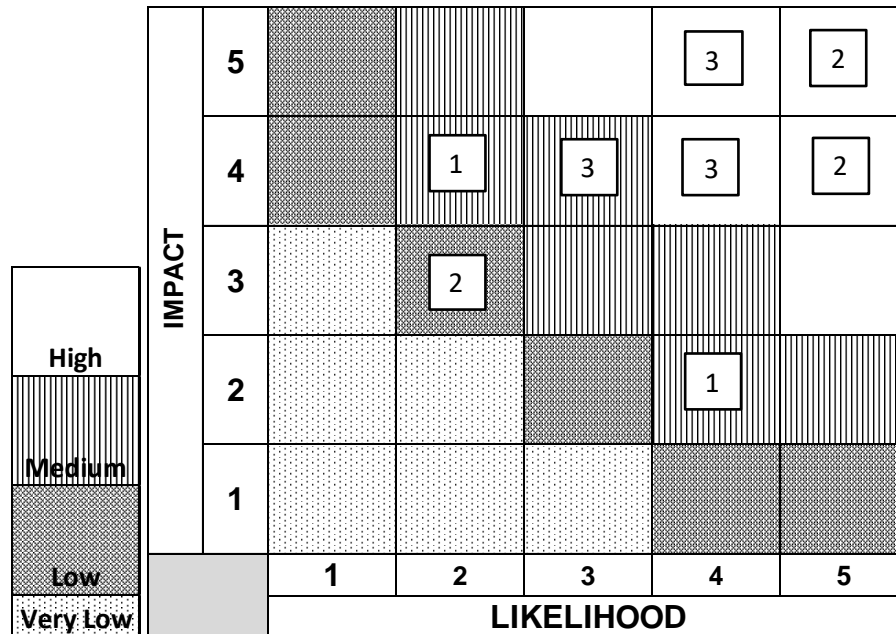
3.7.1 **Economic Growth Strategy** – At the time of the review in December the effects of Brexit on the economy were unknown and this was acknowledged in the Economic Growth Strategy strategic risk with the score increasing from a low risk to a medium risk with a likelihood score of 3 and an impact score of 4.

3.7.2 **Reputation** - The reputation risk score was reduced from a high risk to a medium risk – likelihood 3, impact 4, recognising that there were no major

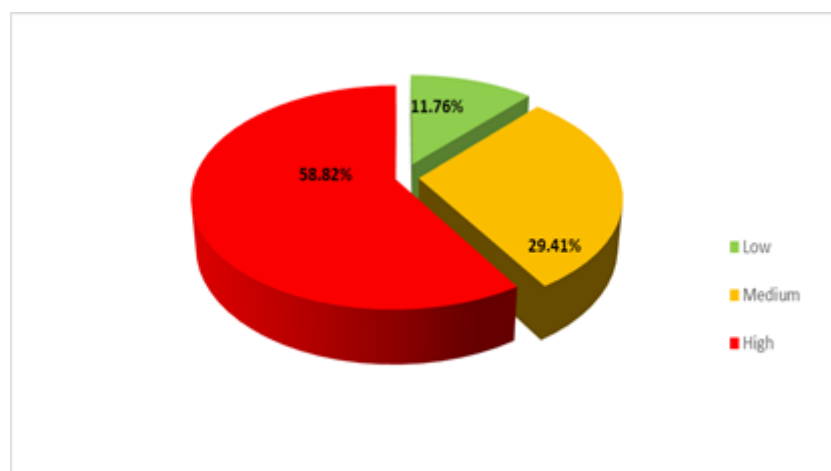
issues at the time of the review. However, with an emergency having been announced within Highways concerning the number of pot holes, this risk has since been increased.

3.7.3 **Safeguarding Children** – The risk score was reduced this review from a high risk to a medium risk – likelihood 3 x impact 4, acknowledging the work that has been done to recruit social workers and the positive effects this is having.

3.8 Our current risk exposure, when plotted on our matrix is demonstrated as follows:-



3.9 Our overall current risk exposure following the latest review is demonstrated below. This shows that the strategic risk exposure above our tolerance level (i.e. high and medium risks) is currently just over 88% a slight increase from the previous review.



3.10 The next review is due in March 2019 and we have already seen some mid-review changes to the risk scores regarding Reputation risk (as detailed

earlier in the report) and the no deal Brexit risk will be re-worked now that we have left the EU with a deal.

**4. Assurance**

4.1 Each Director continues to give assurances around the risk and how this is being managed.

4.2 During the March review we will also discuss whether the target scores set by Directors at the beginning of 2019 have been achieved.

**5. Monitoring**

5.1 Behind all of the strategic risks are Risk Profiles and Action plans which elaborate in greater detail the risk and the current controls and outstanding actions which are in place and are monitored. Audit Committee can at any time elect to have a more detailed examination of any of the strategic risks and can invite the risk owner to a committee meeting to discuss their risk.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Annual Governance Statement  
Opportunity Risk Management Strategy

**Cabinet Member**

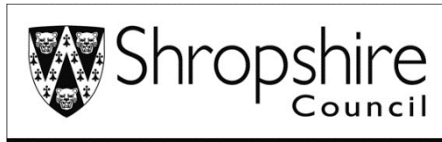
David Minnery, Portfolio Holder Resources & Support

**Local Member**

N/A

**Appendices**





<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25 <sup>th</sup> February 2020	
1:30 pm	<u>Public</u>

## REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2020/21

**Responsible Officer** Ceri Pilawski  
e-mail: [ceri.pilawski@shropshire.go.uk](mailto:ceri.pilawski@shropshire.go.uk)

Tel: 01743 257739

### 1. Summary

It is important that Audit Committee Members have an agreed plan of work for the year ahead and receive appropriate learning and development to deliver their responsibilities effectively. This report provides a proposed Audit Committee work plan and seeks discussion and agreement around a learning and development plan for Members to ensure that they are well informed and appropriately skilled to fulfil their role.

A key change proposed is for the Audit Committee to approve the Statement of Accounts in July. This is completed at several other authorities and is recognised by the External Auditors. Members are asked to consider this as part of the Audit Committee's future work plan and if in agreement, seek the necessary constitutional changes.

### 2. Recommendations

The Committee is asked to consider and approve, with appropriate comment:

- a) The Audit Committee work plan for 2020/21, **Appendix A**;
- b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B**.
- c) Delegation to the Director of Finance, Governance and Assurance to approve a revised Terms of Reference for the Audit Committee to incorporate approval of the Final Accounts Pack, including the Statement of Accounts for the financial year end with the Committee Chair and to seek formal delegation in the Constitution from Council for this activity.

**REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in respect of their roles and responsibilities, Audit Committee Members can undertake their duties effectively and deliver them to a high standard, thereby adding to:
- the robustness of the risk management framework;
  - the adequacy of the internal control environment and
  - the integrity of the financial reporting and annual governance of the Council.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change requirements or consequences of this proposal.

### **4. Financial Implications**

- 4.1 The Audit Committee work plan and learning and development sessions for members will be met from within approved budgets.

### **5 Climate Change Appraisal**

- 5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
- 5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.
- 5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
- 5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

### **6 Background**

- 6.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) identifies the purpose of an Audit Committee, in its Practical Guidance for Local Authorities and Police 2018 Edition, as providing those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. In local authorities, audit committees are necessary to satisfy the wider requirements for sound financial and internal control. Accounts and Audit (England) Regulations 2015 state 'the relevant authority must ensure that it has a sound system of internal control which; facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk'. With a known work plan, and

appropriate and timely learning and development for Members, the committee will be well prepared and members will gain the knowledge and experience needed to carry out their role effectively.

### **Work Plan**

6.2 The work plan in **Appendix A** continues to be presented in a format which demonstrates how reports to Audit Committee contribute to the delivery of the Committee's Terms of Reference and what assurances they provide.

6.3 There is only one proposed change for which member approval is sought. This is highlighted in **bold and underlined** in **Appendix A**. In considering the amendments the following information may be useful:

- a) It is proposed that the Audit Committee seek formal delegation from the Council to approve the final statement of accounts and accompanying documents at their meeting on the 31<sup>st</sup> July 2020.
- b) Research across other councils has found this to be the practice in Telford and Wrekin, Herefordshire and Worcestershire. The External Auditor, Grant Thornton, have also been consulted upon this and have no objections. If members agree a change to the Audit Committee's Terms of Reference will be agreed in consultation with the Director of Finance, Governance and Assurance and the Chair and a change to the Constitution sought.

### **Learning and Development**

6.4 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.

6.5 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2019/20 the Members have received four half day sessions covering several topics in detail. Training delivered included presentations and workshops on:

- Single person discount council tax review
- Programme assurance – what to look for
- Cloud service – what does this mean for Shropshire Council and the Audit committee
- New systems programme assurance for the Audit Committee;
- CIPFA Statement on the Head of Internal Audit
- Assurance on the process of identifying, monitoring and achieving savings to stay within identified budgets
- Challenging officers on the systems within their area to deliver against the financial strategy ...from a finance perspective and from a service perspective

- Strategic risks including children and adults safeguarding
  - Treasury management
- 6.6 It is proposed that training is again provided in three half day sessions over the next twelve months. Sessions are planned for the 22<sup>nd</sup> June, the 8<sup>th</sup> September 2020 and the 11<sup>th</sup> February 2021.
- 6.7 **Appendix B** identifies training topics for Audit Committee Members to consider. Training topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire plus specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities and risks are emerging and can request this as part of their training.
- 6.8 Whilst members are asked to endorse the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Previous training session records

CIPFA's Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition

Accounts and Audit Regulations 2015

**Cabinet Member (Portfolio Holder)** Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

**Local Member** n/a

**Appendices**

**Appendix A** – Audit Committee Work Plan 2020/21 and Summary

**Appendix B** – Audit Committee Members development topics

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
<b>Core business 25 June 2020</b>		
1. Internal Audit: Annual Report.	<p>Head of Audit's overall opinion on the Council's internal control environment.</p> <p>Performance against the revised internal audit plan.</p> <p>Provides a review of the effectiveness of the systems of internal control.</p>	<p>To consider the Head of Audit's annual report, specifically:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p>
2. Section 151 Officer: Statement of Accounts.	<p>Ensure that the narrative report to the accounts help the public understand the authority's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	Seek assurance that the Council has appropriate accounting policies in place to ensure that items are treated correctly in the accounts.	to be brought to the attention of the Council.
3. Section 151 Officer: Annual Governance Statement (AGS) and review of the effectiveness of the Council's internal controls and Shropshire Council's Code of Corporate Governance.	<p>Confirm that the final Annual Governance Statement accurately reflects the Committee's understanding of how the Council is run.</p> <p>Gain assurance that management have progressed the agreed actions associated with the significant issues / key risks identified in the Annual Governance Statement.</p> <p>That the Council has very strong compliance with the Code of Corporate Governance which is part of the overall internal control framework and contributes to the Council's strong governance arrangements.</p>	<p>To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.</p> <p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p> <p>To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.</p>
4. Section 151 Officer: Annual review of internal audit: quality assurance and improvement programme (QAIP).	That Internal Audit complies with the Public Sector Internal Audit Standards and is effective in doing so.	To consider reports from the Head of Audit on Internal Audit's performance

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	<p>That there is an improvement programme in place to ensure that any identified gaps are addressed.</p>	<p>during the year, these will include reports on:</p> <ul style="list-style-type: none"> <li>• the results of the Quality Assurance and Improvement Programme; and</li> <li>• instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.</li> </ul> <p>To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of Internal Audit that takes place at least once every five years.</p>
<p>5. Internal audit: Annual assurance report of Audit Committee to Council.</p>	<p>Provide assurance that the Committee has adequately discharged its terms of reference and has positively contributed to how well the Council is run.</p> <p>Provides Council with an independent assurance report that the Council has in place adequate and effective risk management and internal control</p>	<p>To report annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	<p>systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.</p>	<p>functions and financial reporting arrangements.</p> <p>To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.</p>
<p>6. Section 151 Officer: Financial Outturn report.</p>	<p>Provides the financial outturn of the Council's revenue budget for the year and therefore considers the effect that any over/underspend has on the Council's balances.</p> <p>Provides details of the potential risks affecting the balances and financial health of the Council.</p> <p>Provides the financial outturn of the Council's capital budget for the year and therefore considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.</p>



**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
7. Director of Workforce and Transformation: Annual Whistleblowing report.	Assurance that as part of the Counter Fraud, Bribery and Anti-Corruption Strategy the Whistleblowing policy contributes to our zero tolerance of fraud, bribery and corruption.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
8. External Audit: Fee Letter.	To provide a clear indication as to the external Auditor's fees for the year.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
9. External Audit: Audit progress report and sector update.	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>•a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>•a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul>	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
10. Internal Audit: Fraud, investigations and RIPA update.	Provide assurances and an update on current fraud and investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	activity under the Regulation of Investigatory Powers Act (RIPA).	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
<b>Other assurance</b>		
11. External Audit: Pension Fund Audit Plan (information).	Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans for the Pension Fund.	To consider specific reports as agreed with the External Auditor and other inspection agencies.
12. Director of Workforce and Transformation: Digital Transformation Programme (DTP) update	Provide management assurance on the direction of travel and robustness of the internal control arrangements for delivery of the DTP.	Director of Workforce and Transformation: Digital Transformation Programme (DTP) update
<b>Core business: 31 July 2020</b>		
13. External Audit: Audit Findings report Shropshire Council	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.  Ensure any issues / risks identified are being effectively managed.	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
<b><u>14. Final Statement of Accounts</u></b>	<b><u>Approve the final audited outturn position for the financial year and details of any amendments made to the Draft Statement of Accounts during the audit process.</u></b>	<b><u>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising</u></b>

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p><b><u>Where a meeting is held before the 31<sup>st</sup> July, to agree that the Director of Finance, Governance and Assurance be authorised to make any minor adjustments to the Statement of Accounts prior to the 31st July.</u></b></p> <p><b><u>Agree that the Director of Finance, Governance and Assurance and the Chairman of the Audit Committee sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.</u></b></p>	<p><b><u>from the financial statements or from the audit that need to be brought to the attention of the Council.</u></b></p>
<p><b>Core business: 17 September 2020</b></p>		
<p>15. Risk and Insurance Manager: Risk Annual report <b><u>incorporating strategic risks.</u></b></p>	<p>To understand the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the authority.</p> <p>Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.</p>	<p>To monitor the effective development and operation of risk management in the Council.</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
16. Risk and Insurance Manager: Strategic Risks update	<p>Assurances that the management of strategic risks, a key process that underpins the successful achievement of the Council's priorities and outcomes, is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	To monitor the effective development and operation of risk management in the Council.
17. Section 151 Officer; Annual Treasury report	Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
18. Internal Audit: Performance report and revised Annual Audit Plan	Understand the level of assurances being given because of audit work and their impact on the	To consider reports from the Head of Audit on Internal Audit's performance

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	<p>Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p> <p>Understand any resourcing issues because of changes to the plan.</p>	<p>during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>19. External Audit: Audit progress report and sector update.</p>	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p>	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	<p>The paper also includes:</p> <ul style="list-style-type: none"> <li>•a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>•a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul>	<p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
20. External Audit: Annual Audit Letter	Provides assurances on the key findings arising from the work that External Audit have carried out at the Council.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
21. Internal Audit: Fraud, special investigations and RIPA update.	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
<b>Other assurance</b>		
22. External Audit: Audit Findings report Shropshire County Pension Fund (information)	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements.	To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Page 82

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	Ensure any issues / risks identified are being effectively managed.	
<b>Core business: 7 December 2020</b>		
23. Internal Audit: Annual review of Audit Committee Terms of Reference	Ensures the Audit Committees continues to benefit the Council by continuing to provide an effective service assessed against current best practice.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
24. Internal Audit: Annual review of Internal Audit Charter	Assurance that effective corporate governance arrangements are maintained in the Council part of which is evidenced by a current Internal Audit Charter.	To approve the Internal Audit Charter.
25. Internal Audit: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities; including an update on the National Fraud Initiative (NFI)	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p>	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	<p>Provides confirmation that the Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed in line with best practice and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework.</p> <p>Provides an update and assurances on the outcomes of the National Fraud Initiative.</p>	
<p>26. Internal Audit: Performance report and revised Annual Audit Plan</p>	<p>Understand the level of assurances being given because of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p>	<p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p>



**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Understand any resourcing issues because of changes to the plan.</p>	<p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>27. Section 151 Officer: Treasury Strategy Mid-Year report</p>	<p>Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.</p>	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
<p>28. Section 151 Officer: Annual Audit Committee self-assessment</p>	<p>Confirmation that the Audit Committee is working effectively and where any further improvements</p>	<p>To review the Council's corporate governances arrangements against the</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	are identified to improve its overall effectiveness, there are plans to implement these.	good governance framework and consider annual governance reports and assurances.
29. External Audit: Audit progress report and sector update	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>•a summary of emerging national issues and developments that may be relevant to the Council; and</li> <li>•a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul>	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
30. External Audit: Certification Summary report	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
31. Internal Audit: Fraud, special investigations and RIPA update	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	update on current Regulation of Investigatory Powers Act (RIPA) activity.	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
<b>Other assurance</b>		
32. None planned		
<b>Core business: 22 February 2021</b>		
33. Risk and Insurance Manager: Strategic Risks update	<p>Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	To monitor the effective development and operation of risk management in the Council.
34. Section 151 Officer: Treasury Strategy	Provides assurances that the Council's Treasury Management practice complies with CIPFA's Code of Practice on Treasury Management, the Council's Treasury Policy Statement, Treasury Management Practices and the Prudential Code for Capital Finance and together with the rigorous	To consider the robustness of the authority's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	internal controls will enable the Council to manage the risk associated with Treasury Management activities and reduce any potential for financial loss.	
35. Internal Audit: Report of the audit review of Risk Management	Provides independent assurance on the overall control environment for the Risk Management system that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.	To monitor the effective development and operation of risk management in the Council.
36. Internal Audit: Performance report and revised Annual Audit Plan	<p>Understand the level of assurances being given because of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p>	<p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Understand any resourcing issues because of changes to the plan.</p>	<p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>37. Internal Audit: Draft Annual Internal Audit risk based plan</p>	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan.</p>	<p>To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.</p> <p>To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p> <p>Gain assurance that the Council has effective arrangements in place to fight fraud locally and that counter fraud resources are targeted to the Council's key fraud risks.</p>	
38. Internal Audit: Draft Audit Committee annual work plan and future training requirements	Assurance that the agreed plan of work for the year ahead will deliver against the terms of reference of the Audit Committee and that Members will receive appropriate learning and development in order to deliver their responsibilities effectively.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
39. Internal Audit: Fraud, special investigations and RIPA update	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
40. External Audit: Annual Plan	Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans.	To comment on the scope and depth of external audit work and to ensure it gives value for money.

Page 90

**Appendix A: Audit Committee Work Plan – 2020/21**

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>41. External Audit: Informing the risk assessment</p>	<p>As part of External Audit's risk assessment procedures, they obtain an understanding of management processes and the Audit Committee's oversight of the following areas:</p> <ul style="list-style-type: none"> <li>• Fraud</li> <li>• Laws and regulations</li> <li>• Going concern</li> <li>• Related party transactions</li> <li>• Accounting estimates</li> </ul> <p>This report includes a series of questions on each of these areas and the response we have received from the Council's management for Audit Committee to consider whether the responses are consistent with the its understanding and whether there are any further comments it wishes to make.</p>	<p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
<p>42. External Audit: Audit progress report and sector update</p>	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> <li>• a summary of emerging national issues and developments that may be relevant to the Council; and</li> </ul>	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

**Appendix A: Audit Committee Work Plan – 2020/21**

<b>Report</b>	<b>Assurances Required / Being Sought</b>	<b>Relevancy – Terms of Reference</b>
	<ul style="list-style-type: none"> <li>•several challenge questions in respect of these emerging issues which the Committee may wish to consider.</li> </ul>	
<b>Other assurance</b>		
43. None planned		



## Audit Committee Work Plan 2020/21 Summary

Audit Committee Work Plan 2020/21	22 June 2020	25 June 2020	31 July 2020	8 Sept 2020	17 Sept 2020	7 Dec 2020	11 Feb 2021	22 Feb 2021	Report originator
<b>Special Committee</b>									
Audit Findings Report Shropshire Council as part of faster closedown processes			✓						External Audit
<b><u>Final approval - Statement of Accounts</u></b>			✓						<b><u>Section 151 Officer</u></b>
<b>Training Sessions</b>	✓			✓			✓		
<b>Regular Committees</b>									
Internal Audit Annual Report		✓							Internal Audit
Statement of Accounts - draft		✓							Section 151 Officer
Annual Governance Statement (AGS) and review of the effectiveness of the Council's internal controls and Shropshire Council's Code of Corporate Governance.		✓							Section 151 Officer
Annual review of Internal Audit: Quality Assurance and Improvement Programme (QAIP)		✓							Section 151 Officer
Annual Assurance Report of Audit Committee to Council		✓							Internal Audit
Financial Outturn Report		✓							Section 151 Officer
Annual Whistleblowing report		✓							Director of Workforce and Transformation

<b>Audit Committee Work Plan 2020/21</b>	<b>22 June 2020</b>	<b>25 June 2020</b>	<b>31 July 2020</b>	<b>8 Sept 2020</b>	<b>17 Sept 2020</b>	<b>7 Dec 2020</b>	<b>11 Feb 2021</b>	<b>22 Feb 2021</b>	<b>Report originator</b>
Audit Fee Letter		✓							External Audit
Audit Progress Report and Sector Update		✓			✓	✓		✓	External Audit
Fraud, special investigations and RIPA Updates (part 2)		✓			✓	✓		✓	Internal Audit
Pension Fund Audit Plan (information)		✓							External Audit
Management Report: Digital Transformation Programme Update		✓							Director of Workforce and Transformation
Risk Annual Report incorporating Strategic Risks					✓				Risk and Insurance Manager
Strategic Risks update								✓	Risk and Insurance Manager
Annual Treasury Report					✓				Section 151 Officer
Performance Report and revised Annual Audit Plan					✓	✓		✓	Internal Audit
Audit Findings: Shropshire County Pension Fund (Information)					✓				External Audit
Annual review of Audit Committee Terms of Reference						✓			Internal Audit
Annual review of Internal Audit Charter						✓			Internal Audit
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities; including an update on the National Fraud Initiative (NFI)						✓			Internal Audit

Page 94

<b>Audit Committee Work Plan 2020/21</b>	<b>22 June 2020</b>	<b>25 June 2020</b>	<b>31 July 2020</b>	<b>8 Sept 2020</b>	<b>17 Sept 2020</b>	<b>7 Dec 2020</b>	<b>11 Feb 2021</b>	<b>22 Feb 2021</b>	<b>Report originator</b>
Treasury Strategy Mid-Year Report						✓			Section 151 Officer
Annual Audit Committee Self-Assessment						✓			Section 151 Officer
Annual Audit Letter					✓				External Audit
Treasury Strategy								✓	Section 151 Officer
Report of the Audit Review of Risk Management								✓	Internal Audit
Draft Annual Internal Audit Risk Based Plan								✓	Internal Audit
Draft Audit Committee annual work plan and future training requirements								✓	Internal Audit
Audit Plan								✓	External Audit
Certification Summary Report						✓			External Audit
Informing the risk assessment								✓	External Audit

## **Appendix B**

### **Audit Committee Members development topics**

#### **Core areas of knowledge**

Organisational knowledge  
Audit committee role and function  
Governance  
Internal audit  
Financial management and accounting  
External audit  
Risk management  
Counter fraud, bribery, corruption and whistleblowing  
Values of good governance  
Treasury management

#### **Specialist knowledge that adds value to the Audit Committee**

Accountancy  
Internal audit  
Risk management  
Governance and legal  
Service knowledge relevant to the different Council functions  
Programme and project management  
IT systems and IT governance

#### **Core skills**

Strategic thinking and understanding of materiality  
Questioning and constructive challenge  
Focus on improvement  
Able to balance practicality against theory  
Clear communication skills and focus on the needs of users  
Objectivity  
Meeting management skills



## Committee and Date

## Item

Audit Committee

25<sup>th</sup> February 2020

1:30 pm

Public

## INTERNAL AUDIT RISK MANAGEMENT REPORT 2019/20

**Responsible Officer** Katie Williams

e-mail: [katie.williams@shropshire.gov.uk](mailto:katie.williams@shropshire.gov.uk)

Tel: 01743 257737

### 1. Summary

This report summarises the detailed findings identified in the Internal Audit review of Risk Management. The overall control environment for the Risk Management system is assessed as **Good**, the highest rating that can be given, no control weaknesses were identified.

### 2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the findings from the review of Risk Management by Internal Audit.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 The management of risk is a key process which underpins successful achievement of the Council's objectives and priorities. It forms part of the Annual Governance Statement and an annual audit is undertaken to ensure that the processes and protocols are established and embedded facilitating effective decision making.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities or climate change consequences arising from this report.

#### 4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

#### 5. Climate Change Appraisal

- 5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
- 5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.
- 5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
- 5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

#### 6. Background

- 6.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit is required to evaluate the effectiveness, and contribute to the improvement, of the risk management process. Information gathered during the course of audit reviews provides an understanding of the Council's risk management processes and their effectiveness. Internal Audit evaluates the Council's risks relating to governance, operations and information systems. It does this in respect of:
- the achievement of the strategic objectives,
  - reliability and integrity of financial and operational information,
  - efficiency and effectiveness of operations and programmes,
  - safeguarding of assets and,
  - compliance with laws, regulations, policies, procedures and contracts.
- 6.2 To support the PSIAS, the Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements. The last such review was undertaken in February 2019.

#### Internal Audit Risk Management Report – Executive Summary

- 6.3 Audit findings are evaluated to provide a level of assurance on the effectiveness of the system of internal control. These evaluations are defined as 'Good', 'Reasonable', 'Limited' and 'Unsatisfactory'. On the basis of the audit work undertaken, the overall control environment for the system of Risk Management has been assessed as **Good**, the highest rating that can be given.
- 6.4 Evaluation and testing confirmed that a sound system of control designed to address relevant risks is in place, with controls being applied consistently.

#### Control Objective: Conclusion and Summary of Findings

- 6.5 The following table shows the audit opinion on each of the four control objectives. Full compliance has been achieved in all the objectives.

	<b>AUDIT OBJECTIVE</b>	<b>CONCLUSION AND SUMMARY OF FINDINGS</b>
1.	Risks arising from business strategies and activities are identified and prioritised and management have determined the level of risk acceptable to the organisation.	<p><b>This control objective is achieved.</b></p> <p>There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. The Opportunity Risk Management Strategy (ORMS) is in place and a framework, and appropriate structure, embeds this within the Council. The Strategy was updated in December 2019.</p> <p>The Risk and Business Continuity Team Leader is invited to sit on project boards. A risk workshop is offered to all projects by the Risk and Business Continuity Team Leader to initiate the development of the risk register.</p>
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels determined to be acceptable to management and the board.	<p><b>This control objective is achieved.</b></p> <p>Risks are considered by management and controls are in place for all risks. Strategic risks are reviewed quarterly and reported to Directors and Informal Cabinet. Operational Risks are reported to Heads of Service and Directors on a bi-annual basis with an overarching report provided to Directors. The reporting arrangements are in line with the Operational Risk Management Strategy.</p>
3.	On-going monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	<p><b>This control objective is achieved.</b></p> <p>Appropriate processes to ensure compliance with the requirements of the 2015 Insurance Act in respect of the Council's duty of fair presentation of risk have been put in place. This was considered as part of the tender process for new insurers undertaken this year.</p> <p>The operational risk review confirmed that bi-annual reviews were in place in line with the Operational Risk Management Strategy.</p>
4.	The board and management receive periodic reports of the results of the risk management process.	<p><b>This control objective is achieved.</b></p> <p>Reports in respect of strategic risks are considered quarterly by informal Cabinet and Directors.</p> <p>In addition to this the Audit Committee receive a strategic risk update on a six-monthly basis.</p> <p>Risk Management training is provided to Audit Committee Members on a more regular basis. The latest Audit Committee training took place on the 4th December 2019.</p>

6.6 The audit did not identify any control weaknesses and no recommendations have been raised as a result of the review undertaken.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Risk Internal Audit Review

**Cabinet Member (Portfolio Holder)**

Peter Nutting (Leader of the Council) and Peter Adams (Chairman of Audit Committee)

**Local Member:** N/A

**Appendices** - None





<u>Committee and Date</u>	<u>Item</u>
Audit Committee 25 <sup>th</sup> February 2020 1:30pm	<u>Public</u>

## INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2019/20

**Responsible Officer** Ceri Pilawski  
e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk)

Telephone: 01743 257739

### 1 Summary

This report provides members with an update of work undertaken by Internal Audit in the three months since the previous Audit Committee. Seventy nine percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in line with previous delivery records. The team is on target to achieve 90% delivery by the year end.

Four good, eight reasonable, five limited and one unsatisfactory assurance opinions have been issued since the last report. The 18 final reports contained 178 recommendations, one of which was fundamental.

This report proposes minor revisions reducing the overall audit plan from 2,250, as reported in December 2019, to 2,217 days. The changes have been discussed with, and agreed by, the Section 151 Officer and will have no impact on the level of information on which the Head of Audit can reach a year end opinion.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including sharing best practice and providing advice on system developments.

### 2 Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) The performance to date against the 2019/20 Audit Plan and any action it wishes to take in response to any low assurance levels and fundamental recommendations brought to Members attention.
- b) The adjustments required to the 2019/20 plan to take account of changing priorities set out in **Appendix B**.

## REPORT

### 3 Risk assessment and opportunities appraisal

- 3.1 The delivery of a risk based audit Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures. Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes. In delivering the plan, the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Without this, failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage
- 3.2 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:
- 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 3.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 3.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental, equalities or climate change consequences of this proposal.

## **4 Financial Implications**

- 4.1 The Internal Audit plan is delivered within approved budgets. The work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

## **5 Climate Change Appraisal**

- 5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
- 5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.
- 5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
- 5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

## **6 Background**

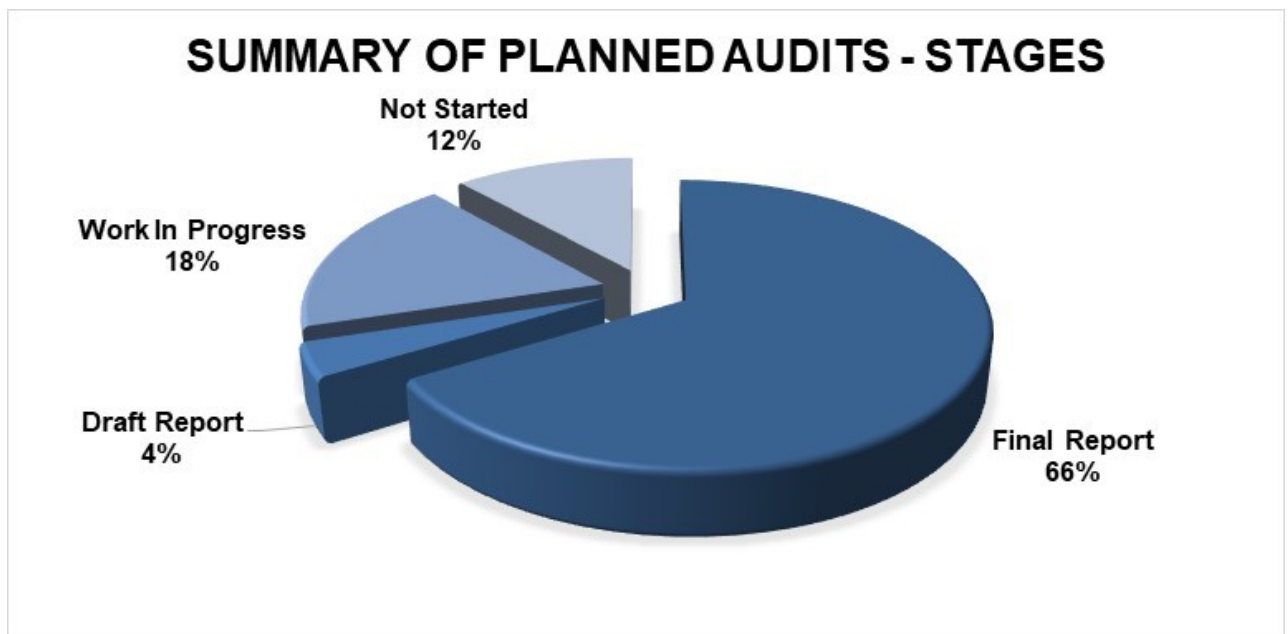
- 6.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal

Audit reviews appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.

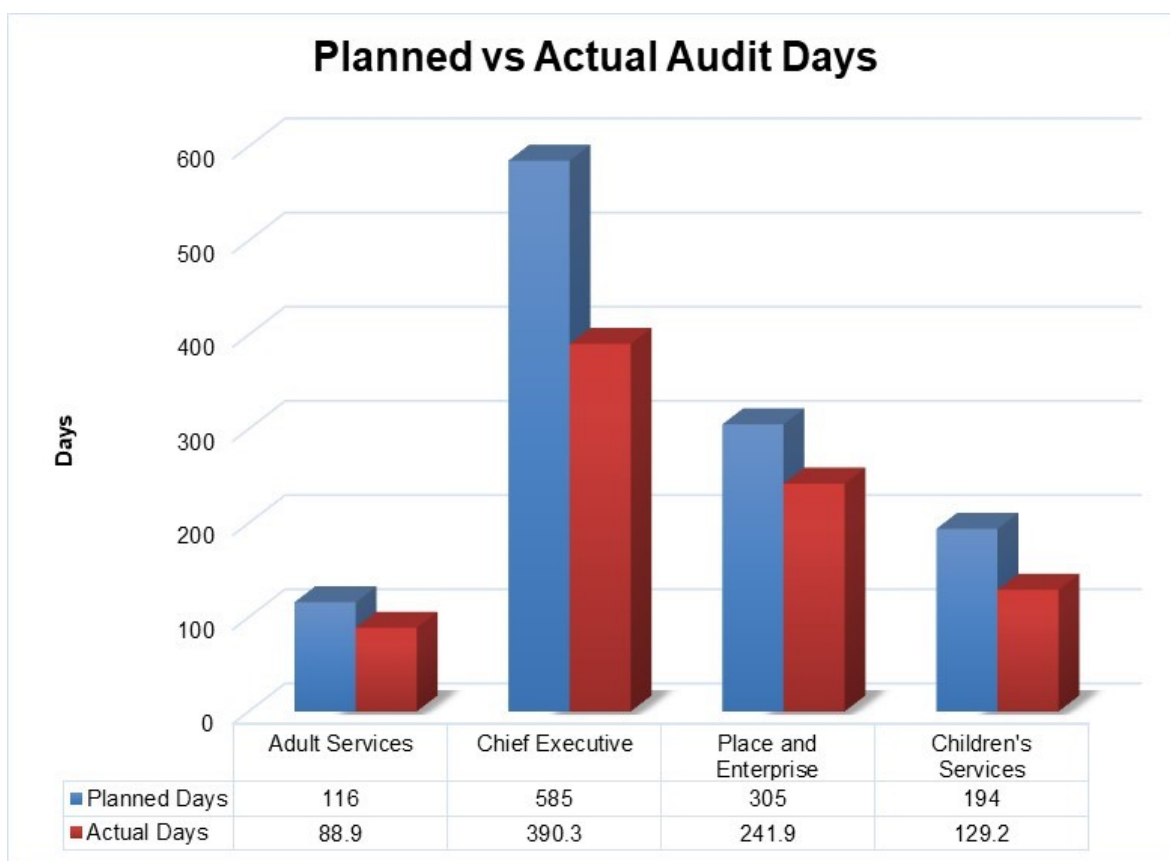
- 6.2 The 2019/20 Internal Audit Plan was presented to, and approved by, members at the 25<sup>th</sup> February 2019 Audit Committee, with adjustments being approved in September and December 2019. This report provides an update on progress made against the plan up to 31<sup>st</sup> January 2020 and includes revisions to the plan to reflect a slight reduction in available resources.

### Performance against the plan 2019/20

- 6.3 Minor revisions to the 2019/20 plan provide for a total of 2,217 days (compared to 2,250 as reported in December). Performance to date is in line with previous delivery records at 79% (77% 2018/19), overall the team is on track to deliver a minimum of 90% of the revised annual plan by year end.
- 6.4 In total, 18 final reports have been issued in the period from 1<sup>st</sup> November to 31<sup>st</sup> January 2020. The following chart shows performance against the approved Internal Audit Plan for 2019/20:



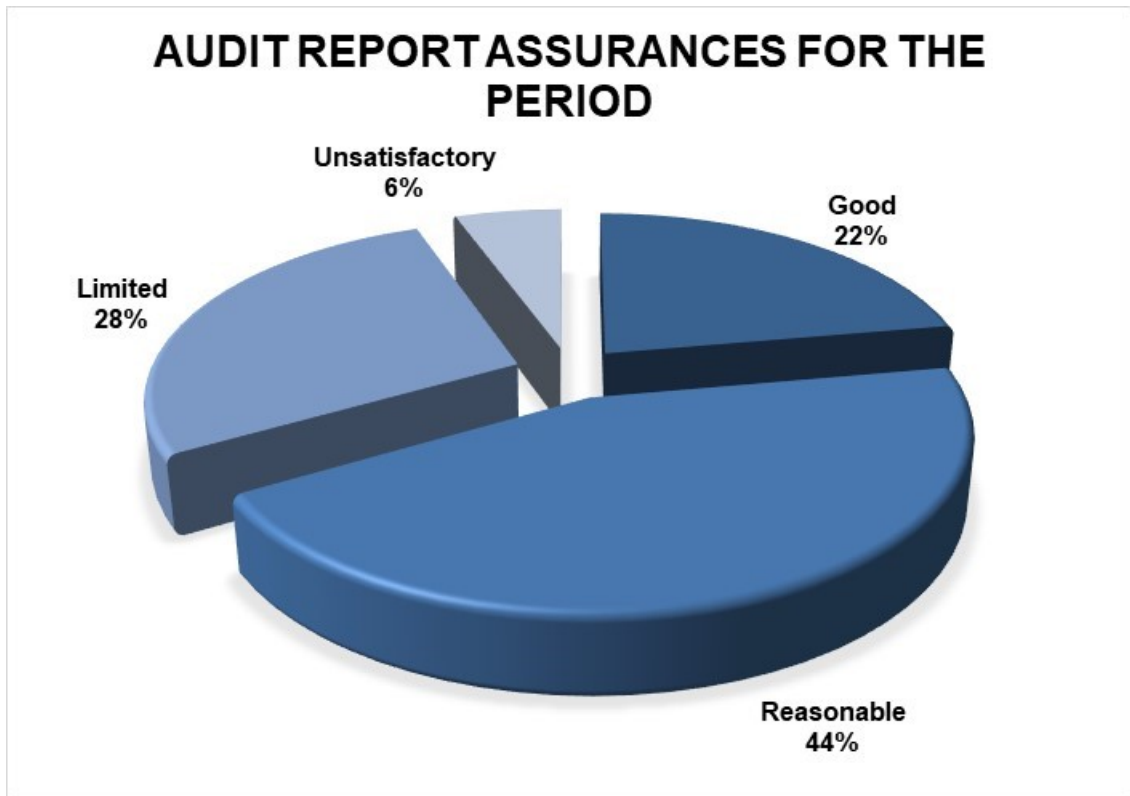
- 6.5 Audits have been completed over several service areas as planned:



6.6 The following audits have been completed since the 31<sup>st</sup> October 2019:

- Abbots Wood Comforts Fund
- Abbots Wood Day Centre
- Pest Control
- Asset Management Strategy
- Contracts and Tendering Property
- Environmental Maintenance Grants
- School Planning and Transport Arrangements
- Bishops Castle Community College
- Tuition Medical Behaviour Support Service (TMBSS)
- Strengthening Families Grant - October Claim
- Strengthening Families Grant - December Claim
- Emergency Planning
- Empty Homes Grant
- Medium Term Financial Strategy
- Risk Management
- Supply Contracts
- Agency and Consultancy Staff
- Microsoft Applications Deployment and Control

6.7 The assurance levels awarded to each completed audit area appear in the graph below:



6.8 The overall spread of recommendations agreed with management following each audit review are as follows:



6.9 Up to the 31<sup>st</sup> January 2020, twelve reports have been issued providing good or reasonable assurances and accounting for 66% of the opinions delivered. This represents a minor decrease in the higher levels of assurance for this period, compared to the previous year outturn of 67%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 34% compared to the previous year outturn of 33%.

- 6.10 Control objectives evaluated and not found to be in place as part of these audit reviews appear in a summary of the planned audit reviews which resulted in unsatisfactory or limited assurance in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.
- 6.11 Four draft reports, awaiting management responses, will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of several honorary funds and the certification of grant claims.
- 6.12 A total of 178 recommendations have been made in the 18 final audit reports issued in the period 1<sup>st</sup> November to 31<sup>st</sup> January 2020; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 6.13 One fundamental recommendation has been identified, which is detailed below:

### **Supply contracts**

#### **Recommendation**

To change the approach to contract management, improve the culture and ensure compliance with Contract Procedure Rules, the Council should establish a system that at a corporate level identifies the execution position of all contracts for the purposes of overview and scrutiny. It is acknowledged that the Council's Contract Register should meet most of these requirements, but it is dependent upon all directorates keeping procurement informed of all changes in a timely manner. In respect of major contracts, the contract execution position should be monitored so that appropriate action can be taken to escalate issues to Service Managers and Directors in a timely manner to ensure that the Council has signed contracts or Letters of Intent for all contracts in line with the requirements of Contract Procedure Rules.

This is considered fundamental for major contracts and good professional practice for all smaller contracts.

#### **Risk**

The system is documented within Contract Procedure Rules but there is a culture of non-compliance with those rules and no transparent system for raising awareness of the breach. Without a legally binding contract or Letter of Intent in place, disputes could lead to financial loss and reputational damage to the Council. There is a risk that this behaviour will repeat given the lack of action taken.

#### **Management Response**

To assist with improving the culture of compliance with Contract Procedure Rules and accountability for contracts, the Commissioning Development and Procurement Manager, will discuss with the Commissioning Assurance Board and Directors the options to develop a process whereby Directors confirm to him on monthly basis that contracts within their service areas have been signed.

Any failure of Directors to respond will be escalated to the Chief Executive on a quarterly basis to ensure full accountability is maintained.

#### **Agreed Implementation Date**

31/12/19

6.14 It is management’s responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 8 sets out the approach adopted to following up recommendations** highlighting Audit Committees involvement.

### Direction of travel

6.15 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
<b>2019/20 to date</b>	<b>17%</b>	<b>48%</b>	<b>23%</b>	<b>12%</b>	<b>100%</b>
2018/19	26%	41%	27%	6%	100%
2017/18	20%	44%	29%	7%	100%
2016/17	7%	45%	31%	17%	100%
2015/16	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
<b>2019/20 to date</b>	<b>1%</b>	<b>60%</b>	<b>38%</b>	<b>1%</b>	<b>100%</b>
2018/19	2%	60%	37%	1%	100%
2017/18	3%	56%	41%	0%	100%
2016/17	4%	50%	46%	0%	100%
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%

6.16 The number of lower level assurances 35%, at this point in the year, is comparable to the outturn for 2018/19 of 33%. However, the proportion of areas attracting unsatisfactory assurance (12%) is higher and moving towards the levels seen in 2016/17 (17%). Whilst this does not yet demonstrate a complete picture, it is an early indicator of a weakening control environment across the Council. Reviews in the final quarter of 2019/20 will be concentrating on the main financial, human resource and governance systems. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 1<sup>st</sup> November to 31<sup>st</sup> January 2020.

### Performance measures

6.17 All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Internal Audit Performance and Revised Annual Audit Plan 2019/20 – Audit Committee 5th December 2019

Internal Audit Performance and Revised Annual Audit Plan 2019/20 – Audit Committee 12th September 2019  
Draft Internal Audit Risk Based Plan 2019/20 - Audit Committee 25<sup>th</sup> February 2019  
Public Sector Internal Audit Standards (PSIAS)  
Audit Management system  
Accounts and Audit Regulations 2015

**Cabinet Member (Portfolio Holder)**

Peter Nutting, Leader of the Council and Peter Adams, Chairman of Audit Committee

**Local Member:** All

**Appendices**

**Appendix A**

Table 1: Summary of actual audit days delivered against plan 1<sup>st</sup> November 2019 to 31<sup>st</sup> January 2020

Table 2: Final audit report assurance opinions issued in the period 1<sup>st</sup> November 2019 to 31<sup>st</sup> January 2020

Table 3: Unsatisfactory and limited assurance opinions in the period 1<sup>st</sup> November 2019 to 31<sup>st</sup> January 2020

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Audit recommendations made in the period 1<sup>st</sup> November 2019 to 31<sup>st</sup> January 2020

Table 8: Recommendation follow up process (risk based)

**Appendix B** - Audit plan by service 1<sup>st</sup> November 2019 to 31<sup>st</sup> January 2020



## APPENDIX A

**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st November 2019 to 31st January 2020**

	Original Plan	Revised Plan	31 January 2020 Actual	% of Original Complete	% of Revised Complete
Chief Executive	520	585	390.3	75%	67%
Finance, Governance and Assurance	293	357	37.1	44%	36%
Governance	14	14	8.9	64%	64%
Workforce and Development	213	196	135.5	64%	69%
Legal and Democratic	0	18	18.1	0%	101%
Adult Services	158	116	88.9	56%	77%
Social Care	96	95	67.9	71%	71%
Public Health	42	11	10.3	25%	94%
Public Protection	20	10	10.7	54%	107%
Place and Enterprise	310	305	241.9	78%	79%
Children's Services	252	194	129.2	51%	67%
Schools	113	128	102.5	91%	80%
Other	54	17	4.8	9%	28%
<b>S151 Planned Audit</b>	<b>1,240</b>	<b>1,200</b>	<b>850.3</b>	<b>69%</b>	<b>71%</b>
Contingencies and other chargeable work	894	781	661.5	74%	85%
<b>Total S151 Audit</b>	<b>2,134</b>	<b>1,980</b>	<b>1,511.8</b>	<b>71%</b>	<b>76%</b>
External Clients	228	237	234.2	103%	99%
<b>Total</b>	<b>2,362</b>	<b>2,217</b>	<b>1,746</b>	<b>74%</b>	<b>79%</b>

Please note that a full breakdown of days by service area is shown at **Appendix B**

**Table 2: Final audit report assurance opinions issued in the period from 1st November 2019 to 31st January 2020**

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	2	2	3	0	7
Finance, Governance and Assurance	2	1	2	0	5
Governance	0	0	0	0	0
Workforce and Development	0	1	1	0	2
Legal and Democratic	0	0	0	0	0
Adult Services	0	3	0	0	3
Social Care	0	2	0	0	2

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Public Health	0	0	0	0	0
Public Protection	0	1	0	0	1
Place and Enterprise	0	2	2	0	4
Children's Services	2	1	0	1	4
Children's Services: Schools	0	1	0	1	2
Children's Services: Others	2	0	0	0	2
<b>Total for the period</b>					
➤ <b>Numbers</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>1</b>	<b>18</b>
➤ <b>Percentage</b>	<b>22%</b>	<b>44%</b>	<b>28%</b>	<b>6%</b>	<b>100%</b>
<b>Percentage 2019/20 to date</b>	<b>17%</b>	<b>48%</b>	<b>23%</b>	<b>12%</b>	<b>100%</b>
<b>Percentage 2018/19</b>	<b>26%</b>	<b>41%</b>	<b>27%</b>	<b>6%</b>	<b>100%</b>
<b>Percentage 2017/18</b>	<b>20%</b>	<b>44%</b>	<b>29%</b>	<b>7%</b>	<b>100%</b>
<b>Percentage 2016/17</b>	<b>7%</b>	<b>45%</b>	<b>31%</b>	<b>17%</b>	<b>100%</b>
<b>Percentage 2015/16</b>	<b>14%</b>	<b>35%</b>	<b>42%</b>	<b>9%</b>	<b>100%</b>
<b>Percentage 2014/15</b>	<b>17%</b>	<b>47%</b>	<b>28%</b>	<b>8%</b>	<b>100%</b>

**Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st November 2019 to 31st January 2020<sup>1</sup>**

### Unsatisfactory assurance

#### **Children's Services: Bishops Castle Community College**

- The Schools Financial Value Statement and Self-Assessment are complete and up to date.
- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- Regular budget monitoring is performed and any significant variations are investigated.
- The school fund is operated in accordance with the school fund notes of guidance.
- Electronically held data is secure and can be restored in the event of IT failure.

### Limited assurance

#### **Finance, Governance and Assurance: Supply Contracts**

- There are contracts in place that clearly set out responsibilities and liabilities
- Adequate arrangements are in place to ensure Compliance Checks are made to ensure the Contractor is complying with all the conditions set out in the contract.

#### **Finance, Governance and Assurance: Empty Homes**

<sup>1</sup> Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

- Shropshire Council has a Housing Strategy that incorporates the Empty Homes Bonus and has been approved by the appropriate body.
- A suitable process exists to follow up on complaints received about empty homes.
- Empty Property Incentive Grants are available to enable individuals and agencies to bring empty properties back into use.

**Place and Enterprise: Asset Management Strategy (Good 2015/16)**

- An Asset Management Strategy has been formally documented and approved.
- There is adequate funding in place to deliver the asset management strategy.
- A financial return is being generated.
- Performance reports are produced and disseminated appropriately.

**Place and Enterprise: School Planning and Transport Arrangements**

- There are procedures to ensure that transport companies, drivers and passenger assistants are aware of the requirements of the passengers and are appropriately trained.
- There are agreements with transport providers and the most appropriate provider is appointed in accordance with Council Contract Rules.
- There are procedures to ensure that complaints are dealt with appropriately and in a timely manner.

**Workforce and Development: Agency and Consultancy Staff (Limited 2016/17)**

- Previous audit recommendations have been implemented.
- The Council has a clear policy in place regarding the engaging and use of temporary workers.
- The Council has clear procedures in place regarding the engaging and use of temporary workers.
- There are adequate controls in place to ensure that payments made are correct and appropriately authorised.

**Table 4: Audit assurance opinions: awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows**

<b>Good</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
<b>Reasonable</b>	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
<b>Limited</b>	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
<b>Unsatisfactory</b>	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

**Table 5: Audit recommendation categories: an indicator of the effectiveness of the Council’s internal control environment and are rated according to their priority**

<b>Best Practice (BP)</b>	Proposed improvement, rather than addressing a risk.
<b>Requires Attention (RA)</b>	Addressing a minor control weakness or housekeeping issue.
<b>Significant (S)</b>	Addressing a significant control weakness where the system may be working but errors may go undetected.
<b>Fundamental (F)</b>	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

**Table 6: Glossary of terms**

**Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

**Head of Internal Audit Annual Opinion**

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of several individual engagements and other activities for a specific time interval.

**Governance**

Comprises the arrangements (including political, economic, social, environmental, administrative, legal and other arrangements) put in place to ensure that the outcomes for intended stakeholders are defined and achieved.

**Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

**Control**

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

**Table 7: Audit recommendations made in the period from 1st November 2019 to 31st January 2020**

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	14	15	1	30
Finance, Governance and Assurance	0	9	7	1	17
Governance	0	0	0	0	0
Workforce and Development	0	5	8	0	13
Legal and Democratic	0	0	0	0	0
Adult Services	0	28	7	0	35
Social Care	0	19	5	0	24
Public Health	0	0	0	0	0
Public Protection	0	9	2	0	11
Place and Enterprise	1	19	16	0	36
Children's Services	0	41	36	0	77
Children's Services: Schools	0	41	36	0	77
Children's Services: Others	0	0	0	0	0
<b>Total for the period</b>					
➤ <b>Numbers</b>	<b>1</b>	<b>102</b>	<b>74</b>	<b>1</b>	<b>178</b>
➤ <b>Percentage</b>	<b>1%</b>	<b>57%</b>	<b>41%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2019/20 to date</b>	<b>1%</b>	<b>60%</b>	<b>38%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2018/19</b>	<b>2%</b>	<b>60%</b>	<b>37%</b>	<b>1%</b>	<b>100%</b>
<b>Percentage 2017/18</b>	<b>3%</b>	<b>56%</b>	<b>41%</b>	<b>3%</b>	<b>100%</b>
<b>Percentage 2016/17</b>	<b>4%</b>	<b>50%</b>	<b>46%</b>	<b>0%</b>	<b>100%</b>
<b>Percentage 2015/16</b>	<b>4%</b>	<b>54%</b>	<b>42%</b>	<b>0%</b>	<b>100%</b>
<b>Percentage 2014/15</b>	<b>6%</b>	<b>53%</b>	<b>40%</b>	<b>1%</b>	<b>100%</b>

**Table 8: Recommendation follow up process (risk based)**

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good.

The process for *fundamental recommendations* will continue to be progressed within the agreed time frame with the lead Director being asked to confirm implementation. Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. Please note that all agreed fundamental recommendations will continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

## APPENDIX B

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1<sup>st</sup> NOVEMBER 2019 to 31<sup>st</sup> JANUARY 2020

	Original Plan Days	September Revision	November Revision	January Revision	Revised Plan Days	31st January 2020 Actual	% Revised Plan Achieved
<b>CHIEF EXECUTIVE</b>							
<b>Governance</b>	14	0	0	0	14	8.9	64%
<b>Finance Governance &amp; Assurance</b>							
Finance Transactions Finance and S151 Officer	85	18	0	0	103	37.1	36%
Financial Management Procurement and Contract Management	88	-20	2	15	85	71.1	84%
Risk Management and Insurance	73	18	7	10	108	65.3	60%
	40	0	4	0	44	37.2	85%
	7	0	12	-2	17	17.1	101%
	<b>293</b>	<b>16</b>	<b>25</b>	<b>23</b>	<b>357</b>	<b>227.8</b>	<b>64%</b>
<b>Workforce and Development</b>							
Human Resources	70	1	8	-2	77	38.1	49%
Information Governance	8	0	-4	0	4	3.6	90%
ICT	110	-6	-18	-9	77	55.3	72%
Occupational Health & Safety	25	11	0	0	36	36.4	101%
Print Services	0	2	0	0	2	2.1	105%
	<b>213</b>	<b>8</b>	<b>-14</b>	<b>-11</b>	<b>196</b>	<b>135.5</b>	<b>69%</b>
<b>Legal and Democratic</b>							
Legal Services	0	18	0	0	18	18.1	101%
<b>CHIEF EXECUTIVE</b>	<b>520</b>	<b>42</b>	<b>11</b>	<b>12</b>	<b>585</b>	<b>390.3</b>	<b>67%</b>
<b>ADULT SERVICES</b>							
Long Term Support	53	17	0	-19	51	39.2	77%
Assistive Services	10	0	0	0	10	0.0	0%
Provider Services - Comforts Funds	6	6	0	0	12	10.1	84%
Provider Services - Establishments	12	1	0	0	13	9.1	70%
Housing Services	15	10	-6	-10	9	9.5	106%
	<b>96</b>	<b>34</b>	<b>-6</b>	<b>-29</b>	<b>95</b>	<b>67.9</b>	<b>71%</b>
<b>Public Health</b>	<b>42</b>	<b>-5</b>	<b>-12</b>	<b>-14</b>	<b>11</b>	<b>10.3</b>	<b>94%</b>

	Original Plan Days	September Revision	November Revision	January Revision	Revised Plan Days	31st January 2020 Actual	% Revised Plan Achieved
<b>Environmental Protection and Prevention</b>	<b>20</b>	<b>-10</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>10.7</b>	<b>107%</b>
<b>ADULT SERVICES</b>	<b>158</b>	<b>19</b>	<b>-18</b>	<b>-43</b>	<b>116</b>	<b>88.9</b>	<b>77%</b>
<b>PLACE AND ENTERPRISE Business, Enterprise and Commercial Services</b>							
Commercial Services	10	-3	0	0	7	1.8	26%
Strategic Asset Services	45	-2	7	4	54	52.7	98%
	<b>55</b>	<b>-5</b>	<b>7</b>	<b>4</b>	<b>61</b>	<b>54.5</b>	<b>89%</b>
<b>Economic Development</b>							
Business Growth and Investment	35	-2	0	-4	29	13.6	47%
Development Management	15	-10	0	2	7	7.0	100%
Project Development	15	-15	0	0	0	0.0	0%
	<b>65</b>	<b>-27</b>	<b>0</b>	<b>-2</b>	<b>36</b>	<b>20.6</b>	<b>57%</b>
<b>Infrastructure and Communities</b>							
Highways	70	3	9	17	99	77.0	78%
Environmental Maintenance	8	0	2	0	10	10.0	100%
Library Services	5	4	1	0	10	10.0	100%
Public Transport	20	-10	3	3	16	16.2	101%
Waste	8	0	0	0	8	8.6	108%
	<b>111</b>	<b>-3</b>	<b>15</b>	<b>20</b>	<b>143</b>	<b>121.8</b>	<b>85%</b>
<b>Culture and Heritage</b>							
Theatre Severn and OMH	14	0	0	12	26	20.8	80%
Leisure Services	38	-16	0	-5	17	7.5	44%
Outdoor Recreation	6	-6	0	0	0	0.0	0%
Visitor Economy	21	1	0	0	22	16.7	76%
	<b>79</b>	<b>-21</b>	<b>0</b>	<b>7</b>	<b>65</b>	<b>45.0</b>	<b>69%</b>
<b>PLACE AND ENTERPRISE</b>	<b>310</b>	<b>-56</b>	<b>22</b>	<b>29</b>	<b>305</b>	<b>241.9</b>	<b>79%</b>
<b>CHILDREN'S SERVICES Safeguarding</b>							

	Original Plan Days	September Revision	November Revision	January Revision	Revised Plan Days	31st January 2020 Actual	% Revised Plan Achieved
Children's Placement Services & Joint Adoption	69	-10	-6	-18	35	12.3	35%
Safeguarding	16	0	0	-2	14	9.6	69%
	<b>85</b>	<b>-10</b>	<b>-6</b>	<b>-20</b>	<b>49</b>	<b>21.9</b>	<b>45%</b>
<b>Learning and Skills</b>							
Education Improvements	54	-37	0	0	17	4.8	28%
Primary/Special Schools	87	3	12	-7	95	69.0	73%
Secondary Schools	26	6	1	0	33	33.5	102%
	<b>167</b>	<b>-28</b>	<b>13</b>	<b>-7</b>	<b>145</b>	<b>107.3</b>	<b>74%</b>
<b>CHILDREN'S SERVICES</b>	<b>252</b>	<b>-38</b>	<b>7</b>	<b>-27</b>	<b>194</b>	<b>129.2</b>	<b>67%</b>
<b>Total Shropshire Council Planned Work</b>	<b>1,240</b>	<b>-33</b>	<b>22</b>	<b>-29</b>	<b>1,200</b>	<b>850.3</b>	<b>71%</b>
<b>CONTINGENCIES</b>							
Advisory Contingency	60	0	0	-28	32	22.0	69%
Fraud Contingency	200	0	0	40	240	209.8	87%
Unplanned Audit Contingency	100	-95	0	-5	0	0.0	0%
Other non audit Chargeable Work	534	15	-30	-10	487	429.7	88%
<b>CONTINGENCIES</b>	<b>894</b>	<b>-80</b>	<b>-30</b>	<b>-3</b>	<b>781</b>	<b>661.5</b>	<b>85%</b>
<b>Total for Shropshire</b>	<b>2,134</b>	<b>-113</b>	<b>-9</b>	<b>-32</b>	<b>1,980</b>	<b>1,511.8</b>	<b>76%</b>
<b>EXTERNAL CLIENTS</b>	<b>228</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>237</b>	<b>234.2</b>	<b>99%</b>
<b>Total Chargeable</b>	<b>2,362</b>	<b>-104</b>	<b>-9</b>	<b>-32</b>	<b>2,217</b>	<b>1,746.0</b>	<b>79%</b>





<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
25 <sup>th</sup> February 2020	
1:30 pm	<u>Public</u>

## DRAFT INTERNAL AUDIT ANNUAL PLAN 2020/21

**Responsible Officer** Ceri Pilawski

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Tel:

01743 257739

### 1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2020/21. The annual plan will provide coverage across all Council services and deliver internal audit services to a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan considers the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed before the plan is finalised; if significant, these will be agreed by the Section 151 Officer and reported to a future Audit Committee.

### 2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2020/21 and approve its adoption.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Audit Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Council's key risks and provides sufficient coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. Risks

identified as being critical to the Council's operations will be reported and rectified where possible and viable.

- 3.2 Areas to be audited within the plan have been considered taking into account risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 The Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015 part 2. The latter sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

‘A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

#### **4. Financial Implications**

- 4.1 Costs associated with the proposed plan will be met from within the approved Internal Audit budget. The budget has been reduced to contribute savings to the Council and the impact of this has been considered when identifying audits for inclusion in the plan.

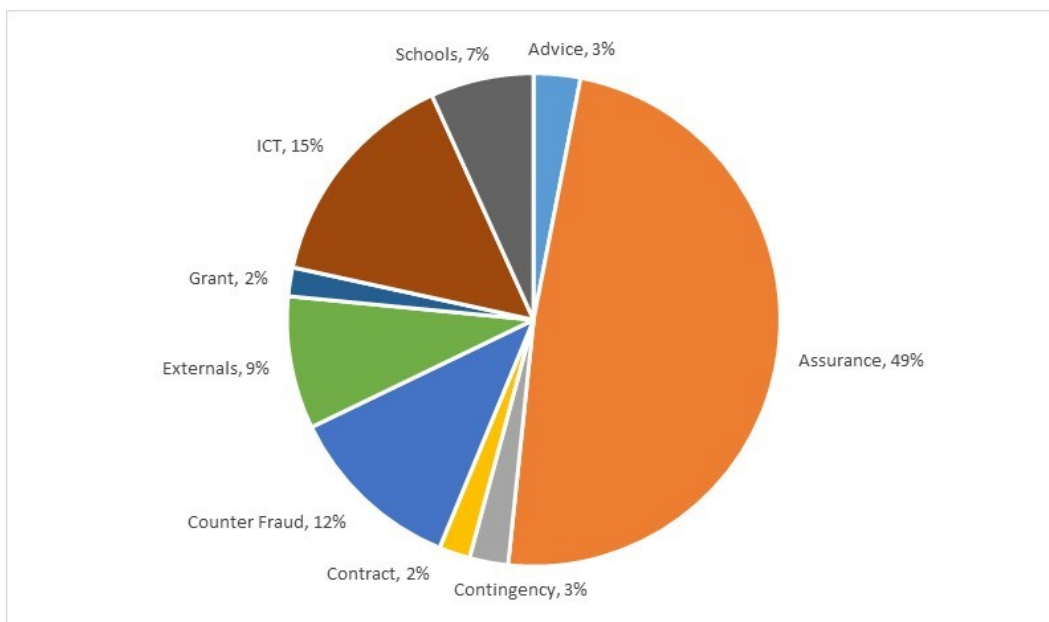
#### **4 Climate Change Appraisal**

- 5.1 Energy and Fuel Consumption – This report does not directly make decisions on energy and fuel consumption. Therefore, no effect.
- 5.2 Renewable Energy Generation – This report does not directly make decisions on renewable energy generation. Therefore, no effect.
- 5.3 Carbon offsetting or mitigation – This report does not directly make decisions on carbon offsetting or mitigation. Therefore, no effect.
- 5.4 Climate Change Adaption – This report does not directly make decisions on climate change adaption. Therefore, no effect.

#### **5. Background**

- 5.1 The provision of a risk based Internal Audit Plan consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's internal controls, risk exposure and governance framework. The plan has been devised to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion and assurance framework. In so doing it can be confirmed that the plan covers the following activities:
- Governance processes
  - Ethics
  - Information technology governance

- Risk management and
  - Fraud management.
- 5.2 The audit risk assessment is reviewed annually with the Chief Executive, Directors, Heads of Service and the Section 151 Officer to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is continuing to strive to improve services and use innovative approaches in addressing service delivery against a background of reducing resources and the transformation into a digitally enabled commissioning organisation.
- 5.3 When considering the risks affecting audit areas, account has been taken of:
- changes to and the introduction of new services;
  - the redesign/transformation programme and business plans of the Council;
  - budget pressures and saving commitments;
  - previous audit findings;
  - opening and closure of establishments;
  - comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditor;
  - Audit Committee terms of reference;
  - increased partnership working or different delivery models for future service delivery;
  - risks identified by the risk management process;
  - budget deficits in relation to schools;
  - large contracts likely to be undertaken; and
  - assurances from services, internal governance and external parties.
- 5.4 Top risks facing councils continue to include pressures on finances and increasing demand on services; demands on social care functions continue to grow and with losing staff and experience elsewhere there is a risk that controls are cut increasing the risk of waste, losses and inefficiencies. Risks to be considered include: financial resilience; adult and children's social care funding gaps; workforce retention and stress management; alternative delivery models; supplier resilience and risk; cyber security; deprivation of liberty safeguards; affordable new homes; crime; fraud and business as usual. all of which have been considered when formulating the plan.
- 5.5 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,794 days for Shropshire Council audit work and 171 days of work for external clients. These days are broken down by type in the chart below.



## Resources

- 5.6 The Council continues to go through a period of unprecedented change which is impacting on a high number of service areas, processes, risks and therefore controls. In addition, because of the changing control environment, areas reviewed continue in part to attract lower assurance levels than previously. Follow up of these is a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.
- 5.7 The team has 12 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. There are currently four trainees supported in the team completing a variety of qualifications. This has an impact on the remaining auditors in mentoring, coaching and supervising these staff, but the intention is to continue investing now for the future. Skills continue to be developed across the wider team and following budget cuts there is no planned funding for external contractors. If demands require and funds are made available, the framework contract with Staffordshire County Council remains in place to accommodate such events.
- 5.8 The Audit Plan for 2020/21 based on a risk analysis identified approximately 3,288 days to review all high-risk areas. Review areas attracting a lower risk have not been considered in this year’s planning process but if they were an estimated 3,968 days would be required. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate officer and member meetings, responding to legislation, s151 officer work requests, training etc.) amount to 1,965 days of which 171 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,794 days.
- 5.9 To match the plan to resources, it has been necessary to take out a few reviews identified as high priority, details of which appear at **Appendix B**. This appendix also includes areas highlighted by managers for inclusion in the plan that cannot be resourced in the current year. Contingencies for fraud, unplanned audits and advice, if

not required in full this year, can be re-allocated and these higher priority reviews brought back into the plan.

5.10 In considering the plan for 2020/21 the key items to note are:

- Included in the plan are several key strategies that have been refreshed and fundamental systems that have seen significant changes with the introduction of the Enterprise Resource Planning (ERP) system. The Payroll system, which is of a high material value to the Council's operations, continues to be reviewed every year.
- A separate risk based analysis of the IT audit areas has been conducted and assessments of applications, projects, developmental changes, new technology, changes to guidance and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's reliance on technology and digital transformation requirements as services are redesigned.
- The fraud contingency is being maintained at 200 days; based on the current year experience and with ongoing changes to controls, management structures and job responsibilities, this is not considered to be an area of reducing risk.
- Internal Audit will continue to request schools to complete a self-assessment process on a three-year basis. The Headteacher will be asked to share the self-assessment with both the Chair of Finance and Governors and seek their sign off to it. This approach will enable provision of a more rounded assessment of processes to support the s151 Officer's wider assurance of the school environment.

Establishment audits of schools will be based on the responses within self-assessments; follow a direct request from the Director of Children's Service or their nominated representative where there are known specific issues; where there is suspicion of wrong doing; where there are known concerns around the financial management of the school; or where a senior statutory officer raises concerns in respect of processes that need to be reviewed. Issues such as deficits; changes to the risk environment; non-return of SFVS (Schools Financial Value Standard) or self-assessments may also instigate a review.

In addition, a few school audits will be completed to verify the contents of the self-assessment returns. Cross cutting audits will also include school data in their sampling process. For example, payroll, creditors, imprest. to build upon the assurance process.

Therefore, with a mix of self-assessments, cross cutting reviews and targeted school audits, the necessary assurances can be demonstrated to satisfy the Section 151 Officer's requirements.

- Resources are allocated to provide internal audit services to external clients: Shropshire Towns and Rural Housing, Shropshire Pension Fund, West Mercia Energy, Oswestry Town Council and various honorary, voluntary and grant funds. In addition, audit time is allocated to review areas of significant risk which are being considered for transfer to other delivery models.

- Procurement, commissioning and contract management continue to be priority areas and, as such, there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- Discussions with senior managers have identified a few areas considered low risk, from an internal controls/ materiality perspective, where managers are receiving a mix of assurances from their systems, personnel and/or third parties on which they can place reliance. These areas are identified as part of **Appendix C** and will not be considered for review by Internal Audit on a rolling risk basis. Members may wish to ask senior managers to provide assurance directly (first line of assurance) to Committee on these areas as appropriate.
- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors. To reflect the number of Auditors new to the Council and in some cases Audit, the plan continues to allow for inclusion of review areas to support professional training courses that based on risk alone would not be covered in the plan.

- 5.11 A copy of the draft plan for Shropshire Council and those of our external clients will be forwarded to the appropriate external auditors inviting their comments on coverage and to maximise any shared learning from each other's work.
- 5.12 Every effort has been made to include all key audit areas required in the plan. If other items are identified from discussions with colleagues from External Audit, or as knowledge becomes available from other sources, these will be agreed with the Section 151 Officer and reported to a future Audit Committee.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Audit universe and resources analysis  
 Public Sector Internal Audit Standards  
 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition  
 Accounts and Audit Regulations

**Cabinet Member (Portfolio Holder) Peter Nutting** (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)

**Local Member** n/a

**Appendices**

Appendix A: Summary of Draft Internal Audit Plan by Service  
 Appendix B: Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made.

Appendix C: De Minimis Audit areas where managers will seek and provide any necessary assurance

**APPENDIX A****2020/21 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE**

	Days
<b>CHIEF EXECUTIVE</b>	
Governance	14
Finance, Governance and Assurance	420
Workforce and Development	361
Legal and Democratic	26
<b>Total Chief Executive</b>	<b>821</b>
<b>ADULT SERVICES</b>	
Social Care Operations	122
Social Care Efficiency and Improvement	12
Bereavement	8
Public Health	29
Public Protection	23
<b>Total Adult Services</b>	<b>194</b>
<b>PLACE AND ENTERPRISE</b>	
Culture and Heritage	12
Business Enterprise and Commercial Services	46
Economic Development	50
Infrastructure and Communities	113
<b>Total Place and Enterprise</b>	<b>221</b>
<b>CHILDREN'S SERVICES</b>	
Safeguarding	84
Learning, Employment and Training	10
Learning and Skills	154
<b>Total Children's Services</b>	<b>248</b>
<b>CONTINGENCIES</b>	
ICT Contingency	20
Advisory Contingency	40
Fraud Contingency	200
Unplanned Audit Contingency	50
Other non-audit chargeable work	272
<b>Total Contingencies</b>	<b>582</b>
<b>Total Shropshire Council</b>	<b>2,066</b>
<b>External Clients</b>	<b>171</b>
<b>Total Audit Plan</b>	<b>2,237</b>



**2020/21 Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made – management assurances may be sought by the Committee**

Adaptations	Education Welfare Service	Microsoft Mobile Applications
Adult Placements	Elections Administration & Charging Grant Claim	Modern.Gov
Agency & Consultancy Staff	Energy Efficiency	WSP Contract
Asset Management Strategy	Energy Grants	Network Routing
Bank Contract	Energy Provider Project	Networks and Connectivity
Bankline	Environmental Maintenance Grants	Online Bankline
Benefit Options Team	e-Procurement	On-line payments
Blue Badge Scheme	ERDF Grant Claims	Out of County Education / Placements
BT Contract Monitoring	External Catering Contracts	Partnership with Severnside & Shropshire Council
Business Continuity and Disaster Recovery - non IT	Flood Risk Management Arrangements	Partnerships
CALM	Governors Unit	Passenger Transport Compliance Arrangements
Carbon Emissions (NI 185) & Trading	Greenacres Rural Unit	Passenger Transport Procurement Arrangements
Care Bill / Better Care Fund/Public Health plans	Haven Brook Home	Performance Plus Online Register
Case Management IKEN court bundling	Helena Lane Day Centre	Personal Allowances
CASPAR	Highways Development Control	Planning
Central Customer Services	Highways Land Search	Plans & Deeds- Security
CHARMS Adoption Service (IT)	Highways Maintenance - Southern Area	Positive Activities Projects - Youth Service
Chelmaren Children's Home	Highways Other Major Contracts	Primary School Income Collection
Children Safeguarding Policies & Procedures	Highways Permits	Procurement Arrangements
Communications	Highways Specialist Contracts	Procurement Strategy
Community Infrastructure Levy	Holiday Pay HR	Property Maintenance Select Lists
Community Mental Health Team	Host Operator Processing System (HOPS)	Property Sales and Acquisitions
Community Safety	Housing & Planning Delivery Grant	Property Services
Complaints and Compliments	Housing Capital Client	Public Health Projects (Include CCG links)
Contaminated Land	Housing Options / Homelessness	Pump House
Continuing Health Care Funding	Housing Rents Client Side	Quarry Swimming Pool
Coroners and Mortuary Service	Housing Strategy	Recharges - Internal Market
Corporate Landlord (Estate Management)	Human Resources - JD's, PS's and Contracts, Leavers	Recruitment / redeployment arrangements
Corporate Programme and Project Management	Guidance for PT Workers	Redundancy Process CR
Council Tax Collection	Idsall Sports Centre - Joint Use	Refugee Action Grant
Counter Terrorism Prevent Duty	ILLY Substance Misuse Application	Registrars Booking System Zipporah Application
Covenants	Information Governance Arrangements	Rent of Council Owned Property
Credit Union Client	Integration Hub	Residential Care - Out County Placements
Customer Service Points	ISO 27001 IT Security	Respite Care
Database Access / Admin / Management	Joint Use Leisure Facilities	Safeguarding Support Service - Administration & Monitoring
Decommissioning of Children's centres (five)	Key Supply Contracts	Salary Sacrifice Schemes (Childcare, AL etc)
Disability Facility Grants	Leisure Services Contract	School Based Procurement
Diversity Arrangements	Local Joint Committee (LJC)	School Nursing Service
Domiciliary & Respite Services	Lone Working Arrangements	Secondary School Income Collection
Drug and Alcohol Misuse Contract	Mail Room	Section 106 Agreements
Economic Growth Projects	Management of Workshops & Industrial Units	Security Management and Cyber Response
Education Admission Policy	Meole Brace Golf Course	

**2020/21 Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made – management assurances may be sought by the Committee**

<p>SEN Hubs e.g. Kettlemere Centre                  Shire Services Staff in Schools                  Shrewsbury Library                  Shrewsbury Museums General (including regimental)                  ShropDoc Services                  Sixth Form Schools Calculation                  SNOW IT Software Asset Management                  Social Enterprises                  Social Prescribing Bronze Labs Tribe                  Software Inventories / Licensing                  Solar Winds Network Monitoring                  Sports Development</p>	<p>START                  Street Lighting                  Street Works                  Survey Monkey                  Sustainability                  Sustainability and Transformation Plan (STP)                  Teachers' Pension Scheme                  Technology Forge Application                  TOMS-ITU                  Trading Standards                  University                  UNIX</p>	<p>Various primary schools                  Vice Versa Pro (Backup for Digital Images)                  Virtual Desktop                  Virtual Infrastructure - VMWARE                  Virtual Reality Project Igloo                  Waste - Veolia Contract</p>
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**2020/21 De Minimis Audit areas where managers may be requested by members to provide any necessary assurances**

<p>Abbots Wood Comforts Fund                  Albert Road Day Centre Comforts Fund                  Albrighton Library                  Animal Health &amp; Welfare                  AONB (Areas of Outstanding Natural Beauty) - Craven Arms                  Aquamira Comforts Fund                  Arcview GIS Application                  Arts Developments &amp; Grants                  Arts Festivals &amp; Events                  Avalon Comforts Fund                  Bayston Hill Library                  Benefits Administration Grant                  Bio Digester                  Bishops Castle Library                  Bridgnorth Library                  Broadband Contract / Grant                  Broseley Library                  Carbon Management Plan                  Chelmaren Comforts Fund                  Church Stretton Library                  Cleaning DSO General Systems                  Cleaning Equipment Maintenance                  Cleobury Mortimer Library                  Community Transport Initiatives (SCOTI, OCTI etc.)                  Community Working                  Countryside Access General                  Craven Arms Library                  Culture &amp; Leisure Business Development                  Culture &amp; Leisure Grants                  Culture &amp; Leisure Marketing and Performance                  Datawright Planning Development                  Design Team                  Domestic Abuse                  Ecology &amp; Biodiversity                  Ellesmere Library                  Employee Authentication Service                  Enterprise and Business Grants                  Environmental Enforcement &amp; Byelaws                  Fair Trading &amp; Education                  Fishing and Sporting Rights</p>	<p>Four Rivers Nursing Home Comforts Fund                  Gobowen Library                  Greenacres Rural Unit Trading Account                  Haven Brook Comfort Fund                  Helena Lane / Friars Walk Day Centre Comforts Fund                  Highley Library                  Historic Environment &amp; Listed Buildings                  Internal Catering arrangements                  Inventories Management                  Land Drainage                  Leasing Arrangements                  Libraries General                  Library Fines &amp; Charges                  Library HQ                  Library Procurement through WM Consortium                  Library RFID Self Service Machines                  Library Stock Management &amp; Control                  Local Bus Network                  Ludlow Library                  Ludlow Museum &amp; Resource Centre                  Man-8Man (Permissions Reporting)                  Market Drayton Library                  Maytas 5                  Much Wenlock Library                  Multi Agency Teams                  Museum on the Move                  Museums &amp; Audience Development Grant                  Arrangements                  NHS Joint Funding Arrangements                  North Shropshire Countryside Rangers                  NRSWA - Road Openings &amp; S278                  Occupational Therapy                  One App Online Planning Portal Application                  Oswestry Library                  Parks &amp; Countryside Sites General                  Passenger Transport Efficiency Operations                  Performance Management &amp; PI's                  Pest Control                  PLUMS - Planning Policy Control                  Pontesbury Library                  Public access mapping server/e-planning</p>	<p>Public Transport - Publicity                  Records Management                  Recruitment &amp; Management of Volunteers                  Register of Electors                  Regulation of Investigatory Powers Act (RIPA)                  Road Safety                  Roman Road Sports Centre - Joint Use                  School Census                  Schools Business Support Services                  Schools Library service                  Severn Valley Park                  Shifnal Library                  Shirehall Lettings                  Shirehall Restaurant                  Shrewsbury Training &amp; Development Centre (Exit)                  Shropshire Archives                  Shropshire Children's Trust                  Shropshire Music Service                  Shropshire Partners in Care (SPIC)                  Shropshire Youth - Central Administration                  SLA's &amp; Invoicing Arrangements                  SMR - Sites &amp; Monuments Record                  Social Care &amp; Health Training                  Standards Fund                  Supporting People                  Surestart                  Surplus Seats                  Tell Us Once Processes                  The Gateway Education &amp; Arts Centre                  Traffic Schemes                  Transparency Agenda                  Tree Safety                  Waste - Policy &amp; Management Arrangements                  Waste - Statistics &amp; Administration                  Wayfarers Comforts Fund                  Wayfarers Day Opportunities                  Wem Library                  Whitchurch Library                  Whitchurch Training Centre                  Youth Activities / Community Hubs and Commissioning</p>
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