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Oldham Council

AUDIT COMMITTEE
Regulatory Committee
Agenda

Date	Tuesday 25 June 2019
Time	6.00 pm
Venue	Lees Suite, Civic Centre, Oldham, West Street, Oldham, OL1 1NL
Notes	1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Sian Walter-Browne in advance of the meeting.

2. CONTACT OFFICER for this Agenda is Sian Walter-Browne Tel. 0161 770 5151 or email sian.walter-browne@oldham.gov.uk

3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Thursday, 20 June 2019.

4. FILMING - The Council, members of the public and the press may record / film / photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Constitutional Services Officer who will instruct that they are not included in the filming.

Please note that anyone using recording equipment both audio and visual will not be permitted to leave the equipment in the room where a private meeting is held.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:
Councillors Ahmad, Dean, C. Gloster, Haque (Vice-Chair), Salamat, Sheldon, Hobin, Iqbal and J Larkin

Item No

1 Apologies For Absence

2 Urgent Business

Urgent business, if any, introduced by the Chair

3 Declarations of Interest

To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.

4 Public Question Time

To receive Questions from the Public, in accordance with the Council's Constitution.

5 Minutes of Previous Meeting (Pages 1 - 8)

The Minutes of the Audit Committee held on 6th June 2019 are attached for approval.

6 Review of the Role of the Head of Internal Audit (Pages 9 - 18)

7 Treasury Management Review 2018/19 (Pages 19 - 44)

8 Earmarked Reserves Policy for 2018/19 to 2019/20 (Pages 45 - 60)

9 External Audit: Audit Update Report (Pages 61 - 76)

10 External Audit: Audit Completion Report: Year Ending 31 March 2019

Report to follow.

11 2018/19 Statement of Accounts

Report to follow.

AUDIT COMMITTEE
06/06/2019 at 6.00 pm

Present: Councillor Haque (Vice-Chair, in the Chair)
Councillors Ahmad, Dean, C. Gloster, Sheldon, Hobin, Iqbal and Hewitt (Substitute)

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Jane Whyatt	Audit and Counter Fraud Manager
Alastair Newall	Mazars External Auditors
Sabed Ali	Assistant Manager - Internal Audit
Helen Cairns	Senior Accountant
Lori Hughes	Constitutional Services
Lee Walsh	Finance Manager - Capital and Treasury

1 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Larkin and Councillor Salamat.

2 **URGENT BUSINESS**

There were no items of urgent business received.

3 **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4 **PUBLIC QUESTION TIME**

There were no public questions received.

5 **MINUTES OF PREVIOUS MEETING**

RESOLVED that the minutes of the Audit Committee meeting held on 7th March 2019 be approved as a correct record.

6 **FEEDBACK ON SPECIFIC EXTERNAL AUDITS 2017/18**

Consideration was given a report which provided formal feedback from the Housing Benefit Subsidy Claim audit for 2017/18 which was appended to the report and an update on the progress made towards obtaining the Teachers' Pension Audit Certification for 2017/18.

The Housing Benefit Subsidy Claim was qualified for the fourth successive year due to issues around obtaining appropriate evidence on self-employed income as detailed in the letter attached at Appendix 1 to the report. The qualification did not impact on the amount of subsidy claimed and certified as correct by the External Auditor for 2017/18 which was Grant Thornton UK LLP.

The audited return for Teachers' Pensions was submitted to the Teachers' Pensions Agency by the External Auditor, Grant Thornton UK LLP, in April 2019 which was later than the planned submission date as it had been expected that the audit would have been completed by the end of November 2018. Due to the delay, the Teachers' Pension Agency referred the matter to the Pensions Regulator. There had been no communication from the Pensions Regulator in this regard.

Members raised the issue of housing benefits and the impact of incorrect calculations on claimants and that it was important to ensure that the calculations were correct. Members were informed of the training arrangements in place for staff. Members also raised the issue of self-employment and commented that this was a volatile area.

RESOLVED that the feedback on the Specific Audits undertaken related to the Financial Year 2017/18 be noted.

7 **EXTERNAL AUDITOR - QUESTIONS FOR MANAGEMENT**

Consideration was given to questions and responses provided to the External Auditor's queries regarding management processes and arrangements. The External Auditors were required by auditing standards to maintain a good understanding of the Council's management process and arrangements which enabled the External Auditor to deliver an efficient audit. The questions and responses provided assurance that there was no fraud or errors in the accounts.

The questions and responses were explained to members. The following was highlighted:

- The training and technical knowledge of staff
- Review of fundamental financial systems;
- Fraud risks would be brought to the attention of the Audit Committee and picked up through assurance processes;
- Compliance with relevant laws and financial regulations assurance;
- Mitigation of risks;
- In depth financial reviews of balances and fixed assets;
- Quality assurance in place for preparation of accounts; and
- Training related to the Bribery Act via e-learning.

The External Auditor was asked and confirmed that this was a thorough and comprehensive response and provided assurance and comfort on key question areas.

RESOLVED that the questions asked by the External Auditor, Mazars, and the responses provided be noted.

8 **EXTERNAL AUDITOR - QUESTIONS FOR THOSE CHARGED WITH GOVERNANCE PROCESS AND ARRANGEMENTS**

The External Auditors, Mazars, were required by auditing standards to maintain a good understanding of the Council's management processes and arrangements which enabled them to deliver an efficient audit. The External Auditors asked the

Vice Chair on behalf the Audit Committee a series of questions related to the oversight of management's processes and assurance of adherence to all relevant laws and regulations.

The questions and responses were similar to those as noted at Item 7 on the agenda.

RESOLVED that the questions asked by the External Auditor, Mazars, and the responses provided be noted.

9 **REVIEW OF THE SYSTEM OF INTERNAL AUDIT BY THE AUDIT COMMITTEE**

Consideration was given to a report which provided an update to the Audit Committee, following the 2017/18 external and the 2018/19 internal assessments of the system for Internal Audit within the Council.

The external assessment had been conducted by the Chartered Institute of Finance and Accountancy (CIPFA) in September 2017 and the internal assessment, conducted by the Head of Corporate Governance in 2018/19. The assessment was based on a "Balanced Scorecard" approach scoring certain aspects of the overall Corporate Governance Services against specific criteria from the Public Sector Internal Audit Standards (PSIAS) use a Red, Amber/Red, Amber/Green and Green scoring system as agreed by the previous Audit Committee.

The 2018/19 internal assessment of the Corporate Governance team (Internal Audit, Counter Fraud, Risk and Insurance) via the Balanced Scorecard Report concluded that the service was good. The assessment had concluded that the following criteria were assessed as Amber/Red and would require management attention in 2019/20 around the wider system of Internal Audit and Control:

- One element of Internal Audit was assessed as Red as it related to the use of automated audit software
- One element of Corporate Initiatives and Monitoring was Amber/Red related to the criteria "Payroll has an inadequate opinion" which reflected the ongoing challenges around the improvement of the audit opinion on this Fundamental Financial System.

The external assessment by CIPFA concluded that the Audit and Counter Fraud service operated in accordance with best practice.

Members sought and received clarification on the use of automated software and were informed of systems currently in use and solutions being explored.

Members also sought and received clarification on the payroll controls which had improved with increased resources and changes to a dedicated payroll system.

RESOLVED that the self-assessment of Internal Audit by the Head of Corporate Governance of the overall system be noted as fit for purpose in 2018/19.

10 **2018/19 ANNUAL REPORT TO THE AUDIT COMMITTEE**

Consideration was given to the Annual Report for 2018/19 presented by the Head of Corporate Governance and reported on the matters required by International Auditing Standards and the 2013 UK Public Sector Internal Audit Standards (Revised 2017).

The Head of Corporate Governance reported on the Internal Control Environment in place within a number of directorates at selected meetings which arises from Internal Audit work. It was proposed to continue this process in 2019/20 and to keep this Annual Report as a summary to the Audit Committee. The report was supported by Appendices attached to the report as follows:

Appendix 1: Annual Report and Head of Corporate Governance Opinion of the System of Internal Control for the year ended 31 March 2019 to assist the Committee's review of the 2018/19 Annual Governance Statement (AGS) and with the future review of the Statement of Final Accounts.
Appendix 2: Internal Audit and Counter Fraud: 2018/19 Final Reports and other Outputs.
Appendix 3: Internal Audit and Counter Fraud Key Performance Indicators (KPIs): 2018/19 Achievements and 2019/20 Targets.

The 2018/19 AGS identified eight significant issues for the Council to mitigate risks during 2019. The report supported the progress made against the issues raised in the 2017/18 AGS and demonstrated overall improvement in control and financial administration across the Council during 2018/19.

Members were informed of the change in format of the report to comply with professional standards, best practice and guidance from CIPFA.

The summary of audits completed was highlighted as well as financial management and stability. Members were informed of the overall systems audit, stability in key financial systems, treasury management and bank reconciliations were good, payroll had improved, adult social care had seen some improvement, no financial system had been assessed as weak and a new HR Payroll system was being developed with a key focus on data quality to migrate to the new system. Members were informed of work on Contract Procedure Rules and Land and Property Protocols. Members were informed that targets had been exceeded for the year.

Members asked about the aspirations for and the actions required to increase audit opinions and move to good.

Members sought and received clarification on the oversight of capital projects through the Capital Investment Programme

Board. Members were also informed of the link to Scrutiny and the Performance and Value For Money Select Committee.

Members asked about external reviews and were informed of the CIPFA Assessment a year ago and reviews by external auditors. Members asked about the Financial System Engagement Session and were advised that this was a training session on the financial system with Unity on Revenue and Benefits.

Members sought and receive clarification on the calculation of direct payments and elements of recoveries. Members also sought and received information on whether there were sufficient investigators.

Members asked how performance was achieved and were informed that training had been increased in order follow up on actions.

RESOLVED that the 2018/19 Annual Report and the continued developments in overall internal control and financial administration across the Council be noted.

NOTE: Councillor C. Gloster entered the meeting during this item.

11 **ANNUAL GOVERNANCE STATEMENT FOR 2018/19**

Consideration was given to a report which provided an update on the Annual Governance Statement for 2018/19. The Council, as part of the Statement of Final Accounts produced an Annual Governance Statement which identified significant governance issues that the Council needed to consider at the financial year-end to reduce risk.

The Annual Governance Statement was presented at Appendix 1 of the report.

The challenging issues of internal control had been identified in the updated report on issues in the 2017/18 AGS and other issues for consideration which had been discussed by the Audit Committee at previous meetings. This had informed the production of the 2018/19 AGS. A total of 8 issues had been identified for inclusion in the AGS and for the Committee to monitor how risk was to be reduced going forward. These were detailed at Appendix 1 to the report and included the need to strengthen internal control within both the Payroll System and those leading to payments on Adult Social Care.

Members were informed of previous years' issues and also new issues on Children's Social Care and Dedicated Schools Grant.

RESOLVED that the 2018/19 Annual Governance Statement be noted.

12 **2018/19 ANNUAL STATEMENT OF ACCOUNTS**

Consideration was given to the draft Statement of Accounts for 2018/19.

The report highlighted the following:

- The overall revenue outturn position for 2018/19 was as surplus of £0.849m. This was an increase on the favourable variance of £0.255m projected at month 9 that was reported to Cabinet on 25 March 2019.
- The year-end variances that were attributable to each Portfolio.
- Schools balances at 31 March 2019 were £6.925m but were offset by the deficit on the Dedicated Schools Grant (DSG) of £2.723m leaving a net balance of £4.202m held within other earmarked reserves.
- The final Housing Revenue Account (HRA) balance was £21.305m.
- The balance on the Collection Fund was a surplus of £4.147m.
- The small reduction in revenue account earmarked reserves of £2.108m to a level of £80.623m, an increase in other earmarked reserves to a level of £12.935m and an increase in balances to £14.840m reflective of the revenue outturn position.
- Expenditure on the Council's Capital Programme for 2018/19 was £48.564m which is a small increase on the month 9 forecast expenditure of £48.267m. The increase in expenditure required funding allocated to future years to be re-profiled to fully finance the Capital Programme in 2018/19.
- Capital Receipts in year totalled £6.180m, which when taken with the brought forward balance, gives a total of £14.927m, which was used to finance the Capital Programme in year.
- The significant items in each of the primary financial statements.
- The performance of the Finance Team in closing the accounts.

Members were informed that in accordance with good practice, Committee Members had been sent the draft accounts prior to the issue of the agenda to allow a greater opportunity to ask questions or queries related to the statements. The accounts had been handed to the External Auditors on 2 May, the 30-day public inspection period began on 10 May and would finish on 21 June. The final accounts would be presented to the Audit Committee for approval on 25 June. Due to new CIPFA guidance and requirements the length of the accounts had increased.

The External Auditor informed members that the audit was in progress and hoped to be finished soon. The support from Finance staff had been good and team members had been helpful. The auditor's report would be brought to the next meeting subject to any objections being received. There was nothing of major concern at this time.

The summary of accounts, the budget for the current year and the challenges faced were outlined. There were 38 detailed notes to the accounts and, in addition to the Core Statements, included Supplementary Statements related to the Housing Revenue Account (HRA) and Collection Fund. The Group Accounts for the first time incorporated Unity Partnership.

The following was highlighted:

- Pressures linked to Children's Social Care, Catering and Cleaning and Home to School Transport – these pressures have been considered within the 2019/20 budget process;
- In year underspending occurred linked to capital financing and also the control of recruitment and general spending;
- Schools balances had increased but there remained a deficit on the Dedicated Schools Grant with demands on high needs which were in excess of funding available. A recovery plan was to be sent to the Department for Education by 30 June;
- Healthy positions were noted for the HRA and collection fund;
- Reserves and balances were key areas of focus when considering the financial health of the Council;
- General reserves had a slight reduction but a strong overall position had been maintained.
- The capital outturn was in line with that projected at Month 9; and
- Long-term and short-term investment levels were considered to be adequate.

Members noted the hard work of the Finance Team with the changes which had taken place and the new requirements in the preparation of the Final Accounts.

Members sought and received clarification on the pensions and the Council element of the Greater Manchester Pension Fund. Members were informed that an elected member from Oldham sat on the Greater Manchester Pension Fund Management/Advisory Panel and the ethical approach to investments.

Members sought and received clarification on the Parish Precept payments with regards to council tax and a grant. The grant payable to Parish Councils had for several years been passported in line with funding received from central government and had then been reduced in proportion to the reduction of the overall grant received by the Council.

Members commented on the complexity of the accounts and how it would be difficult for a member of the public to understand the accounts. There were also comments that the spend on consultants, agency and sickness was not specifically highlighted. It was clarified that these were part of the revenue outturn but that there was no actual requirement to include that information in the accounts.

Members sought clarification as to why some officers names were provided on the Officers' Remuneration section and some were not and it was explained that only those earning over a certain amount had to be named.

Members sought and received clarification on the increased resources allocated to Children's Services which was intended to address the overspend in 2018/19 via a restructuring plan.

RESOLVED that the draft Statement of Accounts for 2018/19 be noted.

13 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

14 **GOVERNANCE MATTERS**

Consideration was given to a report which provided an update on the Corporate Risk Register and matters that were required to be brought to the attention of the Audit Committee.

RESOLVED that the recommendations as contained within the commercially sensitive report be noted.

The meeting started at 6.00 pm and ended at 8.10 pm

Report to Audit Committee

Review of the Role of the Head of Internal Audit

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services

Officer Contact: Anne Ryans - Director of Finance

Report Author: Mark Stenson - Head of Corporate Governance

Ext. 4783

25 June 2019

Reason for Decision

The CIPFA Statement on the Role of the Head of Internal Audit (HIA) was published on 9 April 2019. The Statement recommends how the role of the HIA should operate in practice, in order to deliver high quality Internal Audit leadership and it sets out how stakeholders across the organisation should engage with, and support, the HIA effectively. CIPFA highlights the important role of Internal Audit in supporting those objectives and considers that the HIA needs recognition for their contributions, together with support and encouragement.

The aim of this report is to summarise the outcome of a self-assessment of the arrangements at Oldham Council to determine whether the Council is implementing the recommended principles.

At Oldham Council the role of HIA is undertaken by the Head of Corporate Governance.

Recommendation

The Audit Committee notes the outcome of the self-assessment by the Head of Corporate Governance to the CIPFA statement on the Role of the Head of Internal Audit.

Review of the Role of the Head of Internal Audit

1 Background

1.1 The Relevant Internal Audit Standard Setters (RIASS) dictate the Public Sector Internal Audit Standards (PSIAS) for their particular areas of responsibility. The RIASS is a group of public sector bodies which agree the standards to which Public Sector entities will be audited. The RIASS are as follows:

- HM Treasury for Central Government;
- the Scottish Government, Welsh Government and Department of Finance (Northern Ireland) for devolved administrations;
- the Department of Health for the health sector in England; and,
- CIPFA for Local Government across the UK.

1.2 The PSIAS set out a statement to identify the leadership capabilities and technical knowledge organisations should expect from their Head of Internal Audit (HIA) and how organisations should support their HIA to meet the highest possible standards.

1.3 To this end, the CIPFA Statement on the Role of the HIA in Public Service organisations, published on 9 April 2019, outlines five principles that should be demonstrated to ensure Internal Audit effectiveness in Local Government and the Statement acts as a guideline for the expected links between CIPFA's Core Principles for the Professional Practice of Internal Auditing and the Role of the HIA.

1.4 The Statement helps to demonstrate how the HIA role supports Internal Audit effectiveness. It is intended to advise a wide audience; including leadership teams, Chief Executives, Audit Committees and other stakeholders as well as the HIA and forms a basis for a self-assessment process.

1.5 The five principles define the core activities and behaviours that belong to the role of the HIA, in public service organisations, and the organisational arrangements needed to support them. Successful implementation of each of the principles requires the right blend in terms of:

- the organisation;
- the role profile; and,
- the individual.

1.6 The principles underpin the core activities and behaviours that are expected from the HIA and can be categorised into two types. The first two principles set out the *role of the individual*, and their skills and behaviours, and the latter three principles *describe the organisational support structure* to support the HIA.

1.7 The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

- **Principle 1**: Objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.

- **Principle 2**: Championing best practice in governance and commenting on responses to emerging risks and proposed developments.

To perform this role the Head of Internal Audit must:

- **Principle 3**: Be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the Audit Committee.

- **Principle 4**: Lead and direct an Internal Audit service that is resourced appropriately, sufficiently and effectively.

- **Principle 5**: Be professionally qualified and suitably experienced.

1.8 The five principles are supported by a suite of organisational, role based and individual supporting responsibilities that must be met; there are 79 supporting responsibilities in total.

2. Oldham Council Self-Assessment

2.1 The UK PSIAS set out the mission of Internal Audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. The standards also set out Core Principles for the Professional Practice of Internal Auditing, which demonstrate Internal Audit effectiveness. The assessment of the role of the Head of Internal Audit therefore forms a key part of meeting the aims of the PSIAS.

2.2 At Oldham Council, the role of the HIA is performed by the Head of Corporate Governance. In order to conduct the self-assessment of Oldham Council, a monitoring checklist was produced to measure the compliance with the 79 responsibilities.

2.3 This monitoring checklist was created by reviewing the key responsibilities outlined in the CIPFA Statement, transferring these responsibilities into a spreadsheet which could be used to track compliance and gathering documentary evidence to support the conclusion on compliance. The documentary evidence included items such as; relevant excerpts from the Internal Audit Manual, the Internal Audit Charter and other key audit planning documents.

3 Current Position

3.1 The outcome of the review for each Principle is set out below and summarised in Appendix 1.

3.2 **Principle 1: Objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.**

The following core principles are of particular relevance for Principle 1 of the CIPFA Statement:

- Provides risk-based assurance.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.

Appendix 1 concludes that, from the 18 responsibilities that underpin Principle 1, the organisation was assessed as meeting all 18.

3.3 **Principle 2: Championing best practice in governance and commenting on responses to emerging risks and proposed developments.**

The following core principles are of particular relevance for Principle 2 of the CIPFA Statement:

- Aligns with the strategies, objectives, and risks of the organisation.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

Appendix 1 concludes that, from the 15 responsibilities that underpin Principle 2, the organisation was assessed as meeting all 15.

3.4 **Principle 3: Be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the Audit Committee.**

The following core principles are of particular relevance for Principle 3 of the CIPFA Statement:

- Is objective and free from undue influence (independent).
- Is appropriately positioned and adequately resourced.

The self-assessment identified that one principle could be strengthened in order to demonstrate that it is being met. This was regarding the criteria: "Clearly set out the HIA's responsibilities relating to organisational partners including collaborations and outsourced and shared services." The acquisition of the Unity Partnership in July 2018 facilitated the requirement for this to be clarified.

Appendix 1 concludes that, from the 17 responsibilities that underpin Principle 3, the organisation was assessed as meeting 16 of the 17. Action will be taken to update appropriate documentation for responsibilities around third parties and partners.

3.5 **Principle 4: Lead and direct an Internal Audit service that is resourced appropriately, sufficiently and effectively.**

The following core principles are of particular relevance for Principle 4 of the CIPFA Statement:

- Demonstrates integrity.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.

Appendix 1 concludes that, from the 19 responsibilities that underpin Principle 4, the organisation was assessed as meeting all 19.

3.6 **Principle 5: Be professionally qualified and suitably experienced.**
The following core principles are of particular relevance for Principle 5 of the CIPFA Statement:

- Demonstrates competence and due professional care.
- Communicates effectively.

Appendix 1 concludes that, from the 10 responsibilities that underpin Principle 5, the organisation was assessed as meeting all 10.

4 **Conclusions**

4.1 In summary, the self-assessment has concluded that Oldham Council is highly compliant with the 2019 CIPFA Statement on the Role of the HIA. As per the self-assessment review by the HIA, the organisation meets all the responsibilities expected of the role in relation to the individuals' skills and competencies.

4.2 One action is required to refine the recording of the responsibilities around the assurance of third parties and partner organisations, and firm plans are in place to action this in 2019/20.

5 **Options/Alternatives**

5.1 The Audit Committee can either note this report in conjunction with the Annual Report and the Annual Governance Statement, which were reported to the Audit Committee on 6 June 2019, or choose not to do so.

6 **Preferred Option**

6.1 The preferred option is that the Audit Committee accepts and notes the self-assessment of the Role of the Head of Internal Audit at Oldham Council.

7 **Consultation**

7.1 N/A.

8 **Financial Implications**

8.1 N/A.

9 **Legal Services Comments**

9.1 N/A.

10 **Cooperative Agenda**

10.1 N/A.

11 Human Resources Comments

11.1 N/A.

12 **Risk Assessments**

12.1 Should the Audit Committee not consider a report reviewing the role the Head of Internal Audit on an annual basis then it could be maintained that it has not complied with the Public Sector Internal Audit Standards. (Jane Whyatt)

13 **IT Implications**

13.1 N/A.

14 **Property Implications**

14.1 N/A.

15 **Procurement Implications**

15.1 N/A.

16 **Environmental and Health & Safety Implications**

16.1 N/A.

17 **Equality, community cohesion and crime implications**

17.1 N/A.

18 **Equality Impact Assessment Completed?**

18.1 None.

19 **Key Decision**

19.1 N/A.

20 **Forward Plan Reference**

20.1 N/A.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included at Appendix 1
Officer Name:	Jane Whyatt
Contact No:	0161 770 4773

22 **Appendices**

22.1 **Appendix 1**: Oldham Council Self-Assessment of the CIPFA Statement on the Role of the Head of Internal Audit (HIA)

Appendix 1

Oldham Council Self-Assessment of the CIPFA Statement on the Role of the Head of Internal Audit (HIA)

Self-Assessment Key:

Y = Yes, full compliance; N = No, does not comply and P = Partial compliance

Principle	Expected Compliance	Y/N/P	Evidence/Comment
Principle 1 Description	**The Head of Internal Audit (HIA) plays a critical role in delivering the organisation's strategic objectives by objectively assessing the adequacy and effectiveness of governance and management of risks, giving an evidence-based opinion on all aspects of governance, risk management and internal control.**	Y	The Head of Corporate Governance provides quarterly Audit and Counter Fraud Progress Report directly to Audit Committee. Audit Committee minutes from its meeting of 7 March 2019 have been reviewed and evidenced.
Principle 1	The UK Public Sector Internal Audit Standards (PSIAS) set out the mission of internal audit which is to 'enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'. They also set out Core Principles for the Professional Practice of Internal Auditing which, when taken as a whole, articulate internal audit effectiveness. The following core principles are of relevance for Principle 1 of the CIPFA Statement: • Provides risk-based assurance. • Is objective and free from undue influence (independent). • Aligns with the strategies, objectives, and risks of the organisation.		The self-assessment concludes that all 18 responsibilities have been met.
Principle 2 Description	**The HIA in a public service organisation plays a critical role in delivering the organisation's strategic objectives by championing best practice in governance and commenting on responses to emerging risks and proposed developments.**	Y	Internal Audit and Counter Fraud Team, Policies and Procedures Manual: • Section 3.2 – Roles and Responsibilities, page 12. • PSIAS: 1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing', page 58.

Principle	Expected Compliance	Y/N/P	Evidence/Comment
Principle 2	The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 2 of the CIPFA Statement: • Aligns with the strategies, objectives, and risks of the organisation. • Is insightful, proactive, and future-focused. • Promotes organisational improvement.		The self-assessment concludes that all 15 responsibilities have been met.
Principle 3 Description	**The HIA must be a senior manager with regular and open engagement across the organisation, particularly with the leadership team and with the Audit Committee.**	Y	Internal Audit and Counter Fraud Team, Policies and Procedures Audit Manual: • Section 1.5 The Role of the Audit Committee, page 6. • Section 3.2 Roles and Responsibilities, page 12. • Section 31. Consultancy Engagements, page 72.
Principle 3	The UK Public Sector Internal Audit Standards set out core principles for the Professional Practice of Internal Auditing, which, when taken as a whole, articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 3 of the CIPFA Statement: • Is objective and free from undue influence (independent). • Is appropriately positioned and adequately resourced.		The self-assessment concludes that all 16 from 17 responsibilities have been met.
Principle 4 Description	**The HIA must lead and direct an internal audit service that is resourced appropriately, sufficiently and effectively.**	Y	Internal Audit and Counter Fraud Team, Policies and Procedures Audit Manual: • Section 2 UK Public Sector Internal Audit Standards, Internal Audit Charter and Ethics, page 7. • Section 3.2.1 Head of Corporate Governance, page 12.

Principle	Expected Compliance	Y/N/P	Evidence/Comment
Principle 4	The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 4 of the CIPFA Statement: • Demonstrates integrity. • Is appropriately positioned and adequately resourced. • Demonstrates quality and continuous improvement.		The self-assessment concludes that all 19 responsibilities have been met.
Principle 5 Description	**The HIA must be professionally qualified and suitably experienced.**	Y	Internal Audit and Counter Fraud Function, Policies and Procedures Audit Manual. • Section 3.2 Roles and Responsibilities, page 12.
Principle 5	The UK Public Sector Internal Audit Standards set out Core Principles for the Professional Practice of Internal Auditing which taken as a whole articulate internal audit effectiveness. The following core principles are of particular relevance for Principle 5 of the CIPFA Statement: • Demonstrates competence and due professional care. • Communicates effectively.		The self-assessment concludes that all 10 responsibilities have been met.

Report to Audit Committee

Treasury Management Review 2018/19

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services

Officer Contact: Anne Ryans - Director of Finance

Report Author: Lee Walsh - Finance Manager

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Reason for Decision

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities together with the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved 28 February 2018)
- a mid-year (minimum) treasury update report (approved 12 December 2018)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

The Council confirms that it has complied with the requirements under the Code to give prior scrutiny to all of the above treasury management reports. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and is therefore requested to review the content of the report prior to its consideration by Cabinet and Council. A programme of Treasury Management training has been developed in conjunction with Link Asset Services, the Council's Treasury Management advisors. A session for leading Members and senior officers has already been delivered and a further session is in the process of being arranged to assist Members of the Audit Committee with their scrutiny role.

Executive Summary

During 2018/19, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	2017/18 Actual £'000	2018/19 Revised Budget Estimate £'000	2018/19 Actual £'000
Actual capital expenditure	25,803	48,952	48,564
Total Capital Financing Requirement:	505,049	519,540	493,880
Gross borrowing	147,851	147,849	147,846
External debt	403,966	393,992	394,456
Investments			
· Longer than 1 year	15,000	15,000	15,000
· Under 1 year	58,650	55,000	69,900
· Total	**73,650**	**70,000**	**84,900**
Net Borrowing	74,201	77,849	62,946

As can be seen in the table above, actual capital expenditure was less than the revised budget estimate for 2018/19 presented within the 2018/19 Treasury Management Strategy report considered at the Council meeting of 27 February 2019.

The outturn position was significantly less than the £89.658m original capital budget for 2018/19 as approved at Budget Council on 28 February 2018. During the course of the year, the Capital Programme saw substantial rephasing. A number of major schemes including the Eastern Gateway Improvement Regeneration scheme and the Coliseum Theatre project were re-phased or re-aligned into future years to allow for either a review of the scheme to be undertaken (as is the case with the theatre project) or to align with revised project timelines. The planned expenditure has therefore been re-profiled into 2019/20 and future years.

No borrowing was undertaken during the year. This was because of the policy of self-financing, utilised due to the uncertainty around interest rates and the availability of cash, caused the Council to use cash reserves rather than incur additional borrowing costs.

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance also confirms that the statutory borrowing limit (the Authorised Limit) was not breached.

The financial year 2018/19 continued the challenging investment environment of previous years, namely low investment returns.

Recommendations

The Audit Committee is recommended to:

1) Approve the actual 2018/19 prudential and treasury indicators presented in this report
2) Approve the annual treasury management review report for 2018/19
3) Commend this report to Cabinet

Treasury Management Review 2018/19

1 Background

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2017. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

Treasury management in this context is defined as:

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

1.2 The report therefore summarises the following. The:-

- Council's capital expenditure and financing during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2018/19

2.1.1 The Council incurs capital expenditure when it invests in or acquires long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- Financed by borrowing if insufficient immediate financing is available, or a decision is taken not to apply available resources.

2.1.2 The actual level of capital expenditure forms one of the required prudential indicators. The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2018/19 was less than the revised budget estimate. The revised budget estimate is based on the 2018/19 month 8 reported position and aligns with that included in the Annual Treasury Management Strategy 2019/20 report, and not the final position reported to Members (March 2019). All prudential indicators in the 2019/20 strategy are based on this revised budget.

2.1.3 Capital expenditure was less than anticipated by the revised budget position due primarily to delays in delivering some IT projects, transport, property related schemes and education schemes that were expected to progress during the year.

	2017/18 Actual £'000	2018/19 Revised Budget Estimate £'000	2018/19 Actual £'000
Non-HRA capital expenditure	25,014	47,855	46,318
HRA capital expenditure	789	1,097	2,246
Total capital expenditure	**25,803**	**48,952**	**48,564**
Resourced by:			
• Capital receipts	6,780	5,793	14,919
• Capital grants	10,821	16,068	25,522
• HRA	744	88	851
• Revenue	7,458	8	7,272
Unfinanced capital expenditure	**0**	**26,995**	**0**

2.2 The Council's Overall Borrowing Need

2.2.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for capital expenditure. It represents the 2018/19 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been financed for by revenue or other cash backed resources.

2.2.2 Part of the Council's treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or by utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council's non-Housing Revenue Account (HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non- HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.2.4 The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory minimum revenue provision (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council's 2018/19 MRP Policy (as required by Government Guidance) was approved as part of the Treasury Management Strategy report for 2018/19 on 28 February 2018.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes Private Finance Initiative (PFI) and leasing schemes disclosed on the balance sheet, which increase the Council's borrowing need. In 2018/19 the Council had seven PFI schemes in operation. However, no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

Capital Financing Requirement (CFR)	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2018/19 Actual £'000
Opening balance	521,790	505,049	505,049
Add unfinanced capital expenditure (as above)	0	26,995	0
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	379	0	450
Less MRP/VRP*	(10,271)	(3,533)	(2,944)
Less PFI & finance lease repayments	(6,849)	(8,971)	(8,675)
Closing balance	505,049	519,540	493,880

* Includes voluntary application of capital receipts and revenue resources

2.2.7 The closing CFR balance was £25.7m lower than the revised estimate primarily due to capital programme slippage and the use of cash backed resources to finance capital expenditure in 2018/19. Borrowing activity is constrained by prudential indicators for net borrowing, the CFR and by the Authorised Limit.

Gross borrowing and the CFR

2.2.8 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2018/19 if so required. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as the gross borrowing position is almost £100m lower than the actual CFR position .

	2017/18 Actual £'000	2018/19 Revised Estimate £'000	2018/19 Actual £'000
Gross borrowing position	403,966	393,992	394,456
CFR - including PFI / Finance Leases	505,049	519,540	493,880

The table above shows the position as at 31 March 2019 for the Councils gross borrowing position and CFR. This shows, compared to the revised budget position:

- Slight movement in the gross borrowing position, reflecting the fact that a small amount of short term borrowing had been repaid and repayment of transferred debt and finance leases.

- A reduction in the CFR, predominantly due to the slippage in the capital programme and financing of capital through cash backed resources.

The Authorised Limit

2.2.11 The Authorised Limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 and was set by Council at £540m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary

2.2.12 The Operational Boundary is the expected borrowing position of the Council during the year and was set by Council at £525m. Periods where the actual position is either below or over the boundary are acceptable subject to the Authorised Limit not being breached.

	2018/19 Actual £'000
Authorised limit	540,000
Operational boundary	525,000

Actual Financing Costs as a Proportion of Net Revenue Stream

2.2.13 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream and is within expected levels.

	2018/19 Actual £'000
External Debt	147,846
PFI / Finance leases	246,610
Actual external debt (Gross Borrowing)	**394,456**
Financing costs as a proportion of net revenue stream - General Fund	10.00%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary. The difference between the two reflects the Council’s under borrowed position disclosed at paragraph 2.2.10.

2.3 The Council's Debt and Investment Position

2.3.1 The Council's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

2.3.2 At the end of 2018/19 the Council's treasury position was as follows:

	31 March 2018 Principal £'000	Average Rate/ Return	Average Life (years)	31 March 2019 Principal £'000	Average Rate/ Return	Average Life (years)
Fixed rate funding:						
- Public Works Loan Board (PWLB)	15,482			15,482		
- Stock	6,600			6,600		
Market	125,769			125,764		
Total borrowings	**147,851**	4.49%	36.42	**147,846**	4.50%	35.42
PFI & Finance lease liabilities	**256,115**			**246,610**		
Total External debt	**403,966**			**394,456**		
CFR	**505,049**			**493,880**		
Over/ (under) borrowing	**(101,083)**			**(99,424)**		
Investments:						
Financial Institutions/Local Authorities	58,650	0.43%		69,900	0.76%	
Property	15,000	4.55%		15,000	4.36%	
Total investments	**73,650**			**84,900**		
Net Debt	**74,201**			**62,946**		

2.3.3 The maturity structure of the debt portfolio was as follows:

	2017/18 Actual %	Upper Limit %	Lower Limit %	2018/19 Actual %
Under 12 months	38%	50%	0%	30%
12 months and within 24 months	3%	7%	0%	0%
24 months and within 5 years	22%	35%	0%	33%
5 years and within 10 years	5%	5%	0%	5%
10 years and above	32%	100%	40%	32%

2.3.4 The investment portfolio and maturity structure was as follows:

INVESTMENT PORTFOLIO	Actual 31 March 2018 £'000	Actual 31 March 2018 %	Actual 31 March 2018 £'000	Actual 31 March 2018 %
Treasury investments				
Banks	20,000	27.16%	13,000	15.31%
Local Authorities / Public Bodies	25,000	33.94%	30,500	35.92%
Money Market Funds (MMF's)	13,650	18.53%	26,400	31.10%
Total managed in house	**58,650**	**79.63%**	**69,900**	**82.33%**
Bond funds				
Property funds	15,000	20.37%	15,000	17.67%
Cash fund managers				
Total managed externally	**15,000**	**20.37%**	**15,000**	**17.67%**
TOTAL TREASURY INVESTMENTS	**73,650**	**100.00%**	**84,900**	**100%**
TOTAL NON TREASURY INVESTMENTS *	0	0%	0	0%

*Members should note that there have been no Non-Treasury Investments during 2018/19.

	2017/18 Actual £'000	2018/19 Actual £'000
Investments		
Longer than 1 year	0	0
Under 1 year	58,650	69,900
Property	15,000	15,000
Total	**73,650**	**84,900**

2.3.5 Key features of the debt and investment position are:

a) Total external debt has reduced by £9.5m primarily due to the repayment of PFI and finance lease liabilities.

b) Over the course of the year 2018/19, investments increased by £11.250m.

c) The average rate of return on investments with Financial Institutions increased from 0.43% in 2017/18 to 0.76% in 2018/19. This increase relates to the Bank of England base rate rise to 0.75% in August 2018.

2.4 Investment Strategy and control of interest rate risk

2.4.1 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75%.

2.4.2 At the start of 2018/19, and after UK Gross Domestic Product (GDP) growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018.

2.4.3 Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.

2.4.4 It was not expected that the MPC would raise Bank Rate again during 2018/19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. The Council therefore sought to gain value by placing longer term investments after 2 August where cash balances were sufficient to allow this.

2.4.5 Investment rates were stable during the period of August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about its perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

2.4.6 Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

2.4.7 The table below shows the interest rate forecast as at the time of setting the 2018/19 strategy:

Link Asset Services Interest Rate View	12.2.18												
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%

2.5 Borrowing Strategy and control of interest rate risk

2.5.1 During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

2.5.2 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

2.5.3 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury Management Team and the Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

2.5.4 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

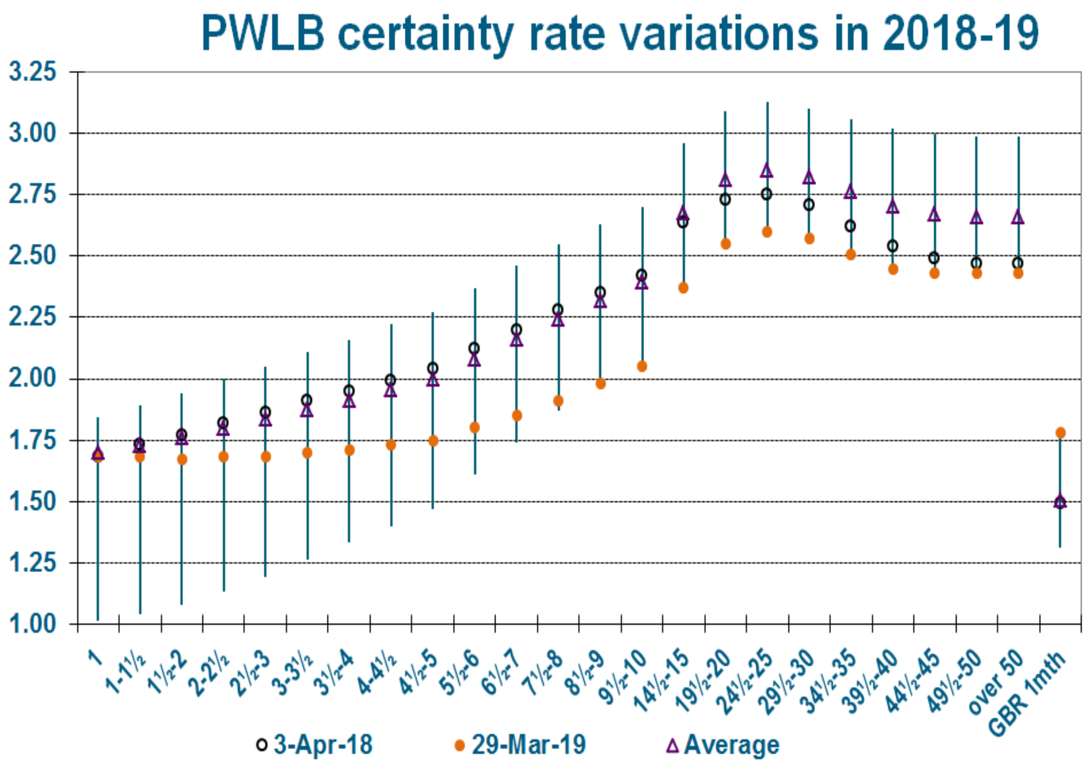
2.5.5 The information below and in graphs and tables in Appendix 3 show Public Works Loan Board (PWLB) rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year:

- 5 year PWLB rate - started the year at 1.85%, falling to a low for the year at 1.50% in March 2019, peaking at 2.07% in October 2018 and finishing the year at 1.55%.

- 10 year PWLB rate - started the year at 2.23%, falling to a low for the year at 1.80% in March 2019, peaking at 2.50% in October 2018 and finishing the year at 1.85%.

- 25 year PWLB rate - started the year at 2.57%, falling to a low for the year at 2.33% in March 2019, peaking at 2.93% in October 2018 and finishing the year at 2.40%.

- 50 year PWLB rate - started the year at 2.29%, falling to a low for the year at 2.16% in March 2019, peaking at 2.79% in October 2018 and finishing the year at 2.23%.



2.5.6 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March.

2.5.7 There was a significant level of correlation between movements in US Treasury yields and UK gilt yields - which determine PWLB rates. The Federal Reserve (Fed) in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% – 2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%.

2.5.8 These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle.

2.5.9 The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

2.6 Borrowing Outturn for 2018/19

Treasury Borrowing

2.6.1 The Council did not undertake any borrowing during 2018/19. The Council has continued with the policy of using spare cash balances to manage cash flows and to minimise both counterparty risk and low investment returns.

Repayment of Debt

2.6.2 In March 2019 £6k was repaid in relation to Charitable Investments that the Council held.

2.7 Investment Outturn

Investment Policy

2.7.1 The Council's investment policy is governed by Ministry of Housing Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy which for 2018/19 was approved by Council on 28 February 2018. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

2.7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources

2.7.3 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources reduced by almost £9m during 2018/19 to £159m, comprised as follows:

Balance Sheet Resources	31 March 2018 (£'000)	31 March 2019 (£'000)
Balances - General Fund	13,991	14,840
Balances - HRA	20,162	21,305
Earmarked Reserves	92,005	93,558
Provisions	33,130	29,251
Usable Capital Receipts	8,747	0
Total	**168,035**	**158,954**

Investments at 31 March 2019

2.7.4 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £84.9m of investments. Of these, a total of £69.9m were with Local Authorities and

Financial Institutions and £15m with the Churches, Charities and Local Authorities (CCLA) Property Fund as follows:

Institution	Type	Amount £'000	Term	Rate%	Start Date	End Date
CCLA Property Fund	Property	15,000		4.36%		
		15,000				
Police & Crime Commissioner - Thames Valley	Fixed	4,000	7	0.82%	29-Mar-19	05-Apr-19
Surrey Heath Borough Council	Fixed	1,000	182	0.90%	17-Oct-18	17-Apr-19
GM Combined Authority (GMCA)	Fixed	2,500	31	0.82%	29-Mar-18	29-Apr-19
Goldman Sachs International Bank	Fixed	3,000	181	0.95%	01-Nov-18	01-May-19
Aberdeenshire CC	Fixed	5,000	92	1.00%	05-Mar-19	05-Jun-19
Isle of Wight Council	Fixed	5,000	181	0.95%	07-Feb-19	07-Aug-19
West Dunbartonshire Council	Fixed	3,000	181	0.98%	08-Feb-19	08-May-19
Thurrock Council	Fixed	2,500	364	1.07%	27-Sep-18	26-Sep-19
Thurrock Council	Fixed	2,500	364	1.07%	05-Oct-18	04-Oct-19
North Tyneside Council	Fixed	5,000	364	1.07%	11-Oct-18	10-Oct-19
Total Fixed Deposits		**33,500**				
Bank of Scotland	Notice	2,500	95	1.10%	01-Mar-19	
Santander	Notice	7,500	95	1.00%	01-Mar-19	
Total Notice Accounts		**10,000**				
Federated MMF**	MMF	15,500	10	0.79%	29-Mar-19	01-Apr-19
Aberdeen MMF**	MMF	10,900	3	0.78%	22-Mar-19	01-Apr-19
Total Money Market Funds		**26,400**				
Total Investments		**84,900**				

** Money Market Funds (MMF)

2.7.5 The Council's investment strategy was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. The table below shows the returns by the relevant time period.

	LIBID + 5%	Actual Return %
7 Day	0.533%	0.636%
1 Month	0.562%	0.767%
3 Month	0.709%	0.775%
6 Month	0.827%	0.800%
12 Month	0.988%	1.070%

2.7.6 The Council's overall average performance on its cash investments exceeded its LIBID benchmark in all periods except the 6 month period, due to earlier investments made prior to the bank rate rise.

2.7.7 The investments held with the CCLA Property Fund generated £626k of income with an average return in year of 4.36%. Furthermore, the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during 2018/19.

2.8 The Economy and Interest Rates

UK

2.8.1 After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 was at 1.4% year on year (y/y) confirming that the UK was the third fastest growing country in the G7 in quarter 4.

2.8.2 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. There is unlikely to be any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth.

2.8.3 Nevertheless, the MPC has been having increasing concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January.

2.8.4 British employers ramped up their hiring at the fastest pace in more than three years in the three months to January as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

2.8.5 As for CPI inflation itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC’s target of 2%.

2.8.6 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit

2.8.7 The Conservative minority Government has consistently been unable to muster a majority in the Commons over its Brexit deal. The current backstop date for a deal is 31 October 2019 and with an up-coming change in Prime Minister there remains uncertainty about the future.

2.8.8 If there was to be a General Election later in 2019 it could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA

2.8.9 President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter 1 of 2018 to 4.2% in quarter 2, 3.5% in quarter 3 and then back to 2.2% in quarter 4.

2.8.10 The annual rate came in at 2.9% for 2018, just below President Trump's aim for 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019 i.e. below the Fed's target of 2%.

2.8.11 The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be edging towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years. Financial markets are now predicting two cuts of 25 basis points by the end of 2020.

Eurozone

2.8.12 The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the Eurozone and that produced strong annual growth in 2017 of 2.3%.

2.8.13 However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters 1 and 2 of 2018, and then slowed further to 0.2% in quarters 3 and 4.

2.8.14 The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019.

2.8.15 The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt.

2.8.16 However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates.

2.8.17 At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019", but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of Targeted Longer Term Refinancing Operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

China

2.8.18 Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan

2.8.19 Japan has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

World Growth

2.8.20 Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone.

2.9 Other Key Issues

International Financial Reporting Standard (IFRS) 9

2.9.1 Risk management was taken into account in the 2018/19 Accounting Code of Practice proposals for the valuation of investments. With the adoption of accounting standard IFRS 9 Financial Instruments, the 'Available for Sale Financial Asset' category is no longer available. The new standard sets out that investments in equity should be classified as fair value through profit and loss unless there is an irrevocable election to designate the asset as fair value through other comprehensive income. The Council's investment in Manchester Airport Holdings Limited is an equity instrument and as such, gains and losses on changes in fair value would be recognised through profit and loss.

2.9.2 Classifying the shareholding as fair value through profit and loss would mean that changes in valuation are immediately recognised within the Council's Cost of Services. This would mean that the Council's revenue budget is susceptible to increased risk from volatility in the share valuations. Any major fluctuations in the valuation of the shareholding would have a significant impact on the General Fund balance.

2.9.3 The Council has a 3.22% shareholding in Manchester Airport Holdings Limited. The shareholding is a strategic investment and not held for trading and therefore the Council has decided to designate it as fair value through other comprehensive income. This means that there is no impact on the revenue budget.

2.9.4 The expected credit loss model was introduced under IFRS 9. The Council has calculated the Expected Loss Credit calculation and the figure calculated is immaterial therefore with the agreement of the Council's External Auditors no transactions have been included in the Council's Statement of Accounts for 2018/19.

2.9.5 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS 9 the Government has introduced a mandatory statutory override for Local Authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This came into effect from 1 April 2018. The statutory override applies for five years from this date. The Council will use the statutory override to account for any changes in the fair value on its pooled investments. This was applied to the Councils CCLA Property Fund investment in 2018/19.

Other Treasury Management Issues

2.9.6 The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank’s involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council’s financial position. This matter is on-going.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are agreed and recommended to Cabinet and Council for approval.

5 Consultation

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors.

5.2 The presentation of the Treasury Management Review 2018/19 to the Audit Committee for detailed scrutiny is in compliance with the requirements of the CIPFA Code of Practice. The report will subsequently be presented to Cabinet and Council for approval.

6 Financial Implications

6.1 All included in the report.

7 Legal Services Comments

7.1 None.

8 Co-operative Agenda

8.1 The treasury management strategy embraces the Council’s cooperative agenda. The Council will develop its investment framework to ensure it complements the co-operative ethos of the Council.

9 **Human Resources Comments**

9.1 None.

10 **Risk Assessments**

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports presented to the Audit Committee.

11 **IT Implications**

11.1 None.

12 **Property Implications**

12.1 None.

13 **Procurement Implications**

13.1 None.

14 **Environmental and Health & Safety Implications**

14.1 None.

15 **Equality, community cohesion and crime implications**

15.1 None.

16 **Equality Impact Assessment Completed?**

16.1 No.

17 **Key Decision**

17.1 No.

18 **Key Decision Reference**

18.1 FCS-05-19

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1, 2 and 3
Officer Name:	Lee Walsh
Contact No:	0161 770 6608

20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Graphs
Appendix 3 Borrowing and Investment Rates

Appendix 1: Prudential and Treasury Management Indicators

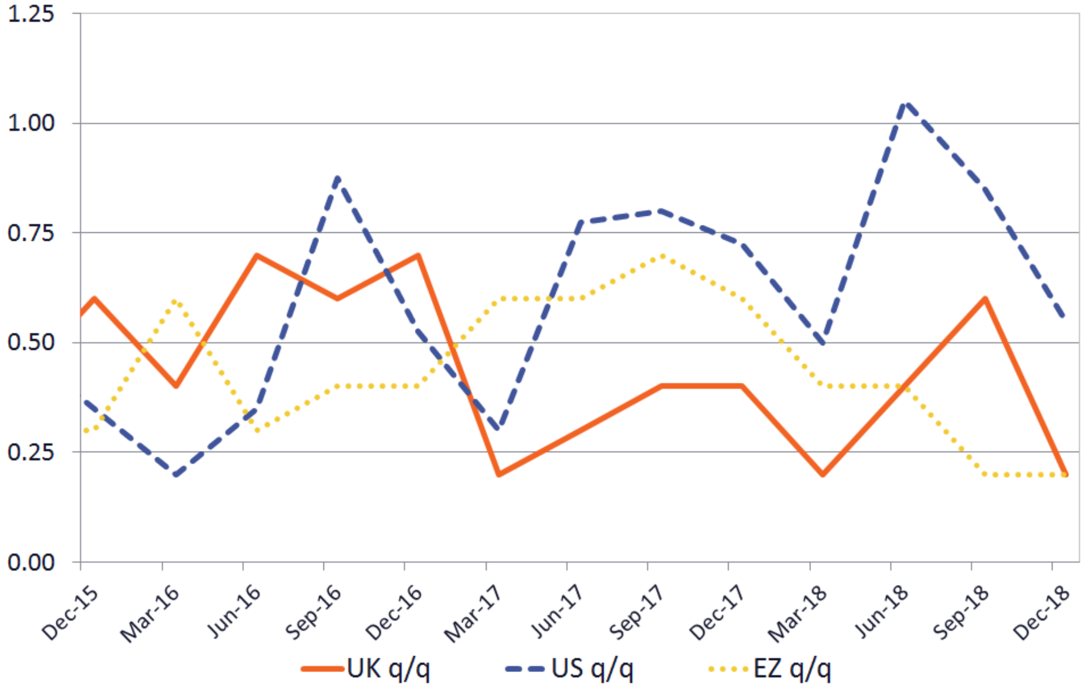
TABLE 1: Prudential indicators	2017/18 Outturn £'000	2018/19 Original £'000	2018/19 Revised Budget Estimate £'000	2018/19 Outturn £'000
Capital Expenditure				
Non – HRA	25,014	86,885	47,855	46,318
HRA	789	2,773	1,097	2,246
TOTAL	**25,803**	**89,658**	**48,952**	**48,564**
Ratio of financing costs to net revenue stream				
Non – HRA	11.52%	%	%	10%
In year Capital Financing Requirement				
Non – HRA	(16,741)	36,992	14,491	(11,169)
TOTAL	**(16,741)**	**36,992**	**14,491**	**(11,169)**
Capital Financing Requirement as at 31 March	505,049	542,041	519,540	493,880

TABLE 2: Treasury management Indicators	2017/18 Outturn £'000	2018/19 Original Budget £'000	2018/19 Revised Budget Estimate £'000	2018/19 Outturn £'000
Authorised Limit for external debt				
Borrowing	285,000	320,000	290,000	290,000
Other long term liabilities	260,000	250,000	250,000	240,000
TOTAL	**545,000**	**570,000**	**540,000**	**540,000**
Operational Boundary for external debt -				
Borrowing	275,000	300,000	280,000	280,000
Other long term liabilities	255,000	245,000	245,000	245,000
TOTAL	**530,000**	**545,000**	**525,000**	**525,000**
Actual external debt	403,966			394,456
Upper limit for fixed interest rate exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Actual	100%			100%
Upper limit for variable rate exposure				
Net principal re variable rate borrowing / investments	40%	40%	40%	40%
Actual	0%			0%
Upper limit for total principal sums invested for over 364 days	50,000	50,000	50,000	50,000

Maturity structure of fixed rate borrowing during 2018/19	Upper Limit	Lower Limit	Actual
Under 12 months	50%	0%	30%
12 months and within 24 months	7%	0%	0%
24 months and within 5 years	35%	0%	33%
5 years and within 10 years	5%	0%	5%
10 years and above	100%	40%	32%

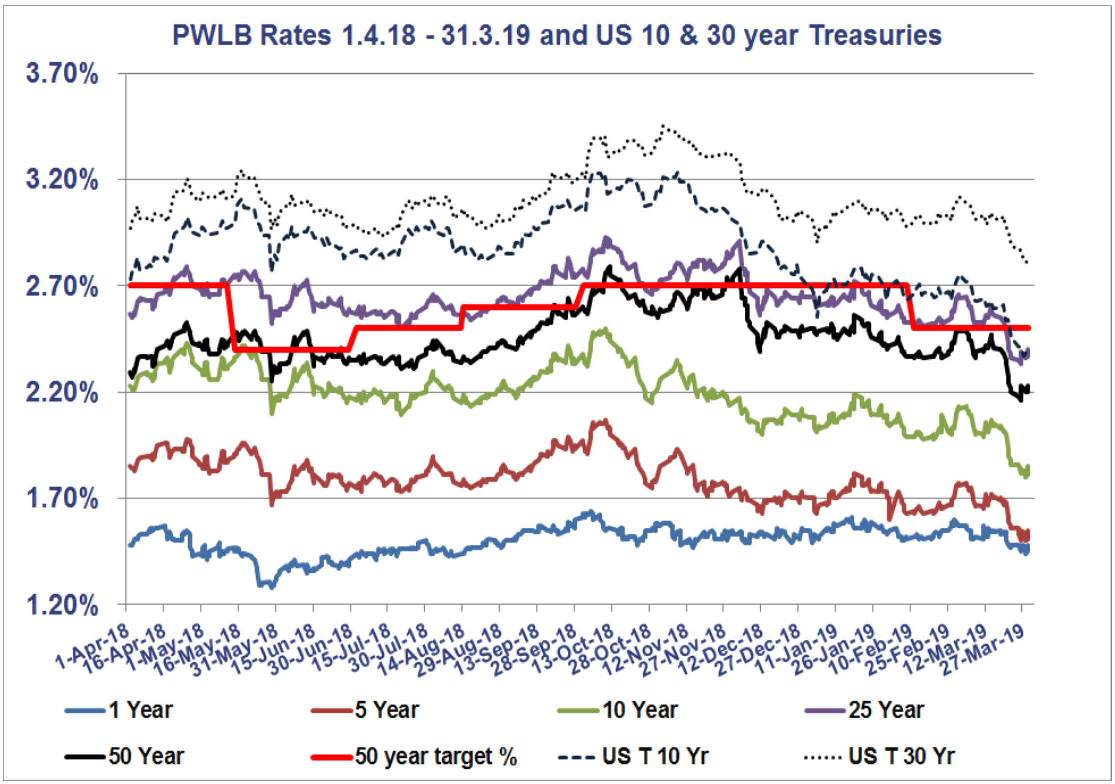
Appendix 2: Graphs

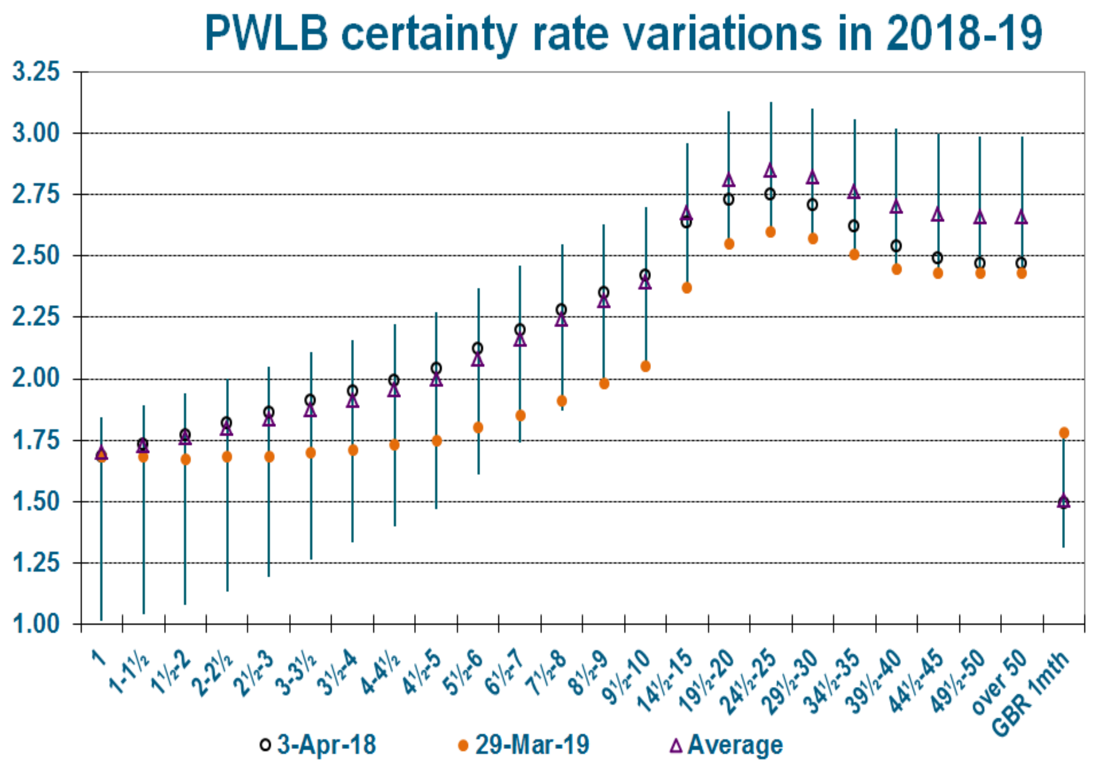
Comparisons - UK, US and Eurozone GDP growth



Comparisons - Inflation UK, US, Germany and France

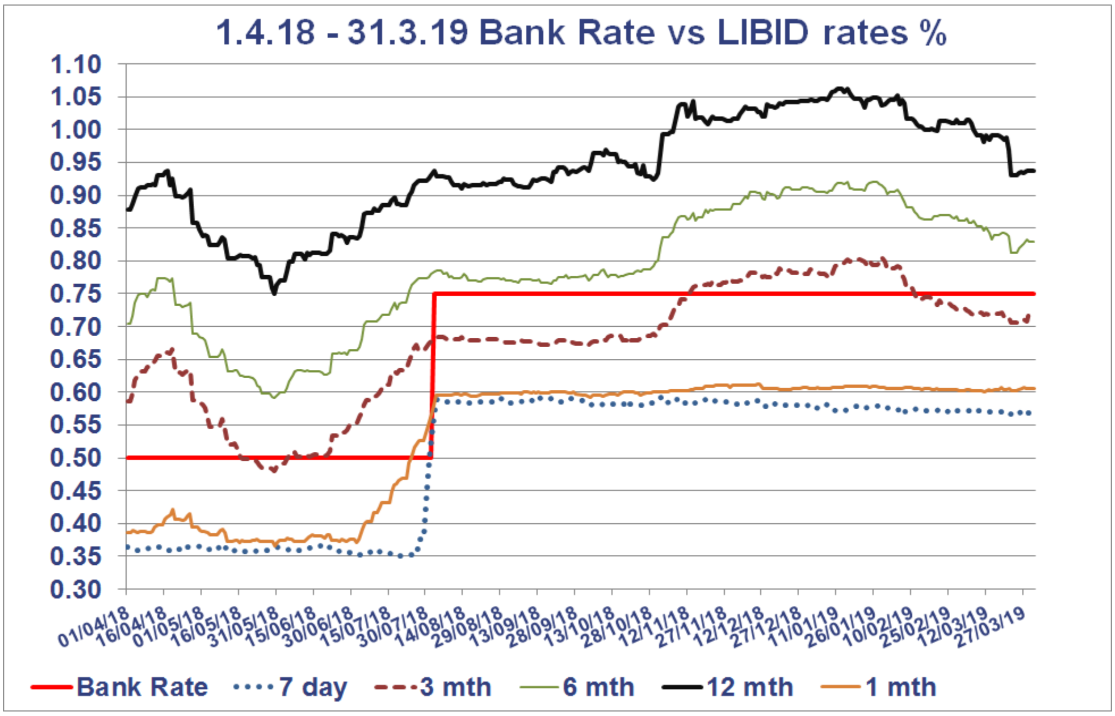
Appendix 3: Borrowing and Investment Rates





PWLB Borrowing Rate Variations

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%



Investment / LIBID Rate Variations

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
01/04/2018	0.50	0.36	0.39	0.59	0.70	0.88
31/03/2019	0.75	0.57	0.61	0.72	0.83	0.94
High	0.75	0.59	0.61	0.81	0.92	1.06
High Date	02/08/2018	01/11/2018	10/12/2018	29/01/2019	15/01/2019	11/01/2019
Low	0.50	0.35	0.37	0.48	0.59	0.75
Low Date	01/04/2018	19/07/2018	30/05/2018	30/05/2018	30/05/2018	30/05/2018
Average	0.67	0.51	0.54	0.68	0.79	0.94
Spread	0.25	0.24	0.25	0.33	0.33	0.31

Oldham Council

Report to Audit Committee

Reserves Policy for 2018/19 to 2019/20

Portfolio Holder: Cllr A Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services

Officer Contact: Anne Ryans - Director of Finance

Report Author: Vickie Crewe - Senior Accountant

Ext. 3306

25 June 2019

Reason for Decision

The purpose of this report is to brief Members of this Committee on the proposed Reserves Policy of the Council for the financial years 2018/19 to 2019/20 and incorporate any views into the final policy.

Executive Summary

From the financial year 2014/15, the Council developed a strategic approach to the creation and maintenance of reserves through the development of a Reserves Policy. The presentation of the Policy to the Audit Committee introduced improved transparency into this process which had previously been managed at the discretion of the Chief Financial Officer when the closure of the Final Accounts was undertaken.

There have been several reports issued by the National Audit Office (NAO) on the subject of financial resilience within Local Authorities alongside a recent proposal by the Chartered Institute of Public Finance & Accountancy (CIPFA) for a Local Authority Financial Resilience Index. These issues have largely been prompted by the risk of financial failure at Northamptonshire County Council during 2018.

The Policy is presented to the Audit Committee to review and also provide assurance that the Council manages its reserves effectively.

The Reserves Policy is attached at Appendix 1 and presents the Council's strategic approach to the creation and maintenance of reserves.

Recommendations

That Members of the Audit Committee review the Reserves Policy for 2018/19 to 2019/20 and advise the Council on its suitability from a governance perspective.

Reserves Policy for 2018/19 to 2019/20

1 Background

1.1 There is a need to have a strategic approach to the creation and maintenance of the earmarked reserves by the Authority. This is because resources are becoming even more scarce and any money set aside needs to both support the priorities of the Council and prevent unforeseen expenditure/events impacting on year on year budgets.

1.2 The level of reserves maintained by Local Authorities collectively has in the past attracted comment from the former Secretary of State for the Department of Communities and Local Government (now Ministry for Housing, Communities and Local Government) indicating they are excessive.

1.3 In December 2012, the Audit Commission produced a report into their research on the level of reserves held by Councils. The report, whilst produced a number of years ago, set out sound advice and recognised that there is no set formula for deciding what level of reserves is appropriate. It stated that having the right level of reserves was important and where reserves were low there could be very little resilience to financial shocks and sustained financial challenges. It also stated that where reserves are high, there is a risk that some Councils may retain certain funding which could otherwise be utilised as a one-off to address challenging savings targets and provide the time for transformation to deliver permanent financial savings.

1.4 One conclusion from the Audit Commission report was that Councils needed to consider their present decision making around reserves in a number of areas:

- Undertaking an annual review to ensure reserves align with Medium Term Financial Plans.
- Having clarity about what earmarked reserves are for.
- Ensuring earmarked reserves held to mitigate financial risk reflect an up to date assessment of risk.
- Monitoring the level and use of reserves over recent years, and comparing the Council's approach to other organisations facing similar circumstances.
- Budget monitoring and forecasting to give Elected Members greater awareness of likely year-end movements on reserves.
- Ensuring significant or unexpected variations to budget are dealt with.

1.5 Members can be assured that the Council already meets the criteria detailed above through the regular review of reserves, the Revenue Budget Monitoring reports presented to Cabinet, the Statement of the Chief Financial Officer on Reserves, Robustness of Estimates and Affordability and Prudence of Capital Investments Report presented alongside the Revenue Budget Report to Council and the production of an annual Reserves Policy.

1.6 In July 2018, CIPFA launched a consultation on its proposal to publish an annual index of financial resilience for English Councils based on six indicators. The initiative is driven by CIPFA's desire to support the Local Government sector as it faces a continued financial challenge. It was proposed that the index would be based on publically available information and provide an assessment on the financial health of each English Council. In December 2018, CIPFA issued the response to this consultation. The index is currently in development but CIPFA proposes 15 indicators within the index, including the following in relation to reserves:

- Reserves depletion time;
- Level of reserves;
- Percentage change in reserves.

CIPFA considers it important to support Chief Finance Officers in providing information to assist in the context of financial health and resilience. It is anticipated that the finalised index will be available to support the 2020/21 budget process.

1.7 Members of the Audit Committee will also be aware of the recent BBC report detailing 11 Local Authorities which, based on the depletion of reserves over recent years, are projected to use all of their reserves within the next four years if they cannot be topped up. Of these Local Authorities, Northamptonshire County Council has reduced reserves by 91% between 2015 and 2018, with Somerset County Council reducing its reserves by 73% for the same period. This clearly highlights the link between level of reserves and the financial sustainability of Local Authorities as both Northamptonshire and Somerset County Councils have financial challenges which have received considerable media attention.

1.8 As shown above, the level of Local Authority reserves is a key issue when discussing the funding of Council services and it is therefore considered appropriate to present this Reserves Policy for scrutiny by the Audit Committee.

2 Reserves Policy for 2018/19 to 2019/20

2.1 The 2018/19 to 2019/20 reserves policy has been prepared, following the finalisation of the financial position at the end of 2018/19 and after a risk-based review by the Director of Finance having regard to Corporate Priorities. There are 15 major earmarked reserves included in the Policy (to align to the presentation of reserves in the Statement of Accounts which is elsewhere on the agenda). As can be seen from the Statement of Accounts, Revenue Account Earmarked Reserves at the end of 2018/19 were £80.623m, Revenue Grant Reserves were held at a value of £8.733m and Schools Balances were held at £4.202m, therefore the total reserves held at the end of the financial year was £93.558m.

2.2 This policy document also sets out the rationale for the creation of the reserves, the arrangements for their management and the approval process for use. The Policy is detailed at Appendix 1.

3 Conclusions

3.1 An appropriate Reserves Policy subject to scrutiny is considered good governance for a Local Authority.

4 Options

4.1 Option 1 - That Members approve the approach to the creation and maintenance of reserves as set out in Appendix 1.

4.2 Option 2 – That Members suggest an alternative approach to the creation and maintenance of reserves.

5 Preferred Option

5.1 Option 1 is the preferred option.

6 **Consultation**

6.1 To demonstrate the appropriateness of the earmarked reserves maintained by the Council this Reserves Policy is subject to a detailed review by the Audit Committee.

7 **Financial Implications**

7.1 As shown in the Statement of Accounts which is presented to this Committee elsewhere on this agenda, the Council was able to deliver a financial outturn in accordance with its agreed budget for 2018/19. As such, with the proposed Reserves Policy as detailed in Appendix 1, it is in a robust financial position to meet the challenges for both this financial year and in preparation for the financial year 2020/21.

7.2 In order to increase the transparency on the earmarked reserves held by the Council, a specific reserves policy has been developed which is now subject to annual review. This has enabled the Council to align its earmarked reserves to the Corporate and Strategic Objectives of the Council. (Anne Ryans)

8. **Legal Services Comments**

8.1 N/A

9. **Cooperative Agenda**

9.1 N/A

10 **Human Resources Comments**

10.1 N/A

11 **Risk Assessments**

11.1 It is important in managing its finances that an Authority achieves a balance of both setting aside earmarked reserves which are appropriate supporting Corporate Priorities and Objectives whilst retaining financial resilience to secure its medium and long term financial stability. (Mark Stenson)

12 **IT Implications**

12.1 N/A

13 **Property Implications**

13.1 N/A

14 **Procurement Implications**

14.1 N/A

15 **Environmental and Health & Safety Implications**

15.1 N/A

16 **Equality, community cohesion and crime implications**

16.1 None

17 **Equality Impact Assessment Completed?**

17.1 No

18 **Key Decision**

18.1 No

19 **Key Decision Reference**

19.1 N/A

20 **Background Papers**

20.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are included at Appendix 1
Officer Name:	Vickie Crewe
Contact No:	0161 770 3306

21 **Appendices**

21.1 Appendix 1 - Reserves Policy for 2018/19 to 2019/20.

Appendix 1

RESERVES POLICY

FOR

2018/19 TO 2019/20

RESERVES POLICY

1 Background

1.1 It is important to have a strategic approach to the creation and maintenance of reserves. Having first established a reserves policy for the closure of the accounts for 2014/15 and the financial year 2015/16, this updated policy addresses key issues arising from the 2018/19 accounts closure and 2019/20 financial year.

2 Policy

2.1 As financial resources are becoming even more scarce, it is essential to ensure that any funds set aside in reserves are considered appropriately so that they have maximum effect. Now that the principle of a reserves policy has been established, the process of identifying reserves continues to have regard to the addressing of corporate priorities.

2.2 Corporate Reserves have in the past been created at the discretion of the Director of Finance. Whilst it is essential that some flexibility is maintained, this policy sets out agreed priority reserves. This will enable any identified additional resources to be directed to the priority areas.

2.3 It will also be essential to determine by means of a risk based review on a case by case basis, the appropriate level of reserve to be held in each priority area. Clearly there will be the opportunity for the recommended level of required reserve to change, but it is proposed that once each reserve has reached the maximum recommended level, then resources will be directed to the next priority reserve. Once all these reserves have reached the proposed maximum, then any other available resources can be made available for individual budget holder business case requests.

3 Establishing the Priorities

3.1 The closure of the 2018/19 accounts has enabled a detailed review of the Council's reserves and categorisation of these reserves into 15 major areas as in previous years. There are in most instances, a number of reserves within these major areas including the priority reserves.

For clarity, the **15 major reserves** and the reserves created to support **corporate priorities** within them are set out and explained in this policy as follows.

1) Integrated working – £3.662m at 2018/19 accounts closure

This reserve represents resources that have been set aside to support initiatives arising from the Greater Manchester devolution agenda including joint working with the Oldham Clinical Commissioning Group (CCG) around Adult Social Care, other Greater Manchester Councils and the Greater Manchester Combined Authority.

The priority reserves included within this category are:

a) Adult Social Care - Better Care Fund (BCF)

At the end of the 2017/18 financial year, £2.500m of Improved Better Care Fund monies were transferred to reserve for future utilisation. This reserve is available to support the potential cessation or reduction of Improved Better Care Funding at the end of the current funding cycle in 2019/20 but with potential to also address pressures within Adult Social Care and to assist with integration.

b) BCF Non Recurrent Funding

This reserve holds the balance remaining of funds that were passported to the Council from the CCG in the latter part of 2016/17. It has been jointly agreed that this money will be retained for joint projects/ priority areas of spend in relation to Adult Social Care over future years.

c) Devolution Reserve

It is considered appropriate to have a reserve to support expenditure on the devolution agenda. A sum of £0.240m has been held in reserve to facilitate expenditure in this area going forward.

2) Transformation Reserve - £10.281m at 2018/19 accounts closure

This reserve holds resources set aside to provide for any costs of implementing the Council's budget requirements for 2019/20 and earlier years and also the on-going programme of change as the Council moves to address funding reductions in future years by the continued transformation of its services.

The priority reserves within this category are:

a) Transformation/Invest to Save Reserve

In order to facilitate transformational change across the Council, some funding is needed for pump priming items such as dual running of systems and project management. During 2018/19, £1.014m was used to support transformational projects in year, £1.471m was committed for future projects and £0.317m was left uncommitted for future developments. At the end of the financial year, £1.183m was allocated to this reserve to enable the organisation to continue with its transformation agenda. The total held within the reserve at 31 March 2019 was £2.971m.

b) Redundancy/Efficiency Reserve

As part of the agreed budget strategy for 2015/16, the corporate redundancy base budget was reduced by £2m. As a consequence, funding for redundancy costs will be provided by utilising a reserve. The reserve balance at the end of the 2018/19 financial year was £4.000m. If the reserve is utilised then it will be replenished the following the year.

c) Resident First Reserve

As part of the Council's Customer Service Transformation Programme, the Resident First Programme has been developed and split into specific phases. This Programme was designed to help the Council achieve its ambition of moving to a 'Self-serve, Self-help' service delivery model and the way it interacts with residents. This will require transformation of the delivery of the Council's services to enable residents to serve themselves and ultimately improve their 'customer experience'. At the end of 2018/19 there was £0.180m of resources available to support the programme.

d) Public Health Reserve

A reserve was set aside at the year-end 2015/16 of £0.809m to mitigate future issues arising from a reduction in the Public Health Grant received by the Council. As part of the 2017/18 budget process, £0.373m of this reserve was identified for use to support an agreed public health budget reduction and was transferred to the balancing budget reserve. The remaining balance held within this reserve is to be used to support the Public Health offer for future years.

e) Social Care Budget Reserve

As social care services face unprecedented demand it has been deemed appropriate to hold a reserve to support the social care service area. During 2018/19, £0.595m was utilised to support revenue expenditure. The balance remaining at the end of the financial year was £0.711m. Any proposed use of this reserve to fund demand pressures or new initiatives in support of the integration agenda will require a full evidence based business case.

f) Dedicated Schools Grant (DSG) Recovery Plan

A reserve was set aside at the end of the 2016/17 financial year to smooth the implications arising from the realignment of General Fund and DSG resources in part resulting from changes in Government policy around the costs that can be charged to the DSG. At the end of 2018/19, the DSG had a deficit balance and as such it was deemed appropriate to increase this reserve so that this resource can support initiatives to assist in the DSG recovery plan (which must be submitted to the Department for Education).

3) Adverse Weather Reserve - £1.500m at 2018/19 accounts closure

The 2015/16 budget setting process approved the reduction in the Winter Maintenance base budget by £0.100m and an increase of the already established adverse weather reserve to compensate. A reserve of £1.500m is considered sufficient to fund the costs of several severe winters and the reserve was held at this value at the closure of the 2018/19 accounts.

4) Regeneration Reserve - £6.456m at 2018/19 accounts closure

The Council has an extensive and ambitious regeneration agenda and resources have been set aside to support a number of regeneration projects which span more than one financial year. The priority reserves within this category are:

a) General Capital Reserve

There is a significant capital programme pressure arising from the regeneration ambitions of the Council and the major projects that are included in the capital programme. The financing arrangements of some of the schemes are yet to be finalised and given the nature of the schemes, it is possible that there could be variations from the planned level of expenditure which will need to be supported. It is therefore prudent to set resources aside.

b) Town Centre Investment Strategy

A reserve was set aside at the end of the 2012/13 financial year to support the Town Centre Investment Strategy. At its meeting of 28 January 2019, Cabinet agreed that part of this reserve would be realigned to support revenue expenditure with regard to the Alexandra Park Depot Site project. The balance remaining will support Town Centre Initiatives in future years.

c) Property Strategy

At the Council meeting of 18 December 2017, Members approved the creation of a reserve at a value of £0.250m to provide for up front / abortive costs with regard to the Commercial Property Investment Strategy.

d) Town Centre Development

A report was presented to Cabinet on 28 March 2018 approving revenue resources of £2.879m to support the Town Centre Development. A subsequent report increased this requirement to £3.147m. These monies are to be held in reserve until required. The balance at the end of the 2018/19 was £3.147m.

e) Alexandra Park Depot Site

As detailed in section 4b, Cabinet, at its meeting of 28 January 2019, approved the establishment of a specific reserve in relation to the Alexandra Park Depot Site project. This reserve has been established at a value of £0.300m.

5) Demand Changes Reserve - £2.000m at 2018/19 accounts closure

In anticipation that there will be demand pressures in future years, a reserve has been set aside to deal with unexpected and unbudgeted demand increases. Of this reserve, an element is specifically for Children's Social Care in accordance with the 2019/20 budget report approved on 27 February 2019.

6) Emergency and External Events Reserve - £2.751m at 2018/19 accounts closure

This reserve was established in 2015/16 to ensure that the Council has sufficient resources to address costs arising from events such as flooding including the requirement to undertake emergency repairs. The priority reserves in this category are:

a) Commissioning and Legal Challenges Reserve

In recent years, the Council has changed from being a deliverer in many service areas to becoming a commissioner of services including Private Finance Initiative (PFI) schemes, Adult Social Care and Public Health. Whilst this is able to drive efficiencies and removes the Council from the day to day direct delivery of services, it introduces a range of contract management challenges which require close monitoring. There are instances where this process has led to disputes and the Council has had to seek expert advice to support and defend its position. A reserve has therefore been created to address such one-off costs.

b) Equipment Replacement/Building Maintenance Costs Reserve

To fund requests for the emergency replacement of equipment or the undertaking of immediate building maintenance work a reserve of £1.000m was set-up in 2014/15. This ensures a source of funds is readily available to support such costs in an emergency. The reserve is retained at this value at the closure of the 2018/19 accounts.

c) Flood Protection Reserve

Following the floods of December 2015 and the impact on neighbouring Authorities, a reserve of £0.250m was set aside to fund required flood protection measures in the Borough.

d) Emergency Incident, Threat or Hazard Reserve

In order to discharge its Statutory Responsibility for Emergency Planning, the Council prepared a financial procedure to facilitate the incurring of expenditure in the case of an emergency or incident in the Borough which may result in hardship to a group of residents or the Council having to incur expenditure in the interests of public safety. This procedure required the creation of a reserve of £0.250m and this was established in 2015/16 and has been retained for 2018/19. It will be necessary to ensure that a fund of £0.250m is permanently available in order to comply with the financial procedure rule.

e) Water Courses and Culverts

This reserve has been set aside for unforeseen/emergency works on Water courses and culverts that would otherwise be unfunded.

7) Levy Reserve - £0.402m at 2018/19 accounts closure

This reserve was created to support variations in the Waste Disposal Levy. As such, the Council was formally notified of the levy for 2019/20 on 15 February 2019 at a value of £18.102m which was £0.157m higher than previous estimates. In line with the agreed policy, the £0.157m was funded by the levy reserve and therefore £0.157m was transferred to the Balancing Budget Reserve category in line with the approved 2019/20 Council Revenue Budget report. Therefore £0.402m remains available for future years.

8) Council Initiatives Reserve - £4.514m at 2018/19 accounts closure

There are a number of projects and programmes of work which the Council considers to be priority initiatives. Reserves have been set aside to ensure that these can be undertaken during future years. The major priority reserves are:

a) Learning and Attainment Reserve

There is a political priority to support the learning and attainment agenda to promote the improvement of results in schools. A reserve of £1.000m was created in 2014/15 to be used over future years. At the end of 2018/19, £0.737m remained in the reserve.

b) Local Welfare Provision

The Welfare Reform Act 2012 ended the provision of Community Care Grants and Crisis Loans for living expenses under the Discretionary Social Fund administered by the Department for Work and Pensions (DWP). Funding was transferred from the DWP to Local Authorities (LA's) from 1 April 2013 to provide a locally administered scheme to provide assistance to vulnerable residents in the Borough. Money is held in reserve to ensure facilitation of the scheme in future years to assist residents with crisis situations.

c) Career Advancement Service

This reserve was established to fund the Career Advancement Service Pilot scheme during the period 2016/17 to 2019/20. The strategy seeks to improve population skills and outcomes to support Oldham's strategic goals.

d) Flytipping

This fund was established to address the issues around flytipping within the Borough and will help to deliver a co-operative approach.

e) Digital Enterprise Hub

At the Cabinet meeting of 21 March 2016, Members agreed the allocation of £0.200m to support the creation of the Digital Enterprise Hub within Oldham Town Centre over a three year period.

f) Northern Roots

On 28 January 2019 Cabinet approved a report with regard to Northern Roots which required revenue resources over a two year period. External funding will partly support the scheme with resource held in reserve at the end of the financial year to support this project in 2019/20 and 2020/21.

9) Fiscal Mitigation Reserve - £14.975m at 2018/19 closure

This reserve has been established to fund future costs expected to arise from reforms to Central Government Funding and also pressures that result from legislative changes. The priority reserves within this category are:

a) Business Rates Reserve

The income from Business Rates remains volatile and therefore it is prudent to have resources available to support the General Fund should business rates income be reduced in future years' budget processes. Also, with the introduction of the 100% Business Rates retention pilot from 2017/18, this reserve also holds resources that may be paid over to or received from the Greater Manchester Combined Authority in accordance with the pooling of the benefits of the Business Rates retention pilot scheme.

b) New Investment Opportunities

On the 28 February 2018, Council approved budget reduction CCS-PSV-119 New Investment Opportunities. Within this, it was identified that an earmarked reserve of £0.100m was required for additional assessment and due diligence associated in delivering the saving in future years.

c) Brexit

The impact on Local Authorities as a result of the Brexit vote remains unknown. It is appropriate to hold a reserve to support any financial implications arising from leaving the European Union.

d) Oldham Health Economy

As work progresses with the integration of Health and Adult Social Care services, resources may be required to support the Oldham Clinical

Commissioning Group (CCG)/ Oldham health economy. A reserve is held at a value of £5.900m.

e) Flexible Use of Capital Receipts

As part of the 2019/20 revenue budget, Members agreed that the Council would take advantage of the opportunity provided by the Ministry of Housing, Communities and Local Government's (MHCLG) to use up to £3m of capital receipts to finance revenue expenditure on transformational projects. This reserve has been created in case there is any shortfall in capital receipts or supportable qualifying expenditure.

f) Budget Reductions

Included within the 2019/20 budget are several budget reductions which in total equal £7.829m. A reserve has been created to support any potential shortfall in these budget reduction proposals whilst work is undertaken to ensure future deliverability.

10) Balancing Budget Reserve - £8.818m at 2018/19 accounts closure

During the budget setting process for 2019/20, a reserve was established at a value of £8.818m which will be used to balance the 2019/20 budget. The creation and use of this reserve in 2019/20 was approved by Council on 27 February 2019.

11) Contractual Life Cycle Costs Reserve – £6.611m at 2018/19 accounts closure

The Council has a number of PFI and other schemes that operate in a similar manner to PFIs. The life cycle costs of these schemes vary over the period of the contract and sinking funds are required to support the transition of the asset back into Council ownership at the end of the contract life. The life-cycle costs have been smoothed for budget purposes and therefore require a transfer to and from reserves to meet the commitments.

12) Insurance Reserve - £14.529m at 2018/19 accounts closure

It is essential that reserves are held to ensure that there are adequate resources available to support insurance claims against the Council. The requirement for this reserve is closely linked to the claims profile of the Council and was assessed as part of the 2018/19 year-end closedown process.

13) District Partnership Reserve - £0.732m at 2018/19 accounts closure

This reserve represents sums set aside to fund projects already agreed by the District Partnerships which are either programmed for a future financial year or span more than one financial year. Any use of this reserve will have regard to the report approved at the Council meeting of 22 May 2019 on the future of District Executives.

14) Taxation / Treasury Reserve - £0.625m at 2018/19 accounts closure

This reserve holds funding set aside for any future taxation liabilities e.g. from HM Revenues and Customs and any Treasury Management issues.

15) **Directorate Reserve - £2.767m at 2018/19 accounts closure**

There are a wide range of Directorate initiatives which span more than one financial year or for which funds have been budgeted but not yet started. The Directorate Reserve will ensure that such initiatives can be completed.

4 Management of Reserves

Creation/ Decommissioning of Reserves

4.1 A list of areas/initiatives for which an additional reserve might be created or where an existing reserve might be increased in value will be presented to the Senior Management Team (SMT) for consideration before the year end. The approval or otherwise of the reserve requests will be considered on a case by case basis and in the context of the overall projected financial position of the Council. These SMT recommended reserves will be actioned by the Director of Finance at the year-end as appropriate.

4.2 The report will also give consideration to those reserves no longer required or no longer considered to be priority areas. This will allow for the utilisation of the resources for other purposes, either the reallocation to other reserves, or to support the budget.

Schools Related Reserves

4.3 There are some schools related initiatives which may require funding on an academic year basis rather than financial year. It is proposed that such reserves are created as required.

Flexibility at the Year End

4.4 In addition, given the accelerated timeline for the closure of the accounts, decisions will need to be taken around the use and creation of reserves without the opportunity to formally report these to SMT/Members in advance. Key issues arising in relation to reserves in such instances will be determined at the discretion of the Director of Finance and reported after the Council's accounts have closed.

5 Approval of the Use of the Reserves

5.1 Reserves can only be recommended for use as follows:

a) After a review and agreement by SMT as to the rationale for their use:

- Integrated Working Reserve
- Adverse Weather Reserve
- Regeneration Reserve
- Demand Changes Reserve
- Emergency and External Events Reserve
- Waste Smoothing Reserve

b) After review and agreement by the Strategic Design Authority:

- Transformation Reserve

c) After review and agreement by the Deputy Chief Executive or relevant Strategic Director / Managing Director and the Director of Finance:

- Directorate Reserve

d) After review and agreement of the Director of Finance:

- Council Initiatives Reserve
- Fiscal Mitigation Reserve
- Balancing Budget Reserve
- Contractual Life Cycle Costs Reserve
- Insurance Reserve
- Taxation/Treasury Reserve

5.2 The decision to utilise reserves will only be made once the in-year and future impact of use on the overall financial position of the Council has been considered by the Director of Finance.

5.3 The use and creation of reserves in year will be incorporated into the revenue budget monitoring report which is discussed with the Deputy Leader and Cabinet Member for Finance and Corporate Services and presented to Cabinet for approval. At the end of the financial year, as advised at paragraph 4.4, there will be a requirement to allow the Director of Finance discretion to address reserve issues as deemed appropriate in the context of the overall financial position of the Council.

6 Other Key Reserves Matters

6.1 There is an accounting requirement to identify two separate reserves outside the scope of this policy:

a) Schools Reserve – this includes the balances held by Schools under the scheme of delegation. The use of these reserves is at the discretion of schools and as at the 31 March 2019 a net reserve of £4.202m was held.

b) Revenue Grants Reserve – this represents income from grants received which have no conditions attached or where the conditions have been met but no expenditure has yet been incurred. The use of these reserves will be determined by the relevant Service Director and the Director of Finance. The balance held in this reserve at the end of the financial year was £8.733m.

Report to Audit Committee

Audit Progress Report

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Services/ MAZARS

Officer Contact: Anne Ryans, Director of Finance/ MAZARS

Report Author: Mark Stenson, Head of Corporate Governance / MAZARS

Ext. 4783

25 June 2019

Reason for Decision

To present to the Audit Committee, the Audit Progress Report for June 2019 (attached at Appendix One) produced by our external auditor Mazars.

Executive Summary

The report presents to the Council the key information that the external auditor feels appropriate to bring to your attention.

Recommendation

It is recommended that the Audit Committee notes the Audit Progress Report.

Appendix One

Audit Progress Report
June 2019

Audit Progress Report

Oldham Metropolitan Borough Council

June 2019

MAZARS

CONTENTS

1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

Audit progress

Since the Committee last met we have:

- Completed our detailed interim audit work including:
  - Obtaining documentation of controls in the Council's key financial systems, including undertaking walkthrough testing of key controls to confirm our understanding of those systems; and
  - Testing transactions through the year to date to reduce the level of testing required at the final audit visit, and provide interim assurance on the material correctness of income and expenditure.
- Met with finance staff to clarify our requirements and expectations in respect of our 2018/19 final audit visit;
- Issued our 'Client Deliverable List' to the finance team, setting out the expected working papers and supporting information required to complete our final audit visit;
- Commenced and predominantly completed our final visit audit work on the Council's 2018/19 draft financial statements;
- Completed the audit fieldwork for our 2018/19 VFM conclusion; and
- Held ongoing liaison discussions with Internal Audit colleagues as part of our approach to maintain an accurate understanding of the Council for our 2018/19 audit.

Our final audit fieldwork is in the final stage, there are a small number of audit queries to resolve, and we await the receipt of external assurances on the pension liability valuation, and valuations relating to the investment in Manchester airport.

Our work is on track, and there are no significant matters arising from our work that we are required to report to you at this stage.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
National Audit Office (NAO)			
1	**Planning for new homes**	Overall assessment that planning system not working effectively.	6
2	**Building Public Trust Awards – good practice in annual reports 2017-18**	Examples of good practice in annual reports	6
3	**Guidance for audit committees on cloud services**	Guidance on use of cloud services	7
4	**Framework to review programmes**	Questions to ask when reviewing major programmes and projects	7
5	**Round-up for Audit Committees**	Summary of NAO publications for Audit Committees	7
Chartered Institute of Public Finance and Accountancy (CIPFA)			
6	**An introductory guide to Local Government Finance**	Updated guide which may be of interest to Members.	8
7	**CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements**	Clarification of issues relating to the 2018/19 financial statements	8
8	**Local Authority Capital Accounting - A Reference Manual for Practitioners**	Practitioners guide to capital accounting	8
9	**The Guide To Local Government Finance**	Introductory guide to local government finances	9
10	**Social Care Statistics 2017/18 Actuals**	Analysis of adult social care expenditure	9
11	**Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20**	Accounting requirements for 2019/20	10
12	**An Introductory Guide to Housing Finance in England and Wales**	Introductory guide to Housing Finance	10
13	**Practitioners' Guide To Capital Finance**	Practitioners Guide	11
14	**Local Government Application Note for the UK Public Sector Internal Audit Standards**	Guidance for application of Internal Audit Standards	11

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
Chartered Institute of Public Finance and Accountancy (CIPFA) (continued)			
15	**CIPFA's Proposed Financial Management Code for Local Government – Consultation**	Consultation on CIPFA's financial management code	12
16	**CIPFA Service Reporting Code of Practice (SeRCOP) 2020/21: Service Expenditure Analysis – Consultation**	Consultation on CIPFA's Service Reporting Code of Practice	12
Local Government Association			
17	**Twenty-first Century Councils**	Toolkit to help councils empower women, parents and carers to become local councillors and take on leadership positions.	13

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. Planning for New Homes, NAO, February 2019

The NAO has recently published a report on Planning for new homes. This report is part of a series on housing in England, including Housing in England: overview (2017) and Homelessness (2017). The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average. The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

https://www.nao.org.uk/report/planning-for-new-homes/

2. Building Public Trust Awards – good practice in annual reports 2017-18, May 2019

The Building Public Trust Awards recognise outstanding corporate reporting that builds trust and transparency. This interactive document illustrates a range of good practice examples across annual reports in both the public and private sector.

In 2018 the public sector award for excellence in public sector reporting was jointly won by the Crown Estate and the Ministry of Justice. This interactive pdf summarises the judging criteria based on the principles of a good annual report. The guide highlights examples of "what good looks like" in reporting on strategy, risk, operations, governance, success measures, financial performance, people factors, external factors and ensuring the report is understandable to its users.

https://www.nao.org.uk/report/building-public-trust-awards-good-practice-in-annual-reports-2017-18/

3. Guidance for audit committees on cloud services, April 2019

Public and private sector organisations are increasingly adopting cloud services with the aims of reducing costs, increasing efficiency and transforming their operations. Government policy supports this move but recognises that accessing systems through the internet can bring new contracting models and new challenges. Some organisations may lack the capacity or expertise to select the right product for their needs, implement it securely and manage it effectively.

The guidance provides an overview of cloud services and outlines government policy on their use. It then sets out specific questions for audit committees to consider asking when engaging with their management at three stages:

- Assessment of cloud services – looking at cloud services as part of organisational and digital strategies; the business case process; and due diligence.
- Implementation of cloud services – considering system configuration; data migration; and service risk and security.
- Management of cloud services – covering operational considerations; the need for assurance from third parties; and the capability needed to manage live running.

The guidance points to and complements detailed cloud guidance available elsewhere.

https://www.nao.org.uk/report/guidance-for-audit-committees-on-cloud-services/#

4. Framework to review programmes, April 2019

Major programmes are expensive, high profile and carry great uncertainties and risks. It is not surprising that many fall short of their objectives, in terms of cost and/or outcomes.

The NAO has completed about 140 reports on major projects and programmes since 2010. Based on this experience, this framework draws together the key questions the NAO ask when we review major programmes. It was developed for NAO value-for-money auditors to use when reviewing programmes, but may be useful for those seeking an overview of the NAO work on projects and programmes.

The questions are structured into four sections:

- Purpose: Is there a strategic need for the programme and is this the right programme to meet the business need?
- Value: Does the programme provide value for money?
- Programme set-up: Is the programme set up in accordance with good practice and are risks being well managed?
- Delivery and variation management: Are mechanisms in place to deliver the intended outcomes and respond to change, and is the programme progressing according to plan?

There are 18 key questions, each illustrated with examples of good practice and lessons learnt from previous NAO reports.

The Framework also outlines the NAO's related resources that provide further support for examining issues in more depth.

https://www.nao.org.uk/report/framework-to-review-programmes/

5. Round-up for Audit Committees, March 2019

This interactive round-up of NAO publications is intended to help Audit Committees, Boards and other users by outlining the latest NAO resources for governance and oversight, risk management and strategic management issues. It also sets out how to keep in touch with NAO insight on specific issues and/or sectors.

https://www.nao.org.uk/report/round-up-for-audit-committees/

2. NATIONAL PUBLICATIONS - CIPFA

6. An introductory guide to Local Government Finance, February 2019

This introductory guide addresses the basic questions regarding how money flows, how budgets are set and where it is spent in local government. An understanding of these issues is essential to realising the current issues in local government.

This guide is aimed at helping local councillors, those working with and for local councils, and anybody with an interest in the sector to understand the complexity of local government finance.

The guide covers revenue and capital financing, financial reporting, governance and auditing as well as giving an overview of some of the key services provided by local councils.

This guide is available online only.

https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2019

7. CIPFA Bulletin 03 Closure of the 2018/19 Financial Statements, March 2019

This bulletin covers the closure of accounts for the 2018/19 year and provides further guidance and clarification to complement the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom: Guidance Notes for Practitioners (Code Guidance Notes). It addresses, where relevant, frequently asked questions and other issues that have arisen since the publication of the 2018/19 Code Guidance Notes.

Key areas covered include:

- A lengthy section of clarification on Financial Instruments, in particular the impact of the implementation of IFRS9 and IFRS15 on Local Authority accounts
- Streamlining the Accounts guidance
- Analysis of debtors and creditors
- EU withdrawal
- Guaranteed Minimum Pensions

https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-03-closure-201819

8. Local Authority Capital Accounting - A Reference Manual for Practitioners, April 2019

Intended to be read alongside other CIPFA publications, including the Code of Practice on Local Authority Accounting, the Guidance Notes for Practitioners and the Practitioner's Guide to Capital Finance in Local Government, this book demonstrates the requirements of capital accounting through fully worked and explained examples covering all the major transaction types and asset classes.

A comprehensive reference section, drawing upon frequently asked capital questions received by CIPFA's Finance Advisory Network, Technical Enquiry Service and TISonline discussion forum, provides further discussion of typical areas of concern.

There are top tips on the real-life application of the Code of Practice, including advice on the most effective use of financial systems, working with non-finance colleagues such as valuers, and getting through the external audit as smoothly as possible.

With clear cross-referencing to allow readers to follow a topic as it appeals to them, this publication provides unique insight and practical support in one of the most technical and demanding areas of local authority accounting.

This edition has been updated to reflect new statutory guidance and the suspension of arrangements for the recognition of the highways Network Asset. The opportunity has also been taken to add a few more frequently asked questions (FAQs).

https://www.cipfa.org/policy-and-guidance/publications/l/local-authority-capital-accounting--a-reference-manual-for-practitioners

2. NATIONAL PUBLICATIONS - CIPFA

9. The Guide To Local Government Finance, April 2019

This guide covers the current arrangements and provides insights into possible future changes at a time when political uncertainty makes future developments difficult to foresee.

Covering both revenue and capital financing, this guide provides the reader with an introduction to the technical complexities of funding each type of expenditure.

The publication is presented in dedicated service areas that have their own funding streams and financial complexities. These include:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

For those requiring more of an introduction to local government finance, CIPFA also produces an Introductory Guide to Local Government Finance that summarises the key information in a way that is aimed at non-finance specialists and those new to the sector..

https://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2019

10. Social Care Statistics 2017/18 Actuals, April 2019

This publication provides a detailed analysis of adult social care expenditure analysed by support group, such as: physical support, sensory support, support with memory and cognition, learning disability support and mental health support.

Other information includes a breakdown of the total population by age group and number of resident weeks.

https://www.cipfa.org/policy-and-guidance/publications/s/social-care-statistics-201718-actuals

2. NATIONAL PUBLICATIONS - CIPFA

11. Code Of Practice On Local Authority Accounting In The United Kingdom 2019/20, April 2019

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This 2019/20 edition of the Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2019.

The Code specifies the principles and practices of accounting required to prepare financial statements which give a true and fair view of the financial position and transactions of a local authority.

This edition of the Code introduces a number of important amendments relating both to context and an understanding of requirements, as well as changes in some of accounting requirements. In particular the following areas should be noted:

- Improved clarity regarding the specification of proper accounting practices, the Code's role in these, the impact of statutory accounting requirements on the annual accounts, and the manner in which they affect the presentation of local authority reserves, including the distinction between usable and unusable reserves
- Significant amendments to Chapter Two to reflect the revisions made by the IASB to the Conceptual Framework for Financial Reporting (Conceptual Framework)
- Changes relating to the previous Carbon Reduction Commitment Scheme and Landfill Allowances Schemes
- An additional section to address the treatment of the Apprenticeship Levy
- For Scottish authorities, recognition of the ability to present transfers to or from other statutory reserves, allowance for voluntary transfers between the Revaluation Reserve and the General Fund, and pension fund legislation amendments
- For Welsh authorities recognition of legislation changes relating to separate publication of pension fund accounts
- Amendments to Section 7.1 (Financial Instruments) arising from amendments made to IFRS 9 Financial Instruments
- Changes to group accounts requirements implementing scope clarifications for disclosure requirements.

https://www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-201920-book

12. An Introductory Guide to Housing Finance in England and Wales, March 2019

The provision of social housing is a big issue for government and the public sector. Local authorities have a key role in responding to the needs of those in the community and understanding how the relevant finance structures work is vital if they are fully going to play their part.

Housing, and social housing in particular, has undergone many changes since the last edition of this title in 2011. The guidance looks at the current landscape for social housing and outlines the statutory duties placed on local authorities to provide housing for those in need. It looks at local housing strategies to address supply and working with the private rented sector. Chapters outline the policy agenda, consider the consequences of welfare reform, tackling homelessness and the consequences of the Grenfell Tower fire in 2017. Arrangements are no longer uniform across the UK and this edition provides a greater level of detail including where policies and practices in Wales differ.

The publication will be useful for local authority officers who have a need to understand the main financial principles that apply to providing housing services, as well as anyone working in housing provision or who is charged with scrutinising policy and practice.

https://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-housing-finance-in-england-and-wales-2019

13. Practitioners' Guide To Capital Finance, March 2019

This publication contains the background knowledge you need on capital finance and how to account for it. It summarises the key features of the systems of capital finance that operate under the Prudential Framework in England, Wales, Northern Ireland and Scotland.

It provides explanations and definitions of capital expenditure, credit arrangements and capital financing including minimum revenue provision (MRP) arrangements and local authority borrowing.

Its intention is to assist practitioners in managing the capital programmes of their authorities and in particular addressing the technical issues associated with the financing of the programme. It summarises the key capital finance implications of the Local Government Act 2003, the Local Government Finance Act (Northern Ireland) 2011, the Local Government in Scotland Act 2003 and associated regulations.

The publication uses worked examples throughout to allow practitioners to apply theoretical concepts to practical examples. In carrying extracts from the relevant legislation and the Prudential Code, the aim has been to produce a one-stop guide for both those with previous local authority capital finance knowledge and those new to the subject.

https://www.cipfa.org/policy-and-guidance/publications/p/practitioners-guide-to-capital-finance-2019-edition

14. Local Government Application Note for the UK Public Sector Internal Audit Standards, March 2019

This Application Note is aimed at those who play a significant part in shaping or managing the internal audit function within their organisations, including:

- chief executives
- chief financial officers and other senior management
- audit committees
- selected members within local government in the United Kingdom, as well as
- chief audit executives/heads of internal audit.

UK Public Sector Internal Audit Standards (PSIAS) have been developed to apply across the whole of the public sector in all sectors of government. The PSIAS are based on standards issued by the Institute of Internal Auditors (IIA), with additional requirements and interpretations that make them directly applicable to the UK public sector. The PSIAS are developed jointly by the relevant internal audit standard setters (RIASS) for central government, local government, devolved government administration bodies and the National Health Service (NHS). The PSIAS set out requirements which apply generally to all UK public sector engagements, but do not include any sector requirements or guidance for specific parts of government.

CIPFA has been designated as the RIASS for local government. CIPFA recognises the need to supplement the PSIAS with additional information and guidance on the requirements and practice of internal audit in the local government environment, and this Application Note provides that guidance.

Included with the Application Note is an authoritative checklist for measuring the performance of internal audit against the requirements of the PSIAS and the Application Note, in line with PSIAS 1300 Quality Assurance and Improvement Programme. The checklist can be used for both the internal and external assessments required in PSIAS 1300-1322.

https://www.cipfa.org/policy-and-guidance/publications/l/local-government-application-note-for-the-uk-psias-2019-edition

15. Consultation on CIPFA's Proposed Financial Management Code for Local Government, March 2019

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation. The general financial management of a local authority, however, has not been supported by a professional code. CIPFA is now proposing that a Financial Management Code (CIPFA FM Code) should be designed and developed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The CIPFA FM Code would therefore for the first time set standards of financial management for local authorities in the UK. The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

- financially manage the short-, medium- and long-term finances
- manage financial resilience to meet foreseen demands on services
- financially manage unexpected shocks in their financial circumstances.

The draft FM Code is consistent with other CIPFA codes and statements in that it is based on principles rather than prescription. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the FM Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

Significantly, the CIPFA FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial freedoms to make local decisions on matters that had hitherto been subject to central government control.

The draft FM Code is not expected to be considered in isolation, and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making.

To date, the draft FM Code has been developed with a specified governance process which includes practitioners, auditors and representatives of governments across the UK. It was then 'road tested' by a range of local authorities to provide early evidence of both practicality and fitness for purpose. Now, CIPFA is seeking to consult more widely and consequently invites comments on the draft FM Code. Note – the consultation closed on 30 April 2019.

https://www.cipfa.org/policy-and-guidance/consultations/financial-management-code-consultation

16. CIPFA Service Reporting Code of Practice (SeRCOP) 2020/21: Service Expenditure Analysis (SEA), March 2019

The SEA sets out a framework for reporting local authority service expenditure. This structure is an important factor in determining and defining the information that are collected in the CIPFA statistics and also government returns such as the RA/RO, Section 251 and ASC-FR. Effectively revising the SeRCOP SEA and keeping it fit for purpose is about finding a consensus across these many considerations and the various stakeholders. It is therefore essential to gather a broad base of opinion to inform this process. Note – consultation close on 10 May 2019.

While ensuring the accuracy of the current structure and the definitions therein is important, CIPFA are keen to challenge the usefulness of the analysis in the following ways:

- Do the expenditure divisions reflect how services are delivered and organised in practice?
- Do the service divisions provide the basis for robust, reliable, consistent and comparable information?
- Is the number of mandatory and discretionary levels about right in your service area?
- Are they well balanced in terms of the proportion of total costs in each division?
- Does the current breakdown help you in your benchmarking, policy or value for money analysis?

https://www.cipfa.org/policy-and-guidance/consultations/cipfa-service-reporting-code-of-practice-sercop-2020-21-service-expenditure-analysis-sea

2. NATIONAL PUBLICATIONS – LOCAL GOVERNMENT ASSOCIATION

17. Twenty-first Century Councils, March 2019

This toolkit has been developed to help councils create the underlying policies, procedures, ethos and environment that encourages and empowers women, parents and carers to become local councillors and take on leadership positions.

The Local Government Association is encouraging councils to consider their existing practices, celebrate what is working, share good practice and take action to support councillors who are women, parents and carers.

The equal participation of women and men in local politics, as our elected councillors and as our leaders, is an important condition for effective democracy and good governance. Representative councils are best able to speak to, and for, their communities and to support the effective business of local government. Democracy and decision-making are strengthened when councillors reflect the people they seek to serve and represent.

https://www.local.gov.uk/twenty-first-century-councils

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