



Meeting	Audit Committee
Date and Time	Thursday, 29th November, 2018 at 6.30 pm.
Venue	Walton Suite, Guildhall, Winchester

AGENDA

PROCEDURAL ITEMS

1. Apologies and Deputy Members
To note the names of apologies given and Deputy Members who are attending the meeting in place of appointed Members.
2. Disclosure of Interests
To receive any disclosure of interests from Members and Officers in matters to be discussed.

Note: Councillors are reminded of their obligations to declare disclosable pecuniary interests, personal and/or prejudicial interests in accordance with legislation and the Council's Code of Conduct.

If you require advice, please contact the appropriate Democratic Services Officer, prior to the meeting.

3. Chairman's Announcements
4. Minutes of the Previous Meeting held on 31 July 2018 (Pages 5 - 8)

BUSINESS ITEMS

5. Public Participation
To receive and note questions asked and statements made from members of the public on matters which fall within the remit of the Committee.
6. Governance: Quarterly Update - Quarter 2 2018/19 AUD220 (Pages 9 - 30)
7. Managing Project Risks AUD222 (Pages 31 - 60)
8. Local Government Association Corporate Peer Challenge AUD224 (To Follow)



9. Annual Audit Letter 2017/18 AUD221 (Pages 61 - 90)
10. Treasury Management Mid-Year Monitoring Report for 2018/19 AUD223 (Pages 91 - 102)

L Hall
Head of Legal Services (Interim)

Members of the public are able to easily access all of the papers for this meeting by opening the QR Code reader on your phone or tablet. Hold your device over the QR Code below so that it's clearly visible within your screen and you will be redirected to the agenda pack.



21 November 2018

Agenda Contact: Dave Shaw Principal Democratic Services Officer
Tel: 01962 848221 email: dshaw@winchester.gov.uk

MEMBERSHIP

Audit Committee

Councillor Cutler (Chairman)
Councillor Huxstep (Vice Chairman)

Cllr Bentote
Cllr Burns
Cllr Mather
Cllr Power
Cllr Stallard

Quorum = 4 members

TERMS OF REFERENCE

Audit Committee – Included within the Council's Constitution (Part 3, Section 2)

PUBLIC PARTICIPATION

A public question and comment session is available at 6.30pm for a 15 minute period. There are few limitations on the questions you can ask. These relate to current applications, personal cases and confidential matters. Please contact Democratic Services on 01962 848 264 in advance of the meeting for further details. If there are no members of the public present at 6.30pm who wish to ask questions or make statements, then the meeting will commence.

DISABLED ACCESS:

Disabled access is normally available, but please phone Democratic Services on 01962 848 264 or email democracy@winchester.gov.uk to ensure that the necessary arrangements are in place.

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AUDIT COMMITTEE

31 July 2018

Attendance:

Councillors
Cutler (Chairman)

Bentote
Burns
Mather

Power
Prince
Stallard

Apologies for Absence:

Councillor Huxstep

1. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED:

That the minutes of the previous meeting held on 31 May 2018 be approved and adopted.

2. **CHAIRMAN'S ANNOUNCEMENTS**

Following a brief discussion, the Committee agreed to recommend to Council that the Audit (Governance) Sub Committee be discontinued as its business could be transacted by the Audit Committee itself.

RECOMMENDED:

THAT THE AUDIT (GOVERNANCE) SUB COMMITTEE BE DISCONTINUED.

3. **GOVERNANCE QUARTERLY UPDATE - QUARTER 1 2018/19**
(AUD214)

Mrs Jerams and Mr Harvey from the Southern Internal Audit Partnership presented this item.

In reply to Members' questions, the Corporate Business Manager stated that a chart showing the period of time that some outstanding audit management actions were overdue would be included in future Reports and Mr Harvey gave details of how the Southern Internal Audit Partnership resourced reactive and proactive fraud governance.

RESOLVED:

That the content of the report and the progress against the Internal Audit Plan as set out in Appendix 1 be noted.

4. **RISK MANAGEMENT POLICY 2018**
(AUD219)

Members asked questions and made comments about risk and the impact of slippage in the Council's capital programme; it was also commented that the review of governance was ongoing; that the contracts register was not up to date and questions were asked on the correlation between the Corporate Risk Register and the Financial Risk Register. A number of Members were also interested in how risks were managed in major projects and the cumulative effect on risk of having a number of major projects in progress at the same time.

Following debate, it was agreed that an item be included on the next Committee Agenda to cover managing risks in major projects and how assurance could be given.

RESOLVED:

That Risk Management Policy 2018, the Risk Appetite Statement and the Corporate Risk Register for 2018/19 be noted.

5. **ANNUAL FRAUD REPORT 2017-18**
(AUD215)

Mr Harvey from the Southern Internal Audit Partnership presented this item and answered questions from Members on the six reported incidents of fraud and irregularity that had required reactive fraud work.

RESOLVED:

That the Chief Internal Auditor's Annual Fraud Report 2017-18, attached as Appendix 1 to the Report, be noted.

6. **ANNUAL GOVERNANCE STATEMENT 2017/18**
(AUD216)

RESOLVED:

1. That the Annual Governance Statement for 2017/18 as set out in Appendix 1 be approved.

2. That the issues arising and proposed actions identified in Appendix 1 be noted and that progress against the actions be brought back to the Audit Committee in six months time.

7. **AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2018**
(AUD217)

The Committee noted that the Report had not been notified for inclusion within the statutory deadline. The Chairman agreed to accept the item onto the agenda as a matter requiring urgent consideration to enable the consideration of the Report in order to approve the letter of representation in order that the Annual Financial Report could be published within the statutory deadline.

The Corporate Director: Resources informed the meeting of a consultation exercise that was taking place in response to a CIPFA initiative to highlight where councils might be experiencing financial stress. Under the initiative CIPFA would consider the Council against six indicators. He stated that the initiative may result in an overly simplistic analysis of the Council's financial resilience and there was a risk of unintended consequences through some of the proposed measures. The idea of further Value for Money assessment was supported. Following discussion, the Committee supported the Corporate Director: Resources to make representations as outlined above.

Mr Mathers from Ernst and Young, the Council's external auditors, presented the preliminary audit conclusions in relation to the audit for 2017/18. He stated that all audit work was complete and that EY would be giving an unqualified audit opinion on the financial statements and he thanked the Council's Finance Team for their work.

Mr Mathers answered questions from the Committee on the depreciation charge for council dwellings; how matters of concern were monitored and the financial resilience of the Council in funding numerous major projects. Further questions were raised regarding contract management (including the Leisure Centre) and the capacity of Ernst and Young to meet publishing deadlines when it was the client for a number of councils.

Following debate, it was agreed that consideration be given to bringing forward the July meeting of the Audit Committee in future years by a few days to give more time for the auditors to sign their report and for the Annual Financial Report to be published.

RESOLVED:

That the Letter of Representation in the Auditor's Report (appendix 1) be approved.

8. **ANNUAL FINANCIAL REPORT**
(AUD218)

The Finance Manager presented the Annual Financial Report for the year ended 31 March 2018 to the Committee. It was noted that an enquiry from a Member on the movement of a balance from a debtor to a creditor had been clarified outside of the meeting.

RESOLVED:

1. That the Statement of Accounts 2017/18 as set out in Appendix 1 be approved.

2. That the Chairman of the Committee signs the Statement of Responsibilities on page 10 of Appendix 1 to certify the accounts and authorise their issue.

The meeting commenced at 6.30 pm and concluded at 8.30 pm

Chairman

REPORT TITLE: GOVERNANCE QUARTERLY UPDATE – Q2 2018/19

29 NOVEMBER 2018

REPORT OF PORTFOLIO HOLDER: CLLR ASHTON – PORTFOLIO HOLDER FOR FINANCE

Contact Officer: Joseph Holmes Tel No: 01962 848 220 Email jholmes@winchester.gov.uk

WARD(S): ALL

PURPOSE

To provide members of the Audit Committee with a summary overview of the key issues in respect of governance arising during the second quarter of the 2018/19 financial year.

RECOMMENDATIONS:

1. That the Audit Committee notes the content of the report and the progress against the Internal Audit Plan and Annual Governance Statement as set out in Appendices 1 and 2.

IMPLICATIONS:1 COUNCIL STRATEGY OUTCOME

- 1.1 This summary document supports the Council's approach to providing efficient public services by managing and highlighting the latest key governance issues for action.

2 FINANCIAL IMPLICATIONS

- 2.1 None identified.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None identified.

4 WORKFORCE IMPLICATIONS

- 4.1 None.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None.

6 CONSULTATION AND COMMUNICATION

- 6.1 Consultation on the content of the Report has been undertaken with the Portfolio Holder for Finance and the Chairman of the Audit Committee.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 None required.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Reputation – ensuring that an effective governance framework is in place and followed</i>	This report is a summary of the arrangements in place to ensure the Council's governance processes and procedures are robust and fit for purpose.	By pulling together the latest issues from across governance information this gives the committee more of an opportunity to identify any cross-cutting themes that might occur.

11 SUPPORTING INFORMATION:

11.1 This report sets out the summary information in respect of the second quarter of the 2018/19 financial year concerning governance.

Annual Governance Statement

11.2 Progress against the actions included in the 2017/18 Annual Governance Statement is included in Appendix 2 to this report.

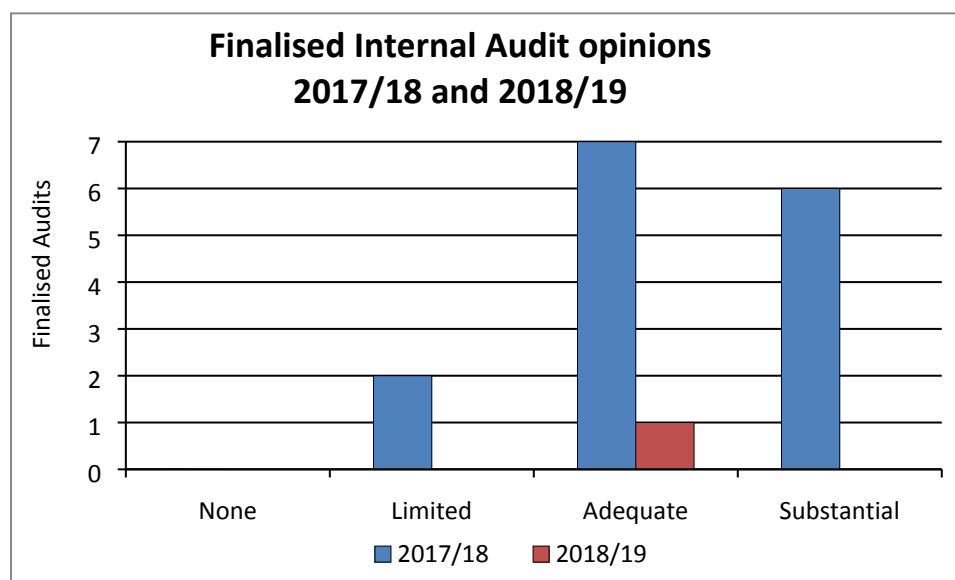
Gifts and Hospitality

11.3 During the period July to September 2018, there were six declarations by members or officers having received gifts and hospitality.

11.4 This information will continue to be updated in future quarterly Governance reports.

Internal Audit assurance reports

11.5 The graph below shows the assurance levels of the completed internal audits that were included in the 2017/18 and 2018/19 Audit Plans.

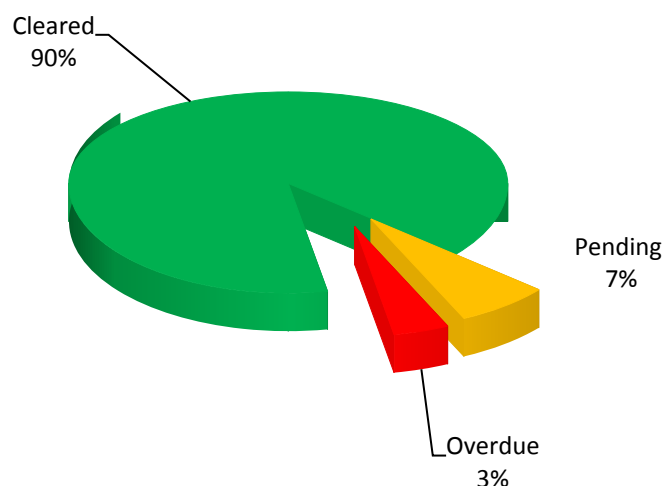


11.6 The limited assurance opinions issued during 2017/18 were in respect of two audits completed and these were for Partnership Working and Business Continuity. There have been no audit reports published during 2017/18 or 2018/19 that concluded with a “no” assurance opinion.

Internal Audit Management Action Tracking

- 11.7 The chart below shows the current position (since 1 April 2015) of the progress of the management actions arising from internal audit reports. More detailed information is provided in the Internal Audit Progress Report included as Appendix 1 to this report.

Summary of audit recommendation responses

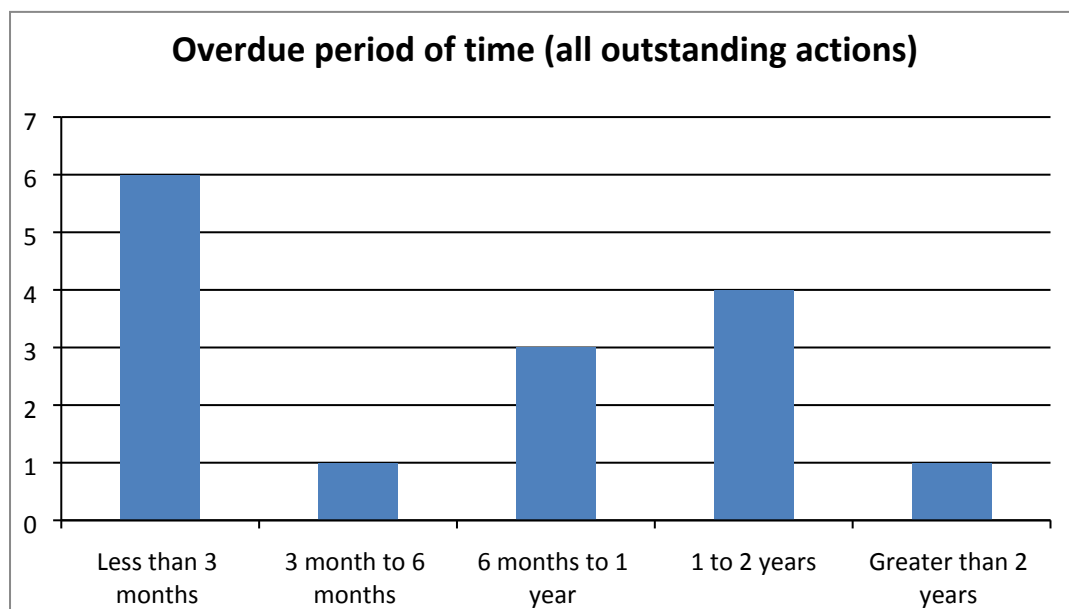


- 11.8 Progress against the management actions that are included in the Internal Audit reports are reviewed regularly and a summary table showing the status of these actions is reported on a quarterly basis. These recommendations and actions are kept under regular review to assess where some are superseded by external or internal factors.
- 11.9 To support the Committee to quickly identify where there are overdue actions, the progress table on the next page includes only the audits where there are overdue actions. It remains a priority for officers to focus on completing their actions within the agreed timescales and progress continues to be made to reduce the total number of overdue actions.
- 11.10 The table below has been updated and includes only the internal audits where there are currently overdue actions.
- 11.11 There are currently 15 overdue audit actions with no high priority overdue actions.
- 11.12 There are a number of recently completed internal audits that have pending but not yet overdue actions, and as such are not included in the table.
- 11.13 The more detailed Internal Audit Progress report provided by the Southern Internal Audit Partnership is included in Appendix 1 to the report.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Hampshire Cultural Trust	24/05/16	SDR	Limited	3 (0)	0 (0)	0 (0)	2 (0)	1 (0)
Ethical Governance	25/10/16	SDR	Adequate	12 (1)	0 (0)	0 (0)	10 (1)	2 (0)
Information Governance	28/03/17	SDR	Adequate	11 (1)	0 (0)	1 (0)	7 (1)	3 (0)
Development Management	17/05/17	SDS	Substantial	1 (0)	0 (0)	0 (0)	0 (0)	1 (0)
Recruitment	18/05/17	SDR	Limited	6 (0)	0 (0)	0 (0)	4 (0)	2 (0)
Cyber Security	27/09/17	SDR	Limited	5 (1)	0 (0)	1 (0)	2 (1)	2 (0)
Housing Planned Maintenance	01/05/18	SDS	Adequate	2 (0)	0 (0)	0 (0)	1 (0)	1 (0)
Income Generation and Collection	11/06/18	SDR	Adequate	8 (0)	0 (0)	3 (0)	3 (0)	2 (0)
Risk Management	26/10/18	SDR	Adequate	6 (2)	0 (0)	5 (2)	0 (0)	1 (0)

11.14 At the last meeting of the Committee, Members requested a chart be included in future quarterly governance monitoring reports that show the period of time that the outstanding audit management actions have been overdue.

11.15 There are currently 15 overdue actions and the chart below provides details of amount of time that has lapsed since the target date for these actions.



11.16 The chart above shows there is one management action that is over two years overdue. This action refers to the 2016/17 audit that reviewed the transfer between the Council and the Hampshire Cultural Trust.

External Audit

11.17 The External Auditor's Annual Audit Letter 2017/18 included elsewhere on this Committee's agenda (report AUD221 refers) concludes with an unqualified opinion on the Council's financial statements for 2017/18.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None, this report is a summary of governance related items.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD214 Governance Quarterly Update – Q1 2018/19

Other Background Documents:-

None.

APPENDICES:

Appendix 1 Internal Audit Progress Report

Appendix 2 Annual Governance Statement (AGS) Monitoring Report

Internal Audit Progress Report

November 2018

Winchester City Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

Contents:

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body 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.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Purpose of report

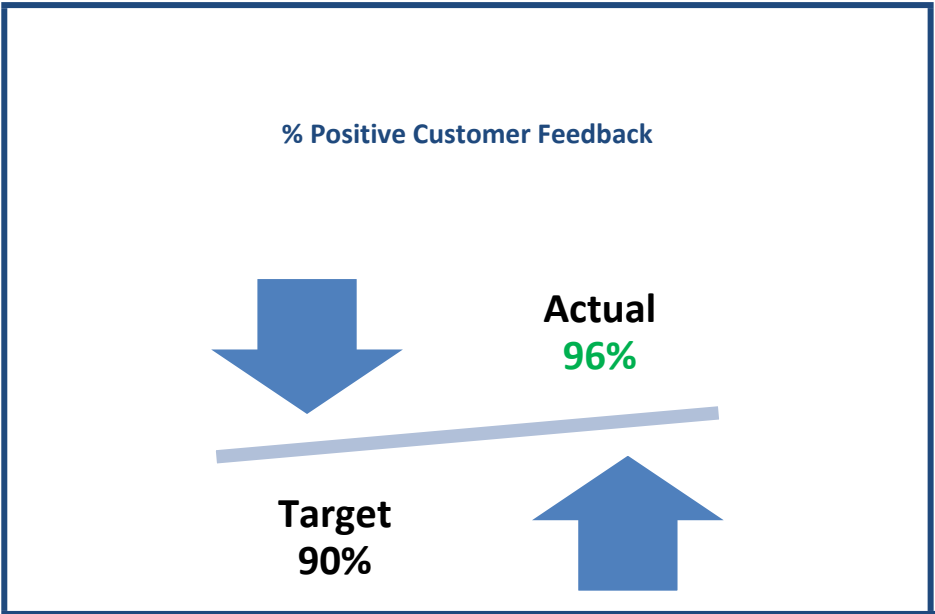
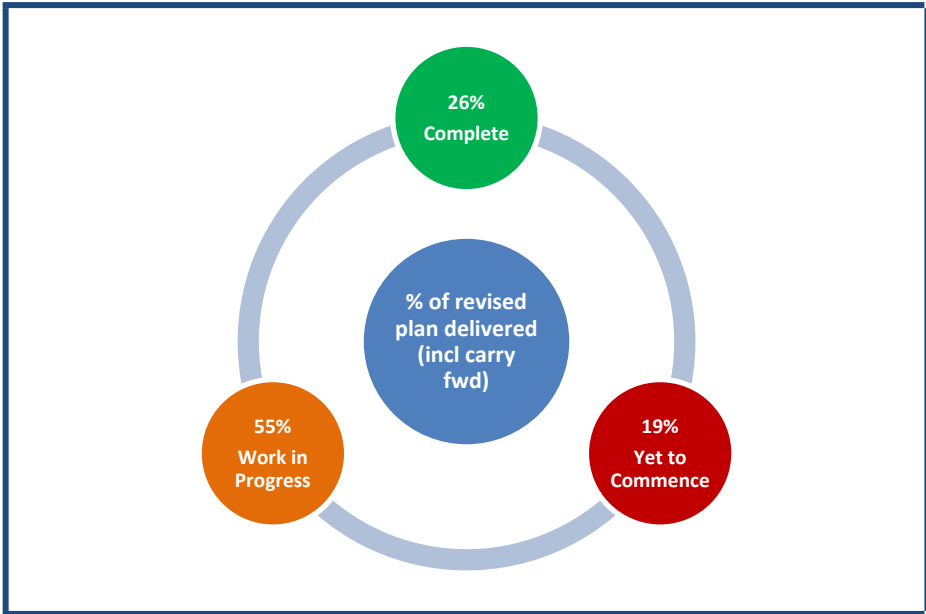
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

Substantial	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
No	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

3. Performance Dashboard



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Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
	<p>An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded:</p> <p><i>'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to all of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).</i></p> <p>In accordance with PSIAS, a further self assessment was completed in April 2018 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.</p>

4. Status of 'Live' Reports

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Hampshire Cultural Trust	24/05/16	SDR	Limited	3 (0)	0 (0)	0 (0)	2 (0)	1 (0)
Ethical Governance	25/10/16	SDR	Adequate	12 (1)	0 (0)	0 (0)	10 (1)	2 (0)
Environmental Health	04/11/16	SDS	Adequate	10 (9)	0 (0)	0 (0)	10 (9)	0 (0)
Information Governance	28/03/17	SDR	Adequate	11 (1)	0 (0)	1 (0)	7 (1)	3 (0)
Development Management	17/05/17	SDS	Substantial	1 (0)	0 (0)	0 (0)	0 (0)	1 (0)
Recruitment	18/05/17	CX	Limited	6 (0)	0 (0)	0 (0)	4 (0)	2 (0)
Telecommunications	05/07/17	SDR	Adequate	8 (0)	0 (0)	0 (0)	8 (0)	0 (0)
Cyber Security	27/09/17	SDR	Adequate	5 (1)	0 (0)	1 (0)	2 (1)	2 (0)
Working in Partnership	05/10/17	SDP	Limited	6 (0)	0 (0)	2 (0)	4 (0)	0 (0)
IT Software Licensing and IT Asset Management	12/03/18	SDR	Adequate	3 (0)	0 (0)	1 (0)	2 (0)	0 (0)

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Network Management	26/04/18	SDR	Adequate	10 (0)	0 (0)	10 (0)	0 (0)	0 (0)
Business Continuity	30/04/18	SDS	Limited	9 (2)	0 (0)	8 (1)	1 (1)	0 (0)
Housing Planned Maintenance	01/05/18	SDS	Adequate	2 (0)	0 (0)	0 (0)	1 (0)	1 (0)
Income Generation and Collection	11/06/18	SDR	Adequate	8 (0)	0 (0)	3 (0)	3 (0)	2 (0)
Procurement	12/07/18	SDR	Adequate	3 (0)	0 (0)	3 (0)	0 (0)	0 (0)
Risk Management	26/10/18	SDR	Adequate	6 (2)	0 (0)	5 (2)	0 (0)	1 (0)

Audit Sponsor (Director)	
Chief Executive	CX
Strategic Director - Resources	SDR
Strategic Director - Services	SDS
Strategic Director – Place	SDP

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There are no new reports published concluding a "limited" or "no" assurance opinion.

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015	01.04.18 – 31.10.18
Part 2 Requirements - Fraud	
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	3 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	5 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	33 days***
Total number of new fraud cases investigated	1 **

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

***relates to SIAP staff only and includes time spent on proactive fraud initiatives to identify or prevent potential fraud that may not result in a formal investigation or prosecution.

7. Planning & Resourcing

The internal audit plan for 2018-19 was approved by the Council's Management Team and the Audit Committee in March 2018.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 8.

8. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ⓧ Delay)	Comment
Carry Forward Reviews 2017-18									
Income Generation and Collection	SDR	✓	✓	✓	✓	✓	Adequate	✓	17/18 Annual Opinion
HR	SDR	✓	✓	✓	✓	✓	n/a	✓	Position Statement
Procurement	SDR	✓	✓	✓	✓	✓	Adequate	✓	17/18 Annual Opinion
Information Governance	SDR	✓	✓	✓	✓	✓	n/a	✓	Position Statement

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Housing Benefits	SDR	✓	✓	✓	✓	✓	Substantial	✓	17/18 Annual Opinion
2018-19									
Strategic risks									
Programme & Project Management	SDP	✓	✓					✓	
Transformation	SDR	✓						✓	
Financial Stability	SDR							✓	Q3
Corporate Strategy									
Delivering an Entrepreneurial approach to efficient public services									
Asset Management	SDP	✓	✓	✓	✓			✓	
Digital Agenda	SDR	✓	✓	✓				✓	
Delivering Quality Housing options									

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Affordable Housing	SDS	✓	✓	✓				✓	
Improving the quality of the District's environment									
Development / Building Control	SDS							✓	Q4
Environmental Services Contract	SDS							✓	Q4
Governance									
HR - Expenses	SDR	✓	✓					✓	
HR – Use of Agency Staff	SDR							✓	Q3
National Fraud Initiative (NFI)	SDR	✓	n/a	✓				✓	
Proactive Fraud Initiative (Training & Awareness)	SDR	✓	n/a	✓	n/a	n/a	n/a	✓	
Proactive Fraud Initiative (Social Housing)	SDS								Q4

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✘ Delay)	Comment
Contract Management	SDR	✓						✓	
Health & Safety	SDP	✓	✓	✓				✓	
GDPR Compliance	SDR	✓	✓	✓				✓	
Core Financial Systems									
Housing Rents	SDS	✓	✓	✓				✓	
Main Accounting	SDR	✓	✓	✓	✓			✓	
IT									
Applications management	SDR	✓	✓	✓				✘	Delayed due to client availability
Data security and management	SDR	✓	✓	✓				✘	Delayed due to client availability
Mobile devices	SDR	✓	✓					✓	
Business as Usual									

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ✗ Delay)	Comment
Bus Service Operator Grant	SDS	✓	✓	✓	-	-	-	✓	Grant certification work
Housing Capital Receipts Return	SDS	✓						✓	Grant timings still to be confirmed by Ministry of Housing.
Mayor's Charity	SDR							✓	Q3
Risk Management	SDR	✓	✓	✓	✓	✓	Adequate	✓	
Licensing	SDS	✓						✓	

9. Adjustments to the Plan

The Human Resources audit has been split into two reviews, focussing on 'Expenses' and the 'Use of Agency Staff' respectively, with no change to the overall audit plan days.

Annual Governance Statement 2017/18

Progress Report – November 2018

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No.	Issue	Actions	Progress Update	Lead Officer	Target Date	Current Status
1	Asset Management – the need to ensure that the Council has the capacity and skills to deliver the approved Asset Management Plan.	Regular monitoring and reporting of the progress against the actions in the Asset Management Action Plan to be undertaken.	All assets are recorded on the asset register database and works carried out are also recorded on Uniform system to allow ongoing monitoring and reporting of works.	Corporate Head of Asset Management	Ongoing	Green
		Internal Audit planned for 2018/19 to review the assurance over effectiveness and delivery of Asset Management Plan including repairs and maintenance to non-housing assets (planned and reactive)	Audit fieldwork completed and draft report issued.	Corporate Head of Asset Management	Audit to be carried out during Q2 of 2018/19	Green
2	Project Governance and Reporting – ensuring that each of the Council’s significant projects follow the agreed project governance policy.	Refresh the progress monitoring reports for the Council’s significant projects	Monthly programme and project monitoring reports updated to new style and layout.	Strategic Director: Resources	June 2018	Complete
		Agree the governance arrangements for managing the Councils significant projects and set out in a new Project Governance Policy	Project Gateways now established and defined alongside governance arrangements for the approval of projects to pass through the gateways.	Strategic Director: Resources	September 2018	Green
		Ensure that all significant projects follow the arrangements as set out in the Project Governance Policy.	Programme Management Group (PMG) has responsibility for ensuring that all projects follow the new established governance	Strategic Director: Resources	October 2018	Green

No.	Issue	Actions	Progress Update	Lead Officer	Target Date	Current Status
			arrangements			
		Internal Audit scheduled to take place in Q3 2018/19 covering Programme and Project Management. This audit was deferred from the 2017/18 Audit Plan	Scoping meeting held for the audit in October with fieldwork during late October and November.	Strategic Director: Resources	December 2018	Green
3	Contract Management – ensuring that the Council maintains a comprehensive, publicly accessible contract register, following its own contract procedure rules.	Ensure that a comprehensive contract register of all contracts over £5,000 is maintained and available to the public.	There has been increase in the numbers of contracts added to the Council’s contract register which is held on the South East Business Portal and is available for viewing by the public.	Strategic Director: Resources	Ongoing	Green
6	Corporate Peer Review Action Plan	Completion of the actions included in the 2017 Corporate Peer Challenge Action Plan , including a review of political structures and developing a shared understanding of the financial challenges ahead	LGA Peer Challenge follow-up review took place over two days during September 2018. A report summarising the follow-up visit is included on this Committee’s agenda (Report AUD224 refers)	Strategic Director: Resources	October 2017	Green

REPORT TITLE: MANAGING PROJECT RISKS

29 NOVEMBER 2018

REPORT OF PORTFOLIO HOLDER: CLLR ASHTON – PORTFOLIO HOLDER FOR FINANCE

Contact Officer: Joseph Holmes Tel No: 01962 848 220 Email
jholmes@winchester.gov.uk

WARD(S): ALL

PURPOSE

This report sets out details of how the Council manages major project risks and how assurance is gained that the risks are being managed effectively.

RECOMMENDATIONS:

1. That the report be noted.

IMPLICATIONS:

- 1 COUNCIL STRATEGY OUTCOME
- 1.1 Effective use of risk management supports the Council to manage threats and opportunities to achieve the aims and objectives as set out in the Council Strategy.
- 2 FINANCIAL IMPLICATIONS
- 2.1 None directly.
- 3 LEGAL AND PROCUREMENT IMPLICATIONS
- 3.1 None.
- 4 WORKFORCE IMPLICATIONS
- 4.1 None directly.
- 5 PROPERTY AND ASSET IMPLICATIONS
- 5.1 None.
- 6 CONSULTATION AND COMMUNICATION
- 6.1 Executive Leadership Board and the Portfolio Holder for Finance have been consulted on the content of the report
- 7 ENVIRONMENTAL CONSIDERATIONS
- 7.1 None required.
- 8 EQUALITY IMPACT ASSESSEMENT
- 8.1 None required.
- 9 DATA PROTECTION IMPACT ASSESSMENT
- 9.1 None.
- 10 RISK MANAGEMENT

This paper concerns the Council's approach to risk management on key projects and so many of the considerations of the below will be reviewed as part of the Audit Committee's review of the paper and presentation.

Risk	Mitigation	Opportunities
<i>Property</i>	n/a	
<i>Community Support</i>	n/a	n/a

<i>Timescales</i>	n/a	n/a
<i>Project capacity</i>	n/a	n/a
<i>Financial / VfM</i>	n/a	n/a
<i>Legal</i>	n/a	n/a
<i>Innovation</i>	n/a	n/a
<i>Reputation</i>	n/a	n/a
<i>Other</i>	n/a	n/a

11 SUPPORTING INFORMATION:

- 11.1 At the last meeting of the Committee during consideration of the Risk Management Policy for 2018, Members agreed that an item be brought to the next meeting to cover managing risks in major projects and how assurance could be given.
- 11.2 The Council's Risk Management Policy (see AUD219 that went to the previous Audit Committee meeting in July) outlines the approach it takes with regard to managing risks and opportunities using a structured, focused and proportional methodology.
- 11.3 This approach is adopted by the Council for identifying and managing all types of risk including those risks relevant to the major projects.
- 11.4 The Cabinet has established a separate committee for each major project that takes responsibility for ensuring that effective actions are in place to address key risks. The risk registers for the Sport & Leisure and Station approach Cabinet committees are appendices to this report.
- 11.5 There will be a presentation to the Audit Committee on risk management on the projects to enable a more interactive discussion of how key project risks are considered across the projects and where there are any risks combined across the projects.

Chesil Lodge

- 11.6 As an example of how major project risks are managed, below are details of how the risks were managed for the recently completed Chesil Lodge project.
- 11.7 A Council risk register was maintained throughout the Chesil Lodge project with risks categorised as Financial, Reputational and Technical/Legal.
- 11.8 This risk register complemented the contractor risk register maintained by Galliford Try which dealt with more detailed technical and programme issues.
- 11.9 The Council Risk Register was reported to and reviewed at each Project Board meeting. Each risk was assigned a lead and the whole register was overseen by NHT. Anything that was highlighted as a red risk was specifically escalated for Board attention.

- 11.10 In some cases this was for information as mitigation was already in place, at others it was for discussion and resolution. Discussion at Board was not limited to red risks and the forum proved to be a useful arena to problem solve and mitigate risks. The Board also had a role in adjusting risks levels as it saw fit.
- 11.11 The approach taken to risk management was not unusual, however key points to note are that:
- Risk management and the role of the Project Board were intertwined. The Register was discussed at each Board meeting and the Board help generate solutions.
 - The process empowered risk leads and others to highlight areas of concern and to seek support. The Board provided an authoritative and challenging, but ultimately a supportive, “no blame” environment for problems to be resolved.
 - Each risk was owned. Where progress was not being made by the owner either (a) difficulties occurred (e.g. delays, heightened risk problems for inter-connected issues, or (b) the Board provided a Forum for that owner to seek support on progressing matters (e.g. resolving conflicting objectives, seeking extra input/staff resource).
 - The Register was dynamic. It was reviewed between meetings, risk level was adjusted and, after initial scoping, new risks added as they emerged.
 - The Register was a little more detailed than is perhaps seen in other circumstances, reflecting the desire for tight control and the membership and role of the Board.
 - Issues on the Register were often also agenda items at Board meetings. The Register provided an opportunity to sense check and close off discussions on matters that were higher risk.
 - Issues other than red risks were discussed where desirable.
 - At times the complexities of dealing with the risks required small task and finish groups/activities. The Register/Board was helpful in ensuring sufficient importance was attached to dealing with the risk by individuals/teams.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD219 Risk Management Policy 2018

Other Background Documents:-

None

APPENDICES:

Appendix A – Sport & Leisure Park risk register CAB3076 (LC) – appendix 2

Appendix B – Station Approach risk register CAB3083 (SA) – appendix 4

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Winchester Sport and Leisure Centre Project – Risk Register

Audit Committee 29 November 2018 – Appendix A

Winchester Sport and Leisure Centre Project – CAB3076 (LC) Appendix 2

Risk Register – Key:

Likelihood Rating

It is unlikely that in many cases the probability of a risk occurring can be calculated in a statistically robust fashion as we do not have the data to do so. However, as an indicator, the likelihood is defined by the following probability of a risk occurring:

Likelihood	Probability
Highly Unlikely	1% to 25% chance in 5 years
Unlikely	26% to 50% chance in 5 years
Likely	51% to 75% chance in 5 years
Highly Likely	76% to 100% chance in 5 years

Risk Proximity Score	Time scale
1	Occurring within the next 3 months
2	Occurring within the next 6 months
3	Occurring within the next 1 year
4	Unlikely to occur within 1 year

Risk Proximity

The score for risk proximity supports the Council in focusing on certain risks that may occur soon and ignore risks that will not occur in the near future. This enables risk management to be more efficient.

A number of between 1 and 4, where 1 means the risk is about to occur within the next 3 months and 4 means the risk is not likely to occur within the next year is provided.

Financial Impact

The financial impact to the Council is an important consideration, however this should be viewed alongside the likelihood of the risk occurring and not assumed to be inevitable.

The scoring of the financial impact relates to the cost to the Council if that risk were to occur, however it should not relate to the cost of managing or mitigating the risk.

The financial impact is scored as highly likely it would be prudent for the Council to ensure that it has set aside an adequate financial provision. The financial impact is scored as follows:

Financial Impact Score	Time scale
£	£1 – £20,000
££	£20,0001 - £200,000
£££	£200,001 - £2,000,000
££££	£2,000,001 plus

Winchester Sport and Leisure Centre Project – Risk Register

Impact Rating

The following table provides the definitions which should be used when determining whether a risk would have a Low, Moderate, Major or Significant impact

	Low (1)	Moderate (2)	Major (3)	Significant (4)
Financial	Less than £20K	£20k or over and less than £200K	£200K or over and less than- £2MK	£2M plus
Service Provision	No effect	Slightly Reduced	Service Suspended Short Term / reduced	Service Suspended Long Term Statutory duties not delivered
Health & Safety	Sticking Plaster / first aider	Broken bones/illness Lost time, accident or occupational ill health	Loss of Life/Major illness – Major injury incl broken limbs/hospital admittance. Major ill health	Major loss of life/Large scale major illness
Morale		Some hostile relationship and minor non cooperation	Industrial action	Mass staff leaving/Unable to attract staff
Reputation	No media attention / minor letters	Adverse Local media Leader	Adverse National publicity	Remembered for years

Winchester Sport and Leisure Centre Project – Risk Register

Govt relations	One off single complaint	Poor Assessment(s)	Service taken over temporarily	Service taken over permanently
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Risk Number: 1			Risk Owner: Project Executive			
Risk Title: Project is not financially viable						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
<p>Full Business Case gateway does not confirm that project is financially viable.</p> <p>The management fee proposed by the potential operator and/or the cost of construction are not in line with current estimates</p> <p>Significant and unforeseeable change in external financial/macro economic position</p> <p>("Viable" = that the annualised cost of the project to the Council based on the preferred facility mix is sufficiently close to the income expected to be generated from a management contract in relation to be a sustainable investment).</p>	<p>Project may be halted for review of underlying assumptions. Revisions are tested and agreed. Project recommences on revised brief, timetable and cost estimate.</p>	<p>Ensure Cabinet is fully aware of likely cost/income equation of facility mix and facility management options. Do not permit 'project creep' to add non-essential additional cost elements.</p> <p>Provide sufficient detail to consultancy team to permit accurate projections of cost and income. Close liaison with contractor and design team. Progressing design to RIBA Stage 4 before passing to contractor.</p> <p>Continue to assess all aspects of the project through Business Case Modelling. Soft market testing exercise undertaken. Monitor economic prospects, include substantial contingency in forecasts and secure financial certainty where possible.</p> <p>Manage public expectations of project content and cost, highlight danger of</p>	Likely (Probability 51% - 75%)	Significant (4)	2	££

Winchester Sport and Leisure Centre Project – Risk Register

	optimism bias.			
Further actions?	Target Date	Residual Risk Score		
		Likelihood	Impact	
Cabinet Committee will make key decisions in line with project plan. Decisions requiring approval of full Council under the Constitution will be referred accordingly. Regular reporting on progress will be made.	Feb 2019	Unlikely (Probability 26% - 50%)	Significant (4)	

Risk Number: 2	Risk Owner: Project Executive
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Risk Title: Absence of financial support from project partners

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
External grants and partner funding does not materialise or offers withdrawn because Council cannot meet funders' requirements	Project could be rendered nonviable by increasing Council proportion of cost. Review project as in R1.	Continue negotiations with partner organisations and external funders. Maintain contacts at senior level to create alignment of expectations.	Likely (Probability 51% - 75%)	Significant (4)	2	££££
Further actions?	Target Date	Residual Risk Score				
		Likelihood	Impact			
Translation of negotiated arrangement into legal documentation. Continue Financial appraisal of contribution's value to the scheme vs financial contribution.	Nov 2018	Unlikely (Probability 26% - 50%)	Significant (4)			

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 3			Risk Owner: Project Executive			
Risk Title: Council unable to recover VAT on construction costs						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Project and governance structure means that Council unable to recover VAT incurred on construction costs.	The project cost would increase significantly and possibly become non-viable or show major overspend if HMRC refuses claims.	Obtain best available VAT advice at appropriate stages and before decision making. Reflect VAT advice in negotiations with funding partners.	Unlikely (Probability 26% - 50%)	Significant (4)	1	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood		Impact	
Advice reflected in decisions taken, ongoing advice as required.		Nov 2018	Unlikely (26% - 50%)		Major (3)	

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 4			Risk Owner: Project Executive			
Risk Title: Stakeholders expectations on pricing and usage not met						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Pricing and usage strategy necessary to create viable project is not in line with stakeholder expectations. i.e. hire charges for club use, membership levels etc.	Business Case and procurement of operator specification may need to be reviewed if Council wishes to alter pricing and usage strategy.	Maintain dialogue with main users. Soft market test assumptions with potential operators. Ensure Cabinet agrees pricing and usage strategy.	Likely (Probability 51% - 75%)	Moderate	2	£
Further actions?		Target Date	Residual Risk Score			
			Likelihood	Impact		
Dialogue with likely user groups. Ongoing soft market testing to determine external views.		Nov 2018	Unlikely (Probability 26% - 50%)	Low (1)		

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 5			Risk Owner: Project Executive			
Risk Title: Stakeholders dissatisfied with facility mix						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Stakeholders dissatisfied with proposed facilities seek more consultation even after decisions are made.	Council delays decision making. Cost increase arising from either agreement to stakeholder views or time delay could jeopardise project.	Engage effectively through all stages of the design and planning process. Remain firm on delivery to time and budget.	Unlikely (Probability 26% - 50%)	Moderate (2)	2	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood		Impact	
Continue consultation and engagement process.		N/A	Unlikely (Probability 26% - 50%)		Low (1)	

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 6			Risk Owner: Project Executive			
Risk Title: Project programme/project delivery delayed						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Delay in programme/ delivery and resulting cost implications due to staff capacity and other information and or decisions being made/available at relevant stages of the project.	Potential for project delay due to a number of potential factors. This could also include the delivery of associated mitigation, accommodation or facilitating works.	Stride Treglown and LA architects appointed to undertake engagement and design work. Mace appointed as project managers and cost consultants. Civil & Structural and Building Services engineering consultancies appointed Other specialisms appointed. Allocate sufficient staff resources by prioritising within project programme. Identify and undertake mitigation, accommodation or facilitating works well in advance and ensure decisions made on these early.	Unlikely (Probability 26% - 50%)	Major (3)	1	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood		Impact	
			Unlikely (Probability 26% - 50%)		Moderate (2)	
Monthly meetings established between the Project Office and relevant teams. Good liaison with agencies including Sport England, Environment Agency, Southern Water and other utility companies to identify issues in time to adequately address.		Ongoing				

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 7			Risk Owner: Project Executive			
Risk Title: Unexpected costs arise for keeping River Park Leisure Centre open						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Unexpected costs arise for keeping existing River Park Leisure Centre (RPLC) open	Rising financial costs to keep RPLC open and running may require difficult decisions between additional capital expenditure and facility availability depending on scale. Expenditure on RPLC depletes reserves.	Monitor condition of existing facility carefully. Allow some contingency in budget planning if possible. Identify, approve & monitor maintenance costs.	Unlikely (Probability 26% - 50%)	Moderate-Major (2/3)	3	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood		Impact	
Keep building condition under review. Will remain a risk until RPLC closes. The 2018/19 capital programme includes a budget to undertake essential capital works required to extend the life of RPLC.		N/A	Unlikely (Probability 26% - 50%)		Moderate (2)	

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 8			Risk Owner: Project Executive			
Risk Title: Legal challenges are raised						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Legal challenges to any aspect of decision making and or procurement.	If legal challenges are successful the project is halted. If unsuccessful - a delay in the development and additional costs to the project which may render it unviable.	Ensure any legal challenges can be mitigated by obtaining expert advice and evidence to guide and inform processes. Raise awareness of implications of delay. Input from advisory panels.	Unlikely (Probability 26% - 50%)	Significant (4)	3	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood		Impact	
Continue to obtain expert advice on procurement and to inform decision making		N/A	Unlikely (Probability 26% - 50%)		Major (3)	

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 9			Risk Owner: Project Executive			
Risk Title: Planning permission is refused						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Planning application submitted is not in line with planning policy.	Project will require revisions with cost implications. Could require reconsideration of project content.	Continue to engage intensively with planning representatives and consultative bodies including South Downs National Park Authority. Carry out pre application and relative screening. Engage with the nominated Case Officer early in the project process. Reflect input carefully from 4 stages of engagement Input from Advisory panels External planning consultant appointed.	Unlikely (Probability 26% - 50%)	Significant (4)	3	££
Further actions?		Target Date		Residual Risk Score		
				Likelihood	Impact	
Continue to liaise with Case Officer and consultative bodies on latest progress with planning application.		Oct 2018		Unlikely (Probability 26% - 50%)	Low (1)	

Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 10			Risk Owner: Project Executive			
Risk Title: Unable to agree highway requirements						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Hampshire County Council are not satisfied with highway proposals for Bar End Road put forward as part of planning application and agreement cannot be reached	Could lead to additional land requirements and costs	Continue discussions with HCC	Unlikely (Probability 26% - 50%)	Moderate (2)	1	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood		Impact	
Further technical work with Highway Authority		Sep 2018	Unlikely (Probability 26% - 50%)		Moderate (2)	

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Winchester Sport and Leisure Centre Project – Risk Register

Risk Number: 11			Risk Owner: Project Executive			
Risk Title: Technical studies identify adverse issues						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Issues are identified that require further investigation or mitigation.	Could affect delivery if results have significant cost implications. Could affect ability to deliver certain aspiration.	Undertake studies early in process. Ensure correct scope for studies. Review the scope of these studies and update as required in conjunction with appointed design team.	Highly Likely (Probability 76% -100%)	Moderate (2)	1	££
Further actions?		Target Date	Residual Risk Score			
			Likelihood	Impact		
Review and update studies as required - technical studies undertaken include on site conditions and utilities in consultation with the design team. These technical studies have and will continue to inform the design and project programme.		Sep 2018	Unlikely (Probability 26% - 50%)	Moderate (2)		

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Key Risks for Report

Risk Register – Key:

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Reputation	No media attention / minor letters	Adverse Local media Leader	Adverse National publicity	Remembered for years
Govt relations	One off single complaint	Poor Assessment(s)	Service taken over temporarily	Service taken over permanently

Station Approach Key Risks for Report CAB3083(SA)

Risk Number: 1		Risk Owner: Project Executive				
Risk Title: Change in commercial market						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Change in commercial market (concern ahead to 2019)	Delay in project programme. Changes to the programme and scope of the project incur additional fees under the contract. Impact on the interested businesses. Impact on the local economy. Impact on the Medium Term Financial Strategy.	Mitigate 1. Maintain political support to move project forward and prevent delays. 2. Continued economic and political monitoring.	Likely	Major	4	£££ - ££££
Further actions			Target date	Residual Risk Score		
Market the site and pursue other tenants Market testing should also be undertaken to ensure continuing demand.			Q4 2018	Likelihood	Impact	
				Unlikely	Moderate	

Risk Number: 2		Risk Owner: Project Executive				
Risk Title: Planning application decision delay						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Planning Permission is significantly delayed	Delay in project programme. Changes to the programme and scope of the project incur additional fees under the contract. Impact on the interested businesses. Impact on the local economy. Impact on the Medium Term Financial Strategy.	Mitigate 1. Engage with the nominated Case Officer early in the project process. 2. Ensure that the design principles are in accordance with the themes of Local Plan Part 2. 3. Seek pre application advice prior to submission of the Planning Application	Likely	Significant	4	£££
Further actions			Target date	Residual Risk Score		
Continue engagement with officers in other teams to identify areas of concern and/or opportunities to enhance a planning application.			Q2 2019	Likelihood	Impact	
				Unlikely	Major	

Risk Number: 2			Risk Owner: Project Executive			
Risk Title: Planning application decision delay						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Planning Permission is significantly delayed	Delay in project programme. Changes to the programme and scope of the project incur additional fees under the contract. Impact on the interested businesses. Impact on the local economy. Impact on the Medium Term Financial Strategy.	Mitigate 1. Engage with the nominated Case Officer early in the project process. 2. Ensure that the design principles are in accordance with the themes of Local Plan Part 2. 3. Seek pre application advice prior to submission of the Planning Application	Likely	Significant	4	£££
Further actions			Target date	Residual Risk Score		
Continue engagement with officers in other teams to identify areas of concern and/or opportunities to enhance a planning application.			Q2 2019	Likelihood	Impact	
Unlikely			Major			
Risk Number: 3			Risk Owner: Project Executive			
Risk Title: Planning application decision refusal						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Planning Permission is refused	Delay in project programme. Changes to the programme and scope of the project incur additional fees under the contract. Impact on the interested businesses. Impact on the local economy. Impact on the Medium Term Financial Strategy.	Mitigate 1. Engage with the nominated Case Officer early in the project process. 2. Ensure that the design principles are in accordance with the themes of Local Plan Part 2. 3. Seek pre application advice prior to submission of the Planning Application	Highly unlikely	Significant	4	£££
Further actions			Target date	Residual Risk Score		
Continue engagement with officers in other teams to identify areas of concern and/or opportunities to enhance a planning application.			Q2 2019	Likelihood	Impact	
Highly unlikely			Major			

Risk Number: 4			Risk Owner: Project Executive			
Risk Title: Designs and Gateway approvals						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Designs are rejected and gateways not approved	Delay in project programme. Changes to the programme and scope of the project incur additional fees under the contract. Design Team's fees become unrecoverable. Impact on the interested businesses. Impact on the Medium Term Financial Strategy.	Mitigate 1. Work with Design Team during formulation of designs to ensure these reflect the themes and principles of the brief so Cabinet Members can be comfortable to proceed with recommended design. 2. Establish bi-monthly briefings for Cabinet (SA) Committee members and keep other members informed through informal Cabinet. Involve ward member representative in Advisory Panel.	Likely	Significant	1	££
Further actions			Target date	Residual Risk Score		
Agree programme at start of each stage and sign-off amendments with Project Board and Committee members.			Q1 2019	Likelihood		Impact
				Unlikely		Major

Risk Number: 5			Risk Owner: Project Executive			
Risk Title: Demonstrating LEP Business Case for funding bid						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
LEP Business Case is not fully accepted	Bid for Local Enterprise Partnership (LEP) funding is unsuccessful. Loss of potential £5M bid. Loss of opportunity to regenerate areas of public realm. Carfax scheme not enhanced by public realm works nor supported by LEP funding.	Mitigate - 1. Complete LEP Business Case, supported by the project outline business case and ensure it is reviewed by the relevant officers before submission.	Unlikely	Major	2	££££
Further actions			Target date	Residual Risk Score		
				Likelihood		Impact

Ensure good engagement with EM3 LEP			Q3 2018	Highly unlikely	Moderate	
Risk Number: 6			Risk Owner: Project Executive			
Risk Title: Public realm design work delays and agreements						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Public realm design work delayed or agreement for works cannot be reached in a timely manner on land controlled by 3rd parties, results in not being able to meet required LEP spending programme.	Bid for Local Enterprise Partnership (LEP) funding is unsuccessful or cannot be spent by the deadline. Loss of potential £5m bid Loss of opportunity to regenerate areas of public realm. Carfax scheme not enhanced by public realm works.	Mitigate - 1. Close liaison with M3 Enterprise LEP, and partner organisations who own 3rd part land throughout the project to agree priorities for spend and mechanisms and programme for delivery.	Likely	Major	3	££££
Further actions			Target date	Residual Risk Score		
Continue close engagement with landowners for public realm works and identify any requirements for sign-off using their processes.			Q3 2018	Unlikely		Major
Risk Number: 7			Risk Owner: Project Executive			
Risk Title: Design and public expectations						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Design does not meet public expectation due to limitations of viability or delivery.	Local residents and members of the public feel disengaged in the project or object to aspects of the scheme, leading to dissatisfaction with the development and potential campaigns against the development which may delay matters and cause additional costs to be incurred	Mitigate - 1. Put Engagement and Communication Strategy in place, setting out how to engage interested parties in the design process; implement Communications Plan.2. Work closely with the Communications team at WCC to ensure awareness of the most recent updates, any concerns for issues that arise which may cause people to raise concerns and engage with stakeholders regularly to ensure they are kept well informed about the project.	Likely	Moderate	2	£-££
Further actions			Target	Residual Risk Score		

	date	Likelihood	Impact
Use Advisory Panel through design stages to provide further updates on progress of project and use feedback.	Q4 2018	Unlikely	Low

Risk Number: 8		Risk Owner: Project Executive				
Risk Title: Stakeholder approvals						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Stakeholder approvals for scheme may not be forthcoming as sought by programme.	Public realm improvements cannot be delivered as per programme. Carfax scheme not enhanced by public realm works nor supported by LEP funding.	Mitigate - 1. Continue work with Hampshire County Council to explore potential schemes that could be delivered in conjunction with both authorities to improve the public realm in this area. 2. Involve other agencies, landowners including Network Rail/SW Railway, the BID.	Unlikely	Moderate	3	££££
Further actions		Target date	Residual Risk Score			
			Likelihood	Impact	Impact	
Further liaison with LEP regarding how funding can be used to support the Carfax development.		Q4 2018	Highly unlikely		Moderate	

Risk Number: 9		Risk Owner: Project Executive				
Risk Title: Changes in markets, costs, and taxation treatment on financial return						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Changes in markets, cost of construction and/or borrowing or other financial/taxation elements mean that the scheme does not achieve a financial return.	Full project business case does not achieve commercial and / or financial viability	Mitigate 1. Ensure there is a proper discussion to establish the most appropriate business mix to deliver the expected outcomes and that this is backed up with a solid evidence base. 2. Liaise with the Finance Team to ensure the financial models and assumptions reflect the expected	Unlikely	Significant	3	££££

		outcomes and they include the latest information that is available. 3. Continue to review costs and values before deciding to proceed. 4. Carry out continual economic and political monitoring. 5. Ensure an element of contingency is built into the construction budget.				
Further actions		Target date	Residual Risk Score			
			Likelihood		Impact	
Establish processes to promote financial due diligence, whereby any officer or councillor involved in the project receives regular updates on the input assumptions for the financial modelling and is encouraged to robustly challenge these and any subsequent outputs from the financial model as the project progresses. Instruct a full financial and cost report prior to submitting any planning application.		Q4 2018	Unlikely		Moderate	

Risk Number: 10		Risk Owner: Project Executive				
Risk Title: Highway Authority agreement						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Design not acceptable to Highways Authority, or approvals not forthcoming on account of Movement Strategy timetable, or other reasons.	Delay in project programme. Changes to the programme and scope of the project incur additional fees under the contract. Impact on the interested businesses. Impact on the local economy/Impact on the Medium Term Financial Strategy.	Mitigate 1. Continually engage with HCC as the designs are developed. 2. An Engagement and Communication Strategy sets out proposals to engage interested parties in the design process. HCC will be a key stakeholder for this.	Unlikely	Significant	1	££
Further actions		Target date	Residual Risk Score			
			Likelihood		Impact	
None at this time		n/a	Highly Unlikely		Major	

Risk Number: 11		Risk Owner: Project Executive				
Risk Title: Expectations of spending on public realm						

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Expectations of spending on public realm exceed practical requirements for LEP bid, and amount of funding available.	Public concern is raised regarding the public realm proposals.	Mitigate Retain Public Realm spending to within confines of red line and agree this with LEP Maintain communications with LEP and demonstrate in business case how works in advance will support the development of the public realm in line with the LEP requirements.	Unlikely	Major	3	££-£££
Further actions		Target date	Residual Risk Score			
			Likelihood		Impact	
Encourage alternative delivery mechanisms for projects in the public realm strategy that are out of scope for the LEP bid spending.		Q3 2018	Unlikely		Major	

Risk Number: 12		Risk Owner: Project Executive				
Risk Title: Project delivery						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Project does not result in development	Council then become liable for repayment of borrowed capitalised costs in full.	Accept - Project does not result in development and so capitalised design costs must be charged as a one-off expense to revenue. If these costs have been financed by borrowing the Council must repay the borrowing and finance the costs from revenue reserves.	Unlikely	Significant	3	££££
Further actions		Target date	Residual Risk Score			
			Likelihood		Impact	
None identified at this stage		n/a	unlikely		Major	

Risk Number: 13		Risk Owner: Project Executive				
Risk Title: Programme risks in relation to governance, finance, resourcing and contingency						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		

Pressure on delivery timescale to ensure securing tenants for site and retain public support.	Pressure put on project programme removes contingency from design, business case and delivery stages. Programme may require elements of overlapping RIBA stages. Work is commissioned at an agreed level of financial risk.	Mitigate Use risk register to monitor and manage risks to avoid them becoming issues. Manage all parties' expectations for delivery timescales. Identify issues with relevant parties when they occur, and flag impacts on programme. Seek advice on any governance process changes.	Likely	Major	2	££
Further actions			Target date	Residual Risk Score		
None identified at this stage			n/a	Likelihood	Impact	
				Likely	Moderate	

Risk Number: 14			Risk Owner: Project Executive			
Risk Title: Delivery decisions						
Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Decision on delivery	Council takes development route which increases the risks to the Council and requires increased insurance limits and indemnities.	Mitigation - Advice from the Council's internal and external risk advisors has been obtained to set the current insurance limits. The Council has cover for public liability and employer's liability and can decide to increase this if after a risk re-assessment this is required.	Unlikely	Major	3	££
Further actions			Target date	Residual Risk Score		
Whilst unlikely, if a review of the risk assessment identified a need to increase insurance limits, the Council has the option of requesting contractors to increase insurance cover.			Q 4 2020	Likelihood	Impact	
				Unlikely	Low	

REPORT TITLE: ANNUAL AUDIT LETTER 2017/18

29 NOVEMBER 2018

REPORT OF PORTFOLIO HOLDER: CLLR ASHTON – PORTFOLIO HOLDER FOR FINANCE

Contact Officer: Liz Keys Tel No: 01962 848 226 Email: lkeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

The purpose of the Annual Audit Letter (AAL) is to communicate the key issues arising from the external auditors' work to all Councillors and external stakeholders, including members of the public.

The Council's external auditor's Ernst and Young LLP (EY) have now presented the AAL for 2017/18, which is appended to this report. It confirms that EY were able to give an unqualified audit opinion on the financial statements and that the Council has put in place proper arrangements to secure value for money in the use of resources.

The receipt of the AAL marks the conclusion of the external audit work in relation to the 2017/18 financial year. The letter has been discussed with officers and is published on the Council's website.

RECOMMENDATIONS:

1. That the Committee:
 - i. Takes the opportunity to discuss the contents of the Annual Audit Letter 2017/18 and raises any issues with the External Auditors; and
 - ii. Confirms its acceptance of the Annual Audit Letter 2017/18

IMPLICATIONS:1 COUNCIL STRATEGY OUTCOME

- 1.1 The findings from external audit reviews contribute to the corporate governance arrangements of Winchester City Council, which in turn supports the achievement of the outcomes and objectives of the Council Strategy.

2 FINANCIAL IMPLICATIONS

- 2.1 The final fee for the external audit work on the financial statements and the value for money conclusion is £56,336, in line with the scale fee set by Public Sector Audit Appointments (PSAA). However, EY are proposing an additional £779 charge for work they undertook on the restatement of the Comprehensive Income and Expenditure Statement. This scale fee variation is yet to be agreed by PSAA (who make decisions on the reasonableness of all fee variations based on whether it considers that substantially more work was required than envisaged by the scale fee).

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None.

4 WORKFORCE IMPLICATIONS

- 4.1 None.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None.

6 CONSULTATION AND COMMUNICATION

- 6.1 None.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None.

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 None.

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None.

10 RISK MANAGEMENT

- 10.1 None

11 SUPPORTING INFORMATION:

11.1 None

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

[AUD217](#) – Audit Results Report for the year ended 31 March 2018

Other Background Documents:-

None.

APPENDICES:

Appendix 1 – Annual Audit Letter 2017/18

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Winchester City Council

Annual Audit Letter for the year
ended 31 March 2018

August 2018

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Winchester City Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 26 July 2018 and presented to the Audit Committee on 31 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018.

In November 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the Council's Housing Benefit claim.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 31 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 8 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

- ▶ On the 2017/18 financial statements; and
- ▶ On the consistency of other information published with the financial statements.

Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

▶ Reporting by exception:

- ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
- ▶ Any significant matters that are in the public interest;
- ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
- ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 million. Therefore we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018. Our detailed findings were reported to the 31 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Financial statements due to fraud or error</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>To gain assurance we:</p> <ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. • Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE and the pension liability. • Considered the appropriateness of any changes to accounting policies particularly those impacting on accounting estimates. • Considered entries made in the Movement in Reserves Statement (MIRS) which impact on the Council's reported reserves. • Evaluated the business rationale for significant unusual transactions. <p>We identified no material weaknesses in controls or evidence of material management override based on our work.</p>

Financial Statement Audit (cont'd)

The other areas of audit focus identified as part of our audit were as follows:

Area of Audit Focus	Conclusion
<p>Valuation of Land and Buildings</p> <p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>The procedures we undertook were to:</p> <ul style="list-style-type: none"> • Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. • Sample test key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer. • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property. Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; and • Test to confirm that accounting entries have been correctly processed in the financial statements. <p>We identified one issue as a result of our work.</p> <p>We found that the depreciation charge for council dwellings was based on an estimated useful life of 150 years for the structural element of buildings. Following our challenge, this was revised by the Council, based on the advice of its valuer, to 80 years which we considered to be reasonable, although it is at the upper end of our expectations.</p> <p>The Council had also not initially removed the value of land, which is not subject to revaluation, from its calculation of Housing Revenue Account (HRA) depreciation. The combined impact of these adjustments, which offset against each other, resulted in a trivial impact on the overall council dwelling depreciation charge. Given the trivial impact of the error no adjustment has been made to the depreciation charge in the financial statements.</p>
<p>Restatement of Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA)</p> <p>Restructuring of services undertaken in the period and changes to its internal financial reporting required the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the CIES and other related disclosures in its financial statements.</p>	<p>The procedures we undertook were to:</p> <ul style="list-style-type: none"> • Agree the restated comparative figures back to the Council's prior year financial statements and supporting working papers; • Review the CIES, EFA and supporting notes to ensure disclosures are in line with the Code; and • Review the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported. <p>We identified no issues as a result of our work.</p>



Financial Statement Audit (cont'd)

Area of Audit Focus	Conclusion
<p>Pension Asset/Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017, the most recent available information at the time our audit planning work was undertaken, this totalled £56.4 million.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>To gain assurance we:</p> <ul style="list-style-type: none"> • Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Winchester City Council. • Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>We had one finding from our review of available outturn information. For timing reasons, the actuary estimates the value of the pension fund assets at 31 March. This estimate varied by approximately £31 million from the actual fund value as at 31 March. The Council's estimated share of this variance is £535,000, which is not material but above our reporting threshold.</p> <p>Management decided not to adjust the accounts for this non-material variance. The Audit Committee approved this approach and an explanation for not making an adjustment was provided by management in the letter of representation.</p>

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.899 million (2016/17 £1.824 million), which is 2% of gross revenue expenditure reported in the accounts adjusted for the exceptional item disclosed in respect of HRA revaluation.</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.424 million (2016/17: £1.368 million).</p>

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We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations. We considered both the qualitative impact and aggregate value of uncorrected misstatements and agreed with management's assessment that they did not have a material impact.

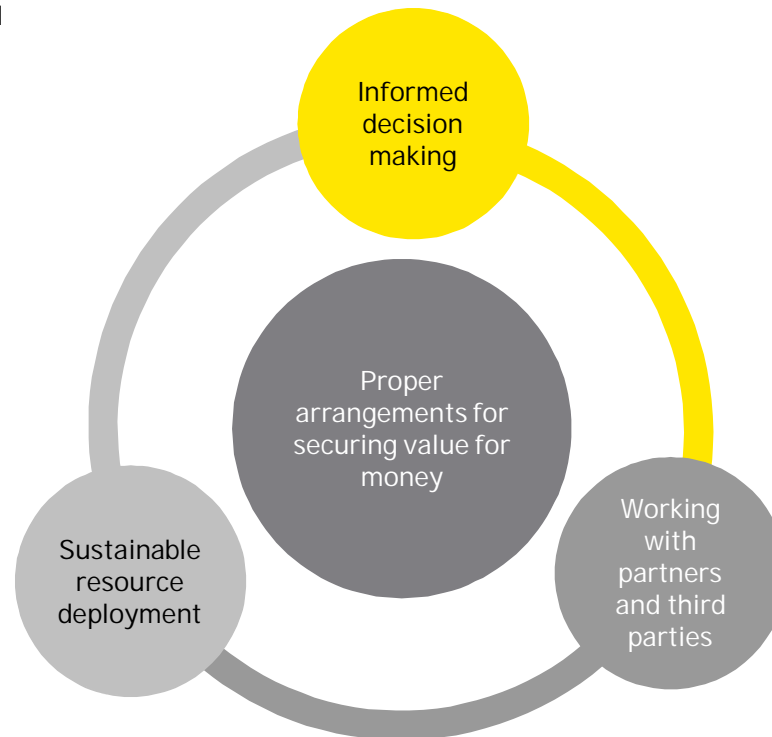


04 Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria. We noted, however, that we would continue to review the development of contract management and procurement arrangements in response to issues raised as part of our 2016/17 VFM conclusion work. We also undertook to consider the ongoing work at the Council to modernise and improve organisational governance more generally.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore issued an unqualified value for money conclusion on 31 July 2018.

Area of focus	Conclusion
<p><i>Year-end financial position and future financial plans</i></p>	<p>The Council performed well against the targets it set for itself in the 2017/18 budget. In terms of General Fund revenue performance, the Council underspent against budget by approximately £1.8 million including funding & investment activity, baseline net expenditure, and reserves and other adjustments. Total General Fund reserves (including the General Fund balance) increased by around £3 million. The final surplus after transfers to and from earmarked reserves of approximately £0.8 million was transferred to the General Fund balance. A small surplus was also delivered against the Housing Revenue Account (HRA) revenue budget with the Council reporting an outturn surplus of £118,000 which was added to the HRA working balance, against a budgeted deficit for the year of approximately £2.3 million. There remains, however, a relatively high level of slippage in the General Fund capital programme budget and, to a lesser extent, the HRA capital programme budgets. The Council continues to have a high value and ambitious capital programme relative to its size. Although the Council is not heavily reliant on the delivery of the capital programme to generate revenue benefits needed to help balance the budget over the medium term, it does recognise that arrangements in this area need to continue to be developed and improved with project governance and reporting recognised as a significant governance issue in its year end Annual Governance Statement.</p> <p>The Council last reported an update of its Medium Term Financial Strategy (MTFS) in February 2018. This showed that the previously reported budget gap for 2018/19 has now been closed. However the MTFS shows a small budget gap from 2019/20 with a sharp increase to £4.3 million from 2020/21. The Council has a good track record of closing the budget gap annually and has actually added to available reserves over the last three years. We therefore currently have no significant concerns over the Council's financial resilience. It is however important that good financial discipline is maintained to help mitigate the potential impact of risks and uncertainties faced over the medium term.</p> <p>The introduction of financial and performance quarterly monitoring during the year has brought a greater level of accountability and clarity for members, officers and the wider public on the financial and overall performance of the Council on an in-year basis. Given the level of financial challenge and uncertainty faced by Local Government generally, and the Council specifically, this is a necessary improvement to arrangements. In particular it will assist the Council in being able to better assess the efficacy of the actions to secure savings in a timely manner as it seeks to continue to close the medium term budget gap it faces.</p>
<p><i>Developments in contract management and procurement arrangements</i></p>	<p>As part our 2016/17 audit results report we highlighted specific weaknesses in contract management arrangements for the Council's main Leisure and Environmental Services contracts. As part of our work we considered the following relevant developments during the year and up to the date of audit:</p> <ul style="list-style-type: none"> • Re-negotiation of the waste collection contract with East Hampshire District Council • An Internal Audit review of procurement with an overall conclusion of adequate assurance. • The current operator procurement exercise for outsourced leisure services. <p>We are satisfied that progress is being made to address the previously identified issues. There is however a clear recognition that this area remains a work in progress and a separate Internal Audit review of high level arrangements for working in partnership arrived at a 'limited assurance' conclusion. The Council recognises that some of the partnership audit weaknesses identified by the review feed into contract management which it has assessed as being a much greater strategic risk, and which features as a significant governance issue in its 2017/18 Annual Governance Statement.</p>

Value for Money (cont'd)

Area of focus	Conclusion
<i>Developments in organisation governance arrangements</i>	<p>At the planning stage we noted that we would consider the ongoing work at the Council to modernise and improve organisational governance more generally building on the Local Government Association (LGA) Peer review undertaken in 2016/17 and the independent review of Silver Hill carried out in 2015/16.</p> <p>A Peer Review follow-up had been planned to be delivered by the LGA in June 2018 but this has been delayed. We have therefore considered Internal Audit work to follow-up progress made against recommendations arising from both the LGA and Silver Hill reviews.</p> <p>Based on the Internal Audit work undertaken at February 2018, good progress is being made in addressing the recommendations arising from both the 2016/17 LGA Peer Review and the independent review of Silver Hill that preceded it. There is only one remaining 'red' rated recommendation for progress on implementation across both reviews with the majority of recommendations having 'green' status for implementation. However, major work to fully review and refresh the Council's Constitution remains ongoing and it is important the Council retains a continued focused on the modernisation and development of governance arrangements at an organisational level to promote greater flexibility and responsiveness of decision making.</p>



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 31 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any significant deficiencies in internal control. We did, however, bring one issue to the attention of the Audit Committee.

As part of our work we are required to obtain and read significant contracts, agreements, and similar documents and consider their accounting or auditing implications. In undertaking this work we identified that the Council's on-line contract register accessible via its website was not fully complete and up to date. It is important that this is addressed and we noted that the Council itself discloses a significant governance issue in its 2017/18 Annual Governance Statement around the need to disclose a comprehensive contracts register.



06 Data Analytics

Use of Data Analytics in the Audit

Data Analytics – Journal Entry Testing

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Re-measure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The impact on the Council, which does not have trading companies, is therefore unlikely to be significant.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>

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REPORT TITLE: TREASURY MANAGEMENT MID YEAR MONITORING REPORT FOR 2018/19

29 NOVEMBER 2018

REPORT OF PORTFOLIO HOLDER: Finance – Cllr. Guy Ashton

Contact Officer: Neil Aitken Tel No: 01962 848099 Email naitken@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

This report provides detail of the performance of the treasury management function. This includes the effects of the decisions taken in the past six months, and confirmation that there were no instances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices, for 2018/19 to date.

RECOMMENDATIONS:

That the Audit Committee:

1. Note the Treasury Management Mid Year Monitoring Report 2018/19.

IMPLICATIONS:1 COUNCIL STRATEGY OUTCOME

- 1.1 Treasury management is an integral part of helping the deliver the Council Strategy and all of its outcomes. The Council set a target of achieving a 1% return on its investments in 2018/19 and to date has achieved a return of 1.10%.

2 FINANCIAL IMPLICATIONS

- 2.1 Effective treasury management ensures both the financial security and liquidity of the Council.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 This report has been produced in consultation with Hampshire County Council's Investments & Borrowing team.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Returns from investments are too low</i>	A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the Council's risk	Returns above budgeted levels

Risk	Mitigation	Opportunities
	appetite.	
<i>A counterparty fails</i>	A diversified strategy that has relatively low levels of counter-party risk	
<i>Cash is not available</i>	A balanced portfolio of liquid and long term funds are held to ensure cash is available to utilise. The Council also mitigates this risk through cashflow forecasting	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity

11 SUPPORTING INFORMATION:

12 Introduction

12.1 The Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes receiving treasury management semi-annual and annual reports. This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

13 Summary

13.1 The Council's Treasury Management Strategy (TMS) for 2018/19 was approved at a meeting of the Council in February 2018. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS.

13.2 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England the Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.

13.3 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2018.

13.4 Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control

of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

- 13.5 Hampshire County Council’s Investments & Borrowing Team has been contracted to manage the Council’s treasury management balances since September 2014 but overall responsibility for treasury management remains with Winchester City Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council’s treasury management objectives.
- 13.6 All treasury activity has complied with the Council’s TMS and Investment Strategy for 2018/19, and all relevant statute, guidance and accounting standards. In addition the Council’s treasury advisers, Arlingclose, provide support in undertaking treasury management activities. The Council has also complied with all of the prudential indicators set in its TMS.

14 External Context

- 14.1 The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions have been made to date in 2018/19.

Economic Commentary

- 14.2 UK Consumer Price Inflation (CPI) index fell to 2.4% in June, a 12-month low, as the effects of sterling’s large depreciation in 2016 began to fade. However CPI ticked back up marginally to 2.5% in July, mostly due to higher energy prices, and up again to 2.7% in August from cultural services, where theatre admission prices rose by more than a year ago, and games, toys and hobbies, where prices for computer games rose this year but fell a year ago. The most recent labour market data for July 2018 showed the unemployment rate at 4%; the lowest since 1975. The three month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9%. However, real wages (i.e. adjusted for inflation) grew only by 0.4%, a marginal increase unlikely to have had much effect for households.
- 14.3 The rebound in Gross Domestic Product (GDP) growth in Quarter 2 of 2018 to 0.4% confirmed that the weakness in economic growth in Quarter 1 was temporary and largely due to weather-related factors. The Bank of England made no change to monetary policy at its meetings in May and June; however, hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking the Bank Rate to 0.75%. No further change was made to monetary policy at the Bank of England’s meeting in September.

Credit Background

- 14.4 The big four UK banks are progressing well with ringfencing. Barclays Bank PLC and HSBC Bank PLC have created new banks (Barclays Bank UK and HSBC UK Bank) and transferred ringfenced (retail) business lines into the

new companies. Lloyds Bank PLC has created Lloyds Bank Corporate Markets as a new non-ringfenced (investment) bank. RBS has renamed existing group entities and transferred accounts to leave NatWest Markets as the non-ringfenced bank and NatWest Bank, Royal Bank of Scotland and Ulster Bank as the ring-fenced banks. The Council's day-to-day banking contract remains with NatWest Bank.

15 Local Context

- 15.1 At 31 March 2018 the Council had net borrowing of £136.7m arising from financing its housing programme. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/18 Balance £m
General Fund CFR	(13.2)
Housing Revenue Account CFR	(164.0)
Total CFR	(177.2)
Less: Resources for investment	40.5
Net borrowing	(136.7)

- 15.2 The Council's current strategy is to maintain external borrowing below the underlying need by making use of resources available for investments, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2018 and the movement since 31 March 2018 is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/2018 Balance £m	Movement £m	30/09/2018 Balance £m	30/09/2018 Rate %
Long-term borrowing	(156.7)	-	(156.7)	(3.30)
Short-term borrowing	-	-	-	-
Total borrowing	(156.7)	-	(156.7)	(3.30)
Long-term investments	17.9	0.6	18.5	1.91
Short-term investments	19.8	(1.4)	18.4	0.74
Cash and cash equivalents	2.8	17.1	19.9	0.69
Total investments	40.5	16.4	56.9	1.10
Net external borrowing	(116.2)	16.4	(99.8)	

Note: the figures in the table above as at 31 March 2018 are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

15.3 The increase in total investments since 31 March 2018 shown in Table 2 reflects the annual position of 31 March being the lowest point for investment balances, due to many government grants being front-loaded. A significant part of the increase in cash and cash equivalents has been intentional due to a forthcoming major acquisition and to mitigate against the need to undertake short-term borrowing.

16 Borrowing Activity

16.1 As shown in Table 2, at 30 September 2018 the Council held £156.7m of loans, with the vast majority of the loans being in relation to the refinancing resettlement of the HRA in 2012. The mid-year treasury management borrowing position and movement since 31 March 2018 is shown in Table 3 below.

Table 3: Borrowing Position

	31/03/2018 Balance £m	Movement £m	30/09/2018 Balance £m	30/09/2018 Rate %	30/09/2018 WAM* years
Public Works Loan Board	156.7	-	156.7	3.30	22.10
Total borrowing	156.7	-	156.7	3.30	22.10

* Weighted average maturity

Note: The figures in the table above as at 31 March 2018 are from the balance sheet in the Council's statement of accounts, but adjusted to exclude accrued interest.

- 16.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
- 16.3 In keeping with these objectives, no new borrowing was undertaken in the period. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 16.4 The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Council with the monitoring of internal and external borrowing.
- 16.5 At the Conservative party conference, the Prime Minister announced the government's intention to lift the Housing Revenue Account debt cap which limited the HRA's ability to borrow. Since the conference, the Ministry of Housing, Communities & Local Government (MHCLG) confirmed that the cap was lifted with effect from 30 October 2018. This will allow the Council to undertake increased borrowing in order to deliver its housing programme should it prove prudent to do so.

17 Investment Activity

- 17.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. The Council's investment holding was £56.9m at 30 September 2018, which was £3.8m (7%) higher than the same time last year. During the six month period from 1 April to 30 September 2018, the Council's investment balance ranged between £38.7m and £67.6m due to timing differences between income and expenditure. Table 4 below shows investment activity for the Council as at 30 September 2018 in comparison to the reported position as at 31 March 2018.

Table 4: Investment Position (Treasury Investments)

	31/03/2018 Balance £m	Movement £m	30/09/2018 Balance £m	30/09/2018 Rate %	30/09/2018 WAM* years
Short term investments					
Banks and Building Societies:					
- Unsecured	4.9	4.9	9.8	0.71	0.14
- Secured	5.0	(1.0)	4.0	0.87	0.33
Money Market Funds	0.9	16.2	17.1	0.68	0.00
Local Authorities	6.5	(5.0)	1.5	0.65	0.30
Corporate Bonds	4.0	0.9	4.9	0.69	0.20
Cash Plus Funds	-	1.0	1.0	0.68	n/a
	21.3	17.1	38.4	0.71	0.11
Long term investments					
Banks and Building Societies:					
- Secured	5.0	2.0	7.0	0.94	2.70
Local Authorities	8.0	(1.5)	6.5	0.86	1.69
	13.0	0.5	13.5	1.04	2.21
High yield investments					
Pooled Property Funds**	5.0	-	5.0	4.27	n/a
	5.0	-	5.0	4.27	n/a
TOTAL INVESTMENTS	39.4	17.5	56.9	1.10	0.67

* Weighted average maturity

** The rate provided for pooled property fund investments is reflective of the average of the most recent dividend return as at 30 September 2018

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash and accrued interest.

- 17.2 Both the CIPFA Code and Government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing is to strike an appropriate balance between risk and

return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

- 17.3 During the first half of 2018/19, total investment balances increased by £17.5m, which is in line with what is expected at this point in the year; this is due to the receipt of council tax, as well as the receipt of front-loaded grant. £16.2m of this balance is currently invested in money market funds to provide sufficient liquidity allowing for an imminent payment in relation to a major acquisition, as well as to meet the obligations of in month regular payments.
- 17.4 Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.
- 17.5 Counterparty credit quality was assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 17.6 The Council will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 17.7 The Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. The Council sought to optimise returns commensurate with its objective of security and liquidity. The UK Bank Rate increased by 0.25% to 0.75% in August 2018 and short term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income.
- 17.8 The progression of credit risk and return metrics for the Council's investments managed in-house (excluding pooled funds) are shown in the extracts from Arlingclose's investments benchmarking in Table 5 below.

Table 5: Investment Benchmarking (investments managed in-house)

	Credit Rating	Bail-In Exposure	WAM* (days)	Rate of Return
31/03/2018	AA	17%	441	0.72%
30/09/2018	AA+	50%	248	0.72%
Similar LAs	AA-	56%	88	0.78%
All LAs	AA-	60%	37	0.76%

* Weighted average maturity

- 17.9 In Table 5 above, the bail-in exposure of the Council's investments that are managed in-house has increased (though is still lower than other LAs) and the weighted average maturity of these investments has reduced when comparing the position at 30 September to 31 March 2018 – this is a direct result of the requirement to keep a large proportion of funds liquid due to an impending major acquisition. It should be noted however that the increased cash position has been held in Money Market Funds (MMFs) which are invested in

a diversified basket of holdings thus mitigating against the risk of holding substantial sums with individual counterparties. This has also resulted in a rate of return which is marginally lower in comparison to both similar local authorities and all local authority clients of Arlingclose.

- 17.10 The Council has targeted a proportion of funds towards high yielding investments as shown in Table 4. Investments yielding higher returns will contribute additional income to the Council, although some come with the risk that they may suffer falls in the value of the principal invested.
- 17.11 The £5m investment in an externally pooled property fund generated an average total return of 7.42%, comprising 4.41% income return which is used to support services in year, and 3.01% of capital growth. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.
- 17.12 Investment in pooled vehicles allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds, which are operated on a variable net asset value (VNAV) basis, offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short term. The Council's pooled fund investment is in the fund's distributing share class which pays out the income generated. The Council's intention is to hold this for at least the medium term.
- 17.13 MHCLG released a consultation on statutory overrides relating to the introduction of IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognises that the requirement in IFRS 9 for certain investments to be accounted for a fair value through profit and loss may introduce "more income statement volatility" which may impact on budget calculations. The consultation proposes a time-limited statutory override and has sought views whether it should be applied only to pooled property funds. The Council has responded to the consultation which closed on 30 September. The Council's response stated that the Council agrees that there should be a statutory override, but that it should not be time limited, as the circumstances meaning an override is appropriate now will still apply in April 2021 and beyond. The statutory override should apply to all pooled investment funds, as the Council sees no reason for the Government to incentivise property funds over other pooled funds.

18 Non-Treasury Investments

- 18.1 Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Council to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

- 18.2 The total value of investments properties as at 31 March 2018 was £47.7m (£46.4m as at 31 March 2017). Net rental income after costs to the end of September 2018 amounted to £1.0m representing a yield of 4.2% to date (3.9% average yield in 2017/18).
- 18.3 In addition to investment properties, the Council invested £1.6m in the purchase of Coventry House. A short-term lease of the asset is anticipated to make a return of £95,000 in 2018/19 and the redevelopment of the site as a car park is planned for the future.

19 Compliance Report

- 19.1 The Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits, as well as the authorised limit and operational boundary for external debt, is demonstrated in Tables 6 and 7 below.

Table 6: Debt Limits

	2018/19 Maximum £m	30/09/2018 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Borrowing	156.7	156.7	210.5	212.7	✓
Other long term liabilities	0.2	0.2	0.2	0.3	✓
Total debt	156.7	156.7	210.7	213.0	✓

Table 7: Investment Limits

	2018/19 Maximum	30/09/2018 Actual	2018/19 Limit	Complied
Any single organisation, except the UK Central Government	£5m	£5m	£7m	✓
Any group of organisations under the same ownership	£5m	£5m	£7m	✓
Any group of pooled funds under the same management	£5m	£5m	£7m	✓
Money Market Funds	33%	30%	50%	✓

20 Treasury Management Indicators

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

Interest Rate Exposures

- 20.2 This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal invested will be:

Table 9: Interest Rate Exposures

	30/09/2018 Actual	2018/19 Limit	Complied
Upper limit on fixed interest rate investment exposure	£8.5m	£20m	✓
Upper limit on variable interest rate investment exposure	£48.4m	£100m	✓
Upper limit on fixed interest rate borrowing exposure	£156.7m	£213m	✓
Upper limit on variable interest rate borrowing exposure	£0m	£213m	✓

- 20.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

- 20.4 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 10: Maturity Structure of Borrowing

	30/09/2018 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	25%	0%	✓
12 months and within 24 months	0%	25%	0%	✓
24 months and within 5 years	3%	25%	0%	✓
5 years and within 10 years	22%	25%	0%	✓
10 years and within 20 years	32%	50%	0%	✓
20 years and within 30 years	13%	50%	0%	✓
30 years and within 40 years	13%	75%	0%	✓
40 years and within 50 years	17%	100%	0%	✓

Principal Sums Invested for Periods Longer than 365 days

- 20.5 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 11: Principal Sums Invested for Periods Longer than 365 days

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£18.5m	£10.5m	£7.0m
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓

BACKGROUND DOCUMENTS:-Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3013: Treasury Management Strategy 2018-19, 14 February 2018

CAB3064: Treasury Management Outturn 2017/18, 18 July 2018

AUD197: Treasury Management Mid-Year Review 2017/18, 28 September 2017

Other Background Documents:-

None

APPENDICES:

None