

AUDIT COMMITTEE Regulatory Committee Agenda

Date Thursday 14 November 2019

Time 6.00 pm

Venue Crompton 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 constitutional.services@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 Monday, 11 November 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 meeting of the Audit Committee held on 12th September 2019 are attached for approval.
- 6 Treasury Management Mid-Year Review Report 2019 (Pages 9 - 32)
- 7 External Audit Progress Report (Pages 33 - 44)
- 8 Update on Audit matters (Pages 45 - 52)
- 9 Audit and Counter Fraud Progress Report (Pages 53 - 72)
- 10 Risk Management Strategy and Framework (Pages 73 - 96)
- 11 Exclusion of Press and Public

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.
- 12 Internal Control Matters

The Head of Corporate Governance to report.
- 13 Follow up on Annual Governance Statement for 2018/19 and New Issues on Governance in 2019/20 (Pages 97 - 112)



AUDIT COMMITTEE
12/09/2019 at 6.00 pm

Present: Councillor Haque (in the Chair)
Councillors Ahmad, Dean, C. Gloster, Salamat, Sheldon and Iqbal

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Alastair Newall	External Auditor – Mazars LLP
Mark Hardman	Constitutional Services
Dominic Whelan	Chief Operating Officer, Unity
Barbara Mulvihill	Data Protection Officer
Jane Whyatt	Audit and Counter Fraud Manager
Andy Bloor	Assistant Manager - Counter Fraud
Sabed Ali	Assistant Manager- Internal Audit
Andrew Moran	Assistant Director of Finance (Corporate)

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Hobin and Larkin.

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 meeting of the Audit Committee held on 25th June 2019 be approved as a correct record.

6 VARIATION OF ORDER AND EXCLUSION OF PRESS AND PUBLIC

The Chair advised, with the concurrence of the Committee indicated without debate or vote, of the intention to consider item 12 at this point in the agenda and so the Committee

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 item of business on the grounds that it contains 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 report.



Oldham
Council

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INTERNAL CONTROL MATTERS FOR PAYROLL: UPDATE

The Committee received a report to provide assurance that the issues identified and reported previously to the Committee around internal control matters in Payroll arrangements are being dealt with appropriately. Members queried and received responses as to how improvements in the arrangements would be identified and the scheduling of implementation of new arrangements.

RESOLVED that the report be noted and further update reports be provided to this Committee.

8

RE-ADMISSION OF PRESS AND PUBLIC

RESOLVED that the press and public be readmitted to the meeting.

9

2018/19 ANNUAL STATEMENT OF ACCOUNTS - UPDATE

The Committee received a report presenting the current position regarding the audit and approval of the 2018/19 Statement of Accounts and providing an update to the following outstanding audit issues -

- correspondence from the External Auditor dated 9th July 2019 addressed to Members of the Audit Committee concerning matters of pension liability and testing of IT general controls that were left pending from consideration of the Audit Completion Report at the meeting held on 25th June 2019;
- the subsequent approval of the Statement of Accounts on 10th July 2019 on the conclusion of those pending matters in line with the delegated authority granted by this Committee to the Vice Chair of the Audit Committee and the Director of Finance (Minute 11(3) of the meeting held on 25th June 2019 refers);
- the Annual Audit Letter for the year ended 31st March 2019 provided in accordance with the Accounts and Audit Regulations 2015 and summarising the work undertaken in the year by Mazars LLP as the Council's external auditor, considering the Council's audit fee, and presenting a forward look at issues which may affect the Council in years to come; and
- the progress of the audit of the Council's Whole of Government Accounts (WGA) which was anticipated to be concluded by 13th September 2019 in line with government timelines.

Further to the report related to the WGA, the External Auditor confirmed receipt of all necessary detail and that the WGA would be submitted to government by the due deadline.

RESOLVED that

1. the report be noted;
2. the letter from Mazars LLP “Conclusion of Pending Matters – Audit Completion Report” dated 9th July 2019 be noted; and
3. the Annual Audit Letter for the year ending 31st March 2019 be noted.

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LOCAL GOVERNMENT FINANCIAL RESILIENCE

The Committee was briefed on matters related to the overall financial resilience of local government and received a report considered in the first instance by the Overview and Scrutiny Performance and Value for Money Select Committee at a meeting held on 22 August 2019 and referred also to this meeting given the role of the Audit Committee in reviewing the Council’s accounts.

The report to the Overview and Scrutiny Select Committee had followed an earlier report to that body and was submitted in light of further media attention to the financial sustainability of local authorities following the financial failure of Northamptonshire County Council in February 2018. The report provided an update on the issues facing local government and summarised a number of papers issued by a variety of organisations on local government financial sustainability.

The report and briefing thereby -

- provided an update on the ability of local authorities to withstand future budget pressures by summarising recent local authority financial failures and challenges as reported in the media;
- presented the findings of a recent Public Accounts Committee report concerning the financial sustainability of local authorities;
- highlighted the Chartered Institute of Public Finance and Accountancy’s (CIPFA’s) efforts to ensure attention on this issue remains in the spotlight through the development of a Financial Management Code which will support CIPFA’s financial resilience index; and
- provided an assessment of Oldham Council’s financial resilience.

The External Auditor noted that the issuing of statutory Notices and recommendations had been a rare occurrence, but the recent issues highlighted in the report suggested that solutions to challenges were getting increasingly difficult to achieve. Regarding Oldham’s position, it was noted that while the increase in general fund balances identified in the 2018/19 accounts increased financial reliance, the Audit Completion Report had flagged that the use of reserves to support revenue budgets in the longer term was not sustainable and the Council needed to ensure that reserves were not depleted to unsustainable levels in the longer term.

RESOLVED that the report on overall Local Government Financial Resilience be noted.

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DATA PROTECTION UPDATE

The Committee was updated on the Council's management and assurance in relation to data protection.

The Council's Data Protection Officer continued to provide advice and guidance to the Council and, through formally agreed service level agreements (SLA), to other bodies in Oldham. Under the same SLAs, the Information Management Team continued to provide support and expertise across the wider information governance arena. The Data Protection Board meets every two months to receive data protection plan progress updates and to discuss information management requirements in relation to local and Greater Manchester Combined Authority activities.

Phase 1 of the Council's Data Protection Plan, the GDPR implementation project, was completed in September 2018. Phase 2 of the Plan would continue implementation of the legislation, embed policies and practice as presented in the submitted report and further described to the Committee. The submitted report presented an overview of data protection performance in delivering Phase 2.

Responding to a Member's raising of the circumstances of a potential data breach, it was reported that work to improve processes occurred following such instances which in many cases occurred following human error. Following a query as to activities being undertaken within data protection, the taking on of additional staff, the development of knowledge and learning, links with a Greater Manchester forum to ensure working to common policies and procedures where required, liaison with a regional safety forum, development of e-learning for staff, and the review of data protection processes were highlighted.

RESOLVED that the report be noted.

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COUNTER FRAUD AND CORRUPTION POLICIES AND PROCEDURES

The Committee received a report presenting Counter Fraud and Corruption Policies and associated planning documents that had been updated following a review and in pursuance of the Accounts and Audit Regulations 2015 that required the Council to have measures in place "to enable the prevention and detection of inaccuracies and fraud".

The Council's Financial Procedure Rules required the Head of Corporate Governance to be responsible for the provision of an appropriate Counter Fraud service to minimise fraud risks and to investigate potential fraud and corruption. The Counter Fraud Team operated in accordance with practice recommended by the Chartered Institute of Public Finance and Accountancy

(CIPFA) and adhered to guidance issued by the Cabinet Office relating to professional Counter Fraud standards across the public sector.

The Committee received a description of the background to and matters taken into consideration in reviewing the following documents –

- the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan, which includes corporate sanctions except for Council Tax Reduction sanctions;
- the Local Council Tax Reduction Scheme Sanction Policy 2019;
- the Anti-Money Laundering Policy 2019;
- the CIPFA Fighting Fraud and Corruption Locally 2016 – 2019 Checklist; and
- the Fraud and Loss Risk Assessment 2019.

Members sought clarification on the criteria and considerations given as to the application of penalties in respect of the Local Council Tax Reduction Scheme Sanction Policy and in respect of the use of the Electoral Roll for data matching purposes which had been authorised by the Audit Commission some years ago.

With regard to Council Tax recovery, the means by which efforts to recover monies were outlined but, in response to a query, it was acknowledged that where a person left the country it was extremely difficult to pursue the case. Further to comments from a Member relating to issues presented by transient communities, a possible lack of awareness that Council Tax Reduction applications needed to be made to the Council, and issues relating to data matching with central government organisations, Officers advised of an improving position with availability of real time data from, for example, HMRC and the Department for Work and Pensions, which could assist with some of these issues. Members queried the availability of data on cases and outcomes by area and Officers undertook to consider what further information could be provided alongside the regular counter fraud progress report which was due to be presented at the next meeting.

RESOLVED that the report be noted and the updated counter fraud and corruption policies and procedures referenced below be approved –

- the Counter Fraud, Anti-Bribery Strategy and Counter Fraud Response Plan;
- the Local Council Tax Reduction Scheme Sanction Policy 2019;
- the Anti-Money Laundering Policy 2019;
- the CIPFA Fighting Fraud and Corruption Locally 2016 – 2019 Checklist; and
- the Fraud and Loss Risk Assessment 2019.

UPDATE ON AUDIT COMMITTEE MATTERS

The Committee received a report pertaining to a number of matters related to the Audit Committee.

Recruitment of Audit Committee Chair

The position of Chair of the Audit Committee is reserved for an Independent appointment. A recruitment exercise undertaken had not proved successful and it was proposed to re-advertise the role in September 2019.

Tender for External Audit Services

Currently three separate external auditors were appointed by the Council in respect of its 100% owned companies and for external grants/pension returns requiring audit. It was proposed to undertake an exercise to tender for just one provider and to send out invitations to tender in September 2019 with selection in October 2019 and appointment in November 2019.

Treasury Management Update

The Committee was advised of a recent downward movement in Public Works Loan Board (PWLb) interest rates and, after careful consideration, of the decision to borrow £20m from the PWLB at a rate considered to be the best attainable at the time.

RESOLVED that

1. the planned approaches to recruit an Independent Chair of the Audit Committee and a single external auditor for the Council's 100% owned companies and external grant/pensions returns requiring audit be noted; and
2. the update on the Council's borrowing position be noted.

EXCLUSION OF 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 item of business on the grounds that it contains 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 report.

FOLLOW UP ON ANNUAL GOVERNANCE STATEMENT FOR 2018/19 AND NEW ISSUES ON GOVERNANCE IN 2019/20

The Committee received a report presenting actions taken in the financial year to mitigate risks associated with the eight issues reported in the 2018/19 Annual Governance Statement and opinions on the current position in each case, and new issues that may need to be considered for inclusion in the 2019/20 Annual Governance Statement. Further to the submitted report, issues arising related to the Corporate Risk Register were highlighted. Members further received briefings on matters related to litigation and internal governance which it was considered were appropriate to bring to the attention of the Committee.

RESOLVED – That the report be noted.

The meeting started at 6.00 pm and ended at 7.47 pm



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Report to Audit Committee

Treasury Management Mid-Year Review Report 2019

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: Lee Walsh, Finance Manager (Capital & Treasury)
Ext. 6608

14 November 2019

Reason for Decision

The report advises the Audit Committee of the performance of the Treasury Management function of the Council for the first half of 2019/20 and provides a comparison of performance against the 2019/20 Treasury Management Strategy and Prudential Indicators.

Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). This report therefore sets out the key Treasury Management issues for Members' information and review and outlines:

- An economic update for the first six months of 2019/20;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators);
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- Why there has been no debt rescheduling undertaken during 2019/20; and
- A review of compliance with Treasury and Prudential Limits for 2019/20.

The report is presented to the Audit Committee to enable it to have the opportunity to review the 2019/20 Mid-Year Review report. It should be noted that due to the timing of the meetings, the Cabinet agenda will have been issued before the Audit Committee has had the opportunity to consider the report. However, the Cabinet will be advised of any comments that the Committee may have and such comments will be incorporated into the report presented to the Council meeting on 11 December 2019.

Recommendation

That Members of the Audit Committee consider and comment upon the Treasury Management Mid-Year Review report for 2019/20 and commend the report to Cabinet.

Treasury Management Strategy Mid-Year Review Report 2019/20**1 Background**

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested with low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 As a consequence treasury management 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.”
- 1.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. Within these new codes as from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following:
- a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - b) an overview of how the associated risk is managed;
 - c) the implications for future financial sustainability.

The Council has traditionally prepared a Capital Strategy, but the requirements of the Prudential and Treasury Management Codes required a revised format and content to ensure alignment with both Codes. A report incorporating the new requirements was presented to the 2019/20 Budget Cabinet and Budget Council meetings.

2 Current Position**2.1 Requirements of the Treasury Management Code of Practice**

- 2.1.1 Treasury Management reports must be prepared in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017).
- 2.1.2 The primary requirements of the Code are as follows:
- a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

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- c) 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** (this report) and an Annual Report (stewardship report) covering activities during the previous year.
 - d) 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 Director of Finance.
 - e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

2.1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2019/20;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy and prudential indicators;
- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- Why there has been no debt rescheduling undertaken during 2019/20; and
- A review of the compliance with Treasury and Prudential Limits for 2019/20;

2.2 **Economic Performance for the First Six Months of the Financial Year**

The United Kingdom (UK)

- 2.2.1 This first half year has been a time of change politically front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the European Union (EU) on 31 October, with or without a deal. However, MP's blocked leaving on that date and the EU have agreed an extension to 31 January 2020. In addition, a General Election has been called for 12 December 2019.
- 2.2.2 Given these circumstances and the uncertainty about the outcome of the forthcoming General Election and the timing of Brexit, any interest rate forecasts are subject to material change as the situation evolves. If Parliament fully approves the Withdrawal Bill, then it is possible that growth could recover relatively quickly.
- 2.2.3 The Monetary Policy Committee (MPC) could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth.
- 2.2.4 However, with Bank Rate at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy.
- 2.2.5 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took its toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies.

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- 2.2.6 The MPC meeting of 19 September re-emphasised concern about the downturn in world growth and expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth.
- 2.2.7 This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the MPC left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit.
- 2.2.8 It is however worth noting that the new Prime Minister has made some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.
- 2.2.9 As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019 but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.
- 2.2.10 With regard to the labour market, despite the contraction in quarterly GDP growth of -0.2% quarter/quarter (q/q), (+1.3% year/year (y/y)), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that businesses are preparing to expand output and suggests there could be a return to positive growth in quarter 3.
- 2.2.11 Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, employers will still be having difficulty filling job vacancies with suitable staff.
- 2.2.12 It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%.
- 2.2.13 As 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.
- 2.2.14 The latest Gross Domestic Product (GDP) statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward.
- 2.2.15 This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.
- 2.2.16 In the political arena, depending on the outcome of the general election on 12 December 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 although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

United States of America (USA)

- 2.2.17 President Trump's massive easing of fiscal policy in 2018 fueled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2, and is expected to fall further in Quarter 3.
- 2.2.18 The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Federal Reserve (Fed) finished its series of increases in interest rates to 2.25 – 2.50% in December 2018.
- 2.2.19 In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 basis points (Bps) in December.
- 2.2.20 Investor confidence has been badly shaken by the progressive ramping up of increases in tariffs. President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth.
- 2.2.21 In the European Union it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

European Union (EU)

- 2.2.22 Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% year/year in June with car production down 10% year/year.
- 2.2.23 Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.
- 2.2.24 The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in Eurozone (EZ) growth in the second half of 2018 and into 2019, 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%), has prompted the ECB to take new measures to stimulate growth.
- 2.2.25 At its March 2019 meeting it said that it expected to leave interest rates at their present levels "at least through the end of 2019", but that was of little help to boosting growth in the near term. Consequently, it 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.
- 2.2.26 However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also

increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

- 2.2.27 On the political front, Austria, Spain and Italy are in the throes of forming coalition governments with some unlikely combinations of parties i.e. this raises questions around their likely endurance. The recent results of two German state elections will put further pressure on the frail German CDU/SPD coalition government.

China and Japan

- 2.2.28 Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing.
- 2.2.29 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.
- 2.2.30 Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production.
- 2.2.31 The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.
- 2.2.32 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

- 2.2.33 The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China.
- 2.2.34 Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown.
- 2.2.35 These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited responses available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.
- 2.2.36 The latest Purchasing Managers' Index survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

2.3 Interest Rate Forecast

- 2.3.1 The Council's treasury advisor, Link Asset Services, has provided the following forecast of interest rates over the period from September 2019 to March 2022. This forecast includes the increase in margin over gilt yields of 100bps introduced on 9 October 2019.

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

- 2.3.2 The above forecasts have been based on an assumption that there is an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a major assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.
- 2.3.3 It has been little surprise that the MPC has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".
- 2.3.4 Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

Bond Yields / PWLB Rates

- 2.3.5 There has been much speculation recently that we are currently in a bond market bubble. However, given the context that there are heightened expectations that the US could be heading for a recession, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields.
- 2.3.6 While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.
- 2.3.7 This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that

bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

- 2.3.8 What we saw during the last half year up to 30 September, is a near halving of longer term PWLB rates to completely unprecedented historic low levels. (See paragraph 2.7.6-2.7.8 for comments on the increase in PWLB margin over gilt yields of 100bps introduced on 9 October 2019.) There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult with any degree of confidence.
- 2.3.9 One potential issue for investors is that Japan continues to fail to raise economic growth and inflation, despite a combination of massive monetary and fiscal stimulus by both the central bank and government.
- 2.3.10 Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates.
- 2.3.11 Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.).
- 2.3.12 In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The Balance of Risks to the UK

- 2.3.13 The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- 2.3.14 The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- 2.3.15 One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates

2.3.16 There are a number of downside risks to current forecasts for UK gilt yields and PWLB rates as follows:

- **Brexit** – if it were to cause significant economic disruption and a major downturn in the rate of growth.
- **Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, to be weaker than currently anticipate as well as increases in inflation.
- A resurgence of the **Eurozone sovereign debt crisis**. In 2018, Italy was a major concern due to having a populist coalition government which made a lot of anti-austerity and anti-EU noise. However, in September 2019 there was a major change in the coalition governing Italy which has brought to power a much more EU friendly government; this has eased the pressure on Italian bonds. Only time will tell whether this new unlikely alliance of two very different parties will endure.
- Weak capitalisation of some **European banks**, particularly Italian banks.
- **German minority government**. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor.
- **Other minority EU governments**. Austria, Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.
- There are concerns around the level of **US corporate debt** which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.
- **Geopolitical risks**, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

2.3.17 Upside risks to current forecasts of UK gilt yields and PWLB rates include:

- **Brexit** – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than currently expected.
- **UK inflation**, whether domestically generated or imported, returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

2.4 Treasury Management Strategy Statement and Annual Investment Strategy Update

- 2.4.1 The Treasury Management Strategy Statement (TMSS) for 2019/20 was approved at the Council meeting on 27 February 2019. The underlying TMSS approved previously now requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out in the next sections of this report.
- 2.4.2 A decrease is required to both the overall Authorised Limit (the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 above which the Council does not have the power to borrow) and Operational Boundary (the expected borrowing position of the Council during the year) for external debt. This indicator is made up of external borrowing and other long-term liabilities, Private Finance Initiatives (PFI) and Finance Leases. The revision to the limits aligns to the reduction in the Capital Financing Requirement as outlined at paragraph 2.4.4 and 2.4.5 below.
- 2.4.3 The Council has the following PFI and Public Private Partnership (PPP) Schemes each contributing to the Other Long Term Liabilities element of the Authorised Limit and the Operational Boundary:
- Gallery Oldham and Library
 - Sheltered Housing (PFI2)
 - Radclyffe and Failsworth Secondary Schools
 - Chadderton Health & Well Being Centre
 - Street Lighting
 - Housing (PFI4)
 - Blessed John Henry Newman RC College (Building Schools for the Future)
- 2.4.4 It will be necessary to reduce the Capital Financing Requirement (CFR) by £7.347m. Whilst approved capital expenditure/ funding carry forwards from 2018/19 caused an initial increase, this is more than offset by estimated re-phasing and re-alignment and other anticipated adjustments in the 2019/20 capital programme resulting in the reduced CFR.
- 2.4.5 Members are therefore requested to comment on the key changes to the 2019/20 prudential indicators as set out in the table below which show the original and recommended revised figures:

Prudential Indicator 2019/20	Original £'000	Recommended Revised Prudential Indicator £'000
Authorised Limit	545,000	538,500
Operational Boundary	525,000	518,500
Capital Financing Requirement	525,005	517,658

2.5 The Council's Capital Position (Prudential Indicators)

- 2.5.1 This section of the report presents the Council's capital expenditure plans and their financing, the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow together with compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

- 2.5.2 The table below shows the half year position and the revised budget for capital expenditure (as per table 2 of the month 6 Capital Investment Programme monitoring report). It therefore highlights the changes that have taken place and are forecast since the capital programme was agreed at the Council meeting on 27 February 2019.

Capital Expenditure by Service	2019/20 Original Estimate £'000	2019/20 Revised Estimate £'000
Corporate & Commercial Services	9,212	0
Corporate Services	0	3,336
Children's Services	0	18,886
Health & Adult Social Care Community Services	2,682	0
Community Services & Adult Social Care	0	2,024
Reform	100	39
People & Place	54,403	34,413
Capital General	5,000	0
HRA	4,235	1,854
Commercial Activities / Non Financial Investments	8,700	4,500
Closing balance	84,332	65,052

- 2.5.3 The above table shows a decrease in the capital programme of £19.280m to the month 6 budgeted position with current forecast spend of £65.052m. During the summer months the Council undertook the Annual Review of the Capital Programme in line with practice of recent years. The review identified a requirement for significant re-profiling across a number of schemes. The majority of the re-phasing moved significant expenditure (£12.655m) from 2019/20 into the later years of the capital programme. The budget variations largely relate to a revision to the Oldham Coliseum and Heritage Centre, Transport Schemes, and the re-phasing of the Schools Capital Programme, mainly due to planning related issues.

Changes to the Financing of the Capital Programme

- 2.5.4 The table below draws together the main strategy elements of the capital expenditure plans (above) highlighting the original supported (£57.619m) and unsupported elements i.e. requiring borrowing (£26.713m), and the expected financing (revised position) arrangements of this capital expenditure. The borrowing need element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.
- 2.5.5 The overall net reduction in the capital programme has resulted in a change in the mix of funding sources required in 2019/20; a decrease in all financing types reducing the forecast borrowing need by £7.275m from £26.713m to £19.438m.

Capital Expenditure	2019/20 Original Estimate £'000	2019/20 Forecast Position £'000
General Fund Services	71,397	58,698
Housing Revenue Account	4,235	1,854
Commercial Activities and Non-Financial Investments	8,700	4,500
Total spend	84,332	65,052
Financed by:		
Capital receipts	(19,042)	(13,889)
Capital grants	(34,661)	(29,866)
Revenue	(67)	(5)
HRA	(3,849)	(1,854)
Total financing	(57,619)	(45,614)
Borrowing need	26,713	19,438

Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

- 2.5.6 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. As previously mentioned in paragraph 2.4.4 the CFR needs to decrease by £7.347m. It also shows the expected debt position over the period (the Operational Boundary). This indicator has decrease to reflect the revisions to the forecast year end position of the capital programme.

	2019/20 Original Estimate £'000	2019/20 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement		
CFR – non housing	525,005	517,658
CFR – housing	0	0
Total CFR	525,005	517,658
Net movement in CFR		(7,347)
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	290,000	282,500
Other long term liabilities	235,000	236,000
Total debt 31 March	525,000	518,500

Limits to Borrowing Activity

- 2.5.7 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.
- 2.5.8 Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.
- 2.5.9 The CFR calculation is shown in the table below and the Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator as there is £113.410m headroom between total debt and the CFR.

	2019/20 Original Estimate £'000	2019/20 Revised Estimate £'000
Gross borrowing	167,849	168,635
Plus other long term liabilities*	235,396	235,613
Total Debt	403,245	404,248
CFR* (year end position)	525,005	517,658
Headroom	121,760	113,4108

*- includes on balance sheet PFI schemes and finance leases

- 2.5.10 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. Presented in the table below is the original and the revised Authorised Limit.

Authorised limit for external debt	2019/20 Original Indicator	2019/20 Revised Indicator
Borrowing	305,000	297,500
Other long term liabilities*	240,000	241,000
Total	545,000	538,500

* - Includes on balance sheet PFI schemes and finance leases.

2.6 Investment Portfolio 2019/20

- 2.6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 2.3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are

likely to remain low.

2.6.2 The Council held £114.330m of investments, including property funds as at 30 September 2019 (£84.900m at 31 March 2019). A full list of investments as at 30 September is included at Appendix 1. A summary of investments by type is included in the table below.

2.6.3 The Council ensures enough funds are kept in either instant access accounts and/ or on-call accounts to meet its short term liquidity requirements. As at 30 September the Council held £31.330m in Money Market Funds and £32.500m in Notice Accounts that range from 32 to 180 day notice period.

Investment Type	Total £'000 at 30 September 2019
Property	15,000
Fixed (Term Deposits) Bank / Building Society	10,500
Fixed (Term Deposits) LA's / Public Bodies	25,000
Notice Accounts	32,500
Money Market Funds	31,330
Total	114,330

2.6.4 The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2019/20.

2.6.5 The Council's investment strategy looks to achieve a return on its investment of London Interbank Bid Rate (LIBID) plus a 5% mark up. The Council will maintain sufficient cash reserves to give it its necessary liquidity and may place investments up to 10 years if the cash flow forecast allows and the credit rating criteria is met. Performance against this benchmark was as follows:

Benchmark	Benchmark Return LIBID +5%	Council Performance
7 days	0.60%	0.76%
1 month	0.63%	0.87%
3 months	0.69%	0.99%
6 months	0.77%	0.87%
1 year	0.87%	1.07%
Average Return first 6 months		0.91%

2.6.6 The Council's performance on its cash investments exceeded its target on all benchmarks as can be seen in the table above.

2.6.7 It is important to be able to maximise investment income to support the overall financial position of the Council. During the year the Council has been continually looking at alternative investment opportunities within treasury management to provide additional income. At this moment in time no deal has passed the due diligence process, but opportunities will continue to be assessed. It is important to note that any investments are only undertaken after an appropriate due diligence exercise and having regard to the Treasury Management principles of security, liquidity, yield and ethical investments.

- 2.6.8 It is essential to have flexibility to be able to take advantage of opportunities for new investments that may become available. Therefore, a revision to the non-specified investment category within the Treasury Management Strategy is proposed and as set out at Appendix 3. The addition is investments in debt financing to deliver economic growth across the borough and with the Greater Manchester area. This addition allows the Council to investigate and possibly invest in alternative investments. Member must note that these investments will only be initiated after a detailed and substantial due diligence process.
- 2.6.9 The current investment counterparty criteria selection approved in the TMSS and included at Appendix 3 is meeting the requirement of the treasury management function.
- 2.6.10 Treasury Management Practice 11 – Use of External Service Providers, has been updated to include a new independent broker, Imperial Treasury Services. This new broker will allow the Council to use a wider range of providers for the day to day management of the Treasury function.

Property Fund

- 2.6.11 In the first six months of the year the Councils investment within the Churches, Charities and Local Authorities (CCLA) property fund has generated a return of (4.24%) and it is anticipated that this revenue return will continue throughout the year. As advised within the TMSS, due to the anticipated fluctuations in price this is an investment with a minimum time horizon of 5 years.
- 2.6.12 Due to the uncertainty surrounding Brexit, the property fund has seen a decline in the value due mainly to valuer caution rather than any significant increase in pressure to sell properties. In contrast, occupier trends continued to strengthen, and dividends received stay at a similar rate.

Borrowing

- 2.7.1 It is proposed in this report that the Council's CFR for 2019/20 is revised to £517.658m and this denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.
- 2.7.2 The table within paragraph 2.5.9 shows the Council has expected year end borrowings of £404.248m and will have utilised £113.410m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.
- 2.7.3 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR), new external borrowing of £20m was undertaken from the PWLB in August 2019. The table below shows the new borrowing and highlights that borrowing was undertaken at the bottom range of interest rate.

Loan Ref	Amount £'000	Start Date	Maturity Date	Term (Years)	Rate %
509754	10,000	20/08/19	20/08/69	50	1.72%
509755	5,000	20/08/19	20/08/49	30	1.81%
509756	5,000	20/08/19	20/08/39	20	1.74%
Average				33.33	1.75%

- 2.7.4 The Council applied in September 2019 for the certainty rate reduction. This entitles the Council to receive a 20 basis point rate reduction on the prevailing rate of PWLB on any borrowing undertaken from 1 November 2019 to 31 October 2020.
- 2.7.5 Current PWLB certainty rates are set out in the following table and show for a selection of maturity periods over the first half of 2019/20, the range (high and low points) in rates and the average rates over the period. In addition, Appendix 2 tracks the movement in the PWLB certainty rate over the period April to September 2019 across the same range of loan terms as is used in the table below.

Maturity Rates	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/19	1.66%	1.74%	2.08%	2.61%	2.44%
30/09/19	1.48%	1.27%	1.50%	2.03%	1.87%
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/19	03/09/19	03/09/19	03/09/19	03/09/19
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/19	17/04/19	17/04/19	17/04/19	17/04/19
Average	1.40%	1.37%	1.62%	2.20%	2.07%

Increase in the cost of borrowing from the PWLB

- 2.7.6 Notification was received from HM Treasury on 9 October 2019 regarding future PWLB rates. PWLB rates had been priced on the current gilt rates plus 100bps (1%). With effect from 9 October 2019 rates will now be based on gilt rates plus 200bps (2%). This will have an immediate effect on the cost of borrowing using PWLB loans.
- 2.7.7 Members will be aware that there has been adverse commentary in the media regarding the increase in PWLB rates and the possibly effect it may have on capital projects. It is likely that the sector may make representations to HM Treasury to suggest that areas of capital expenditure that the Government is keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.
- 2.7.8 As a result of the increase in the PWLB rate, the Council is expecting that various financial institutions will enter the market or make products available to local authorities. It is possible that the Municipal Bond Agency (Members will recall that the Council invested in the Municipal Bonds Agency to take advantage of beneficial rates when a bond is launched) will be offering loans to local authorities in the future. The Council may make use of these new sources of borrowing as and when it is appropriate. Members will be updated as this area evolves.
- 2.8 Debt Rescheduling**
- 2.8.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.
- 2.8.2 The 100bps increase in PWLB rates from 9 October 2019 only applied to new borrowing rates, not to premature repayment rates.

2.9 Overall Position at the Mid –Year 2019/20

- 2.9.1 The position at the mid-year 2019/20 shows that the Council is continuing to follow recommended practice and manage its treasury affairs in a prudent manner.

2.10 Other Key Issues

Claim against Barclay Bank

- 2.10.1 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.
- 2.10.2 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Training was provided to Audit Committee on 1 October 2019. The training was facilitated by the Council's External Treasury Advisors, Link Asset Services.

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 As stated above the preferred option is that the contents of the report are approved.

5 Consultation

- 5.1 Consultation has taken place with Link Asset Services (the Councils Treasury Management Advisors), and senior officers. The report is presented to the Audit Committee for scrutiny prior to its consideration by Cabinet and Council. It should be noted that due to the timing of the meetings, the agenda for the Cabinet meeting will have been issued before the Audit Committee has had the opportunity to consider the report. However, the Cabinet will be advised of any comments the Committee may have and these will be incorporated into the report presented to Council at its meeting on 11 December 2019.

6 Financial Implications

- 6.1 All included within the report.

7 Legal Services Comments

- 7.1 None.

8 Co-operative Agenda

- 8.1 The Council ensures that any Treasury Management decisions comply as far as possible with the ethos of the Co-operative 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 both Internal and 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 Yes

18 Key Decision Reference

18.1 FCS -07-19

19 Background Papers

19.1 The following is a list of the 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 that Act.

File Ref:	Background papers are contained with Appendices 1, 2 & 3.
Officer Name:	Anne Ryans
Contact No:	0161 770 4902

20 Appendices

Appendix 1	Investments as at 30 September 2019
Appendix 2	Borrowing as at 30 September 2019
Appendix 2A	PWLB Certainty Rate Variations 2019/20
Appendix 2B	Comparison of Borrowing parameters to actual external borrowing - Table
Appendix 2C	Comparison of Borrowing parameters to actual external borrowing - Graph
Appendix 3	Investment Counterparty Criteria

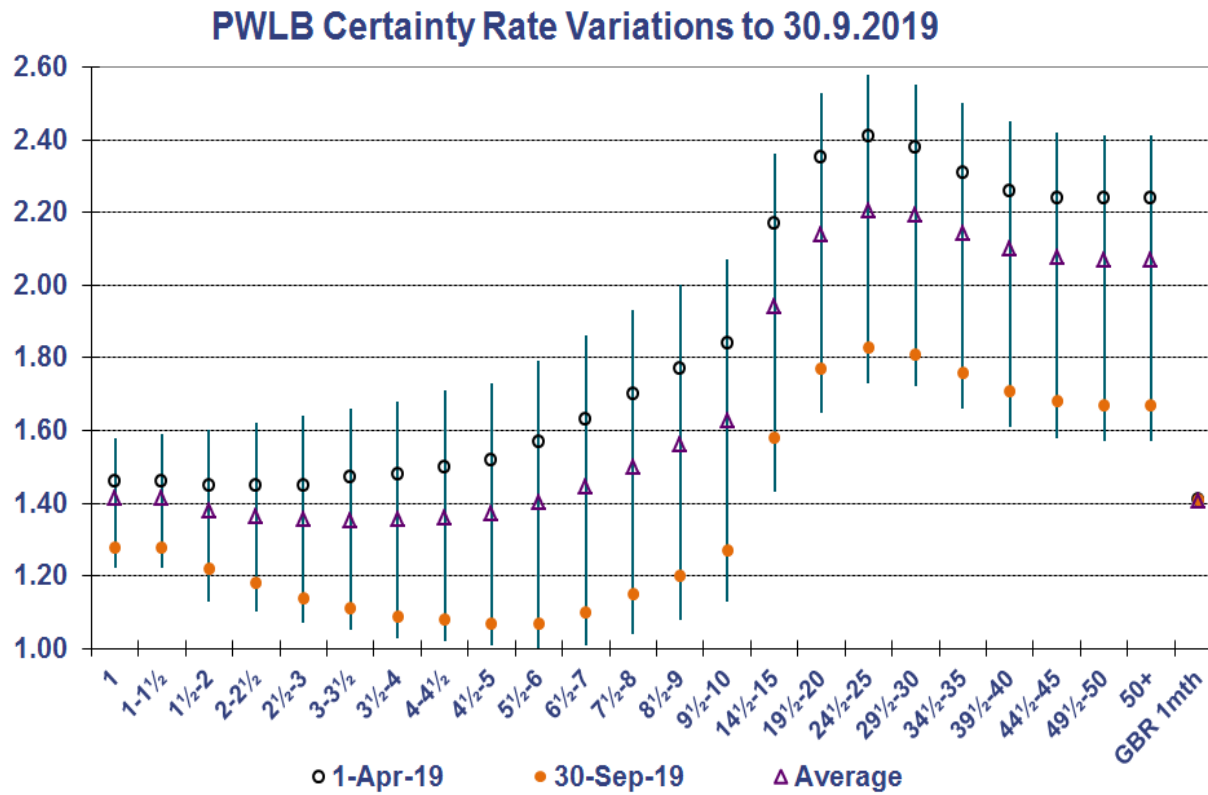
Appendix 1 Investments as at 30 September 2019

Investments	Type	30th September 2019 £'000	Interest Rate	Date of Investment	Date of Maturity
CCLA Property Fund	Property	15,000	4.24%	Prior Years	open
Total Property Fund		15,000			
Thurrock Council	Fixed	2,500	1.07%	05/10/2018	04/10/2019
Goldman Sachs	Fixed	3,000	0.80%	05/06/2019	07/10/2019
North Tyneside Council	Fixed	5,000	1.07%	11/10/2018	10/10/2019
Flintshire County BC	Fixed	5,000	0.75%	19/07/2019	21/10/2019
Nationwide Building Society	Fixed	2,500	0.81%	03/07/2019	03/12/2019
Rugby Borough Council	Fixed	5,000	0.80%	06/08/2019	06/02/2020
Goldman Sachs	Fixed	5,000	0.85%	06/09/2019	06/02/2020
Plymouth City Council	Fixed	5,000	0.80%	05/08/2019	05/03/2020
Thurrock Council	Fixed	2,500	0.76%	26/09/2019	06/04/2020
Total Fixed Investments		35,500			
Bank of Scotland plc	32 day call	2,500	0.95%	21/05/2019	open
Bank of Scotland plc	95 day call	12,500	1.10%	07/05/2019	open
Barclays	95 day call	7,500	0.95%	01/07/2019	open
Santander	95 day call	7,500	1.00%	14/11/2018	open
Santander	180 day call	2,500	1.10%	10/09/2019	09/03/2020
Total Investments on call		32,500			
Federated Sterling Liquidity 3	MMF	3,540	0.74%	27/09/2019	01/10/2019
Standard Life Sterling Liquidity	MMF	17,790	0.74%	30/09/2019	01/10/2019
Federated Cash Plus Fund	MMF	10,000	0.90%	15/05/2019	01/10/2019
Total MMF		31,330			
Total		114,330			

MMF – Money Market Fund

Appendix 2 Borrowing as at 30 September 2019

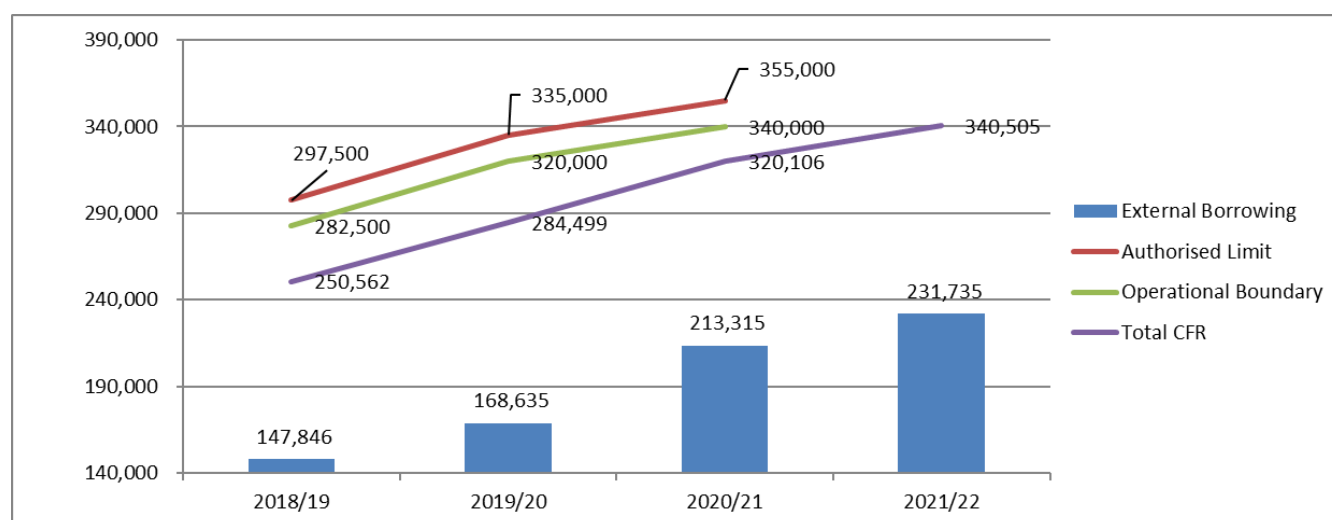
2A) PWLB Certainty Rate Variations 2019/20



2B) Comparison of borrowing parameters to actual external borrowing (Table)

CAPITAL FINANCING REQUIREMENTS				
	Actual 2018/19 £'000	Estimated 2019/20 £'000	Estimated 2020/21 £'000	Estimated 2021/22 £'000
CFR (including PFI and finance leases)				
General Fund CFR	493,880	517,658	543,109	553,817
Total CFR	493,880	517,658	543,109	553,817
CFR (excluding PFI and finance leases)				
General Fund CFR	250,562	284,499	320,106	340,505
Total CFR	250,562	284,499	320,106	340,505
External Borrowing	147,846	168,635	213,315	231,735
Deferred Liabilities	246,610	235,613	224,411	213,578
Total Debt	394,456	404,248	437,727	445,314
Authorised Limit	540,000	538,500	565,000	575,000
Authorised Limit ex Deferred Liabilities	290,000	297,500	335,000	355,000
Operational Boundary	525,000	518,500	545,000	555,000
Operational Boundary ex Deferred Liabilities	280,000	282,500	320,000	340,000

2C) Comparison of borrowing parameters to actual external borrowing (Graph)



Appendix 3 Investment Counterparty Criteria

Amendment to Non-Specified Investments: This addition allows the Council to take advantage of the availability of alternative investment options. The investment to be added to the strategy considers debt financing. This would aim to deliver economic growth across the borough and within the Greater Manchester area as well as a return for the Council.

	LINK Colour Band and Long Term Rating where applicable	Maximum Duration	Maximum Principal Invested per Counterparty £
Debt Financing	Internal Due Diligence and external advice	10 Years	£30m

Report to Audit Committee

Audit Progress Report

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

Officer Contact: Anne Ryans, Director of Finance

Report Author: Mark Stenson, Head of Corporate Governance

Ext. 4783

14th November 2019

Purpose of Report

Attached to this report is the Audit Progress Report produced by our external auditors.

Executive Summary

This report is a summary of progress on external audit matters and national publications.

Recommendations

That Members of the Audit Committee note the Audit Progress Report.

Audit Progress Report

Oldham Metropolitan Borough Council

November 2019





CONTENTS

1. **Audit progress**
2. **National publications**

This document is to be regarded as confidential to Oldham Metropolitan Borough Council. It has been prepared for the sole use of the Audit Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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 work on the Council's Whole of Government Accounts (WGA) return as required by the National Audit Office. We issued our unqualified conclusion on the Council's WGA submission on 13 September 2019.

This work has completed our 2018/19 audit work, and we would like to thank the Council officers for their co-operation and support in assisting us to complete the audit. The Committee should note that we have also now issued our Audit Certificate, formally closing the 2018/19 audit.

We have had routine liaison meetings with Council officers, and carried out a comprehensive debrief of the 2018/19 audit, to ensure that both we and the Council continually improve the process to deliver an even more smooth audit in 2019/20.

Our audit planning for the 2019/20 audit has commenced with planning discussions with senior officers to identify key significant risks for that audit. We will issue our Audit Strategy Memorandum in time for the January 2020 Audit Committee.

2. NATIONAL PUBLICATIONS

	Publication/update	Key points	Page
National Audit Office (NAO)			
1	New Code of Audit Practice 2020/21 – Consultation	Consultation process underway for the new Code of Audit Practice that will apply for 2020/21 audits	5
2	Whole of Government Accounts 2017/18	NAO has provided a qualified opinion on the 2017/18 Whole of Government Accounts	5
Public Sector Audit Appointments Ltd (PSAA)			
3	Local audit quality forum June 2019 slides	Slides from PSAA event	6
4	Local Government audit opinions issued by 31 July 2019	Press release relating to the increase in delays in issuing audit opinions	6
Chartered Institute of Public Finance and Accountancy (CIPFA)			
5	A practical guide for Local Authorities on Income Generation (2019 edition)	Guidance to assist Councils	7
Ministry of Housing, Communities & Local Government (MHCLG)			
6	Review of local authority financial reporting and external audit	Announcement of a wide ranging review of financial reporting and external audit in the sector	8
7	The government's response to the report on Local Government Finance and the 2019 Spending Review	Includes consideration of the to review local government audit (which is due to report by the end of 2019).	
Mazars			
8	Rethinking Social Value: Unlocking Resources to Improve Lives	Sector-leading think piece on Social Value	9

2. NATIONAL PUBLICATIONS – NATIONAL AUDIT OFFICE

1. New Code of Audit Practice 2020/21 – Consultation, September 2019

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

The consultation is taking place in two stages. The first has concluded and the second is currently underway with a deadline for responses of 22 November 2019. The NAO plans to finalise the Code by the end of 2019, ready to be laid in Parliament early in 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

The first stage of the consultation showed broad support for maintaining the principles-based nature of the Code, being the wider scope of public audit, independence and public reporting. However the responses highlighted that this should be supported by more detailed sector-specific guidance.

The second stage of the consultation is focusing on the text of the draft Code. In particular there are proposed changes to the way auditors report on arrangements to deliver value for money in the use of resources.

The Local Audit & Accountability Act 2014 places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In the current Code, this is referred to as work on arrangements to secure value for money.

Currently, the local auditor reports against a single overall criterion as to whether: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people." This is known as the value for money conclusion and is included in the Auditor Report included in Council's financial statements.

The consultation draft Code proposes changes to this reporting, with a more detailed commentary on the value for money arrangements being included in a new 'Auditor's Annual Report'.

Should the Council wish to respond to the consultation, the details are provided in the link below.

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/#>

2. Whole of Government Accounts 2017/18, May 2019

The Whole of Government Accounts (WGA) consolidates the accounts of over 8,000 bodies across the public sector, including central and local government and public corporations such as the Bank of England, to produce an accounts-based picture of the UK's public finances. It sets out what the government receives, pays, owns and owes.

The headline results in WGA 2017/18 show income of £760.9 billion (2016/17 £720.8 billion), expenditure of £814.8 billion (2016/17 £760.7 billion). After financing costs are taken into account, the net expenditure for WGA is £212.4 billion (2016/17 £97.8 billion). On the Statement of Financial Position, WGA shows total assets of £2,013.8 billion (2016/17 £1,903.0 billion), and liabilities of £4,579.2 billion (2016/17 £4,323.7 billion).

The National Audit Office issued their Audit Report on the 2017/18 WGA, and have qualified their opinion as a result of qualifications in underlying accounts, and as a result of issues relating to the boundary, non-coterminous year ends, and accounting policies applied by the Treasury when carrying out the WGA consolidation.

<https://www.nao.org.uk/report/whole-of-government-accounts-2017-18/>

2. NATIONAL PUBLICATIONS – PUBLIC SECTOR AUDIT APPOINTMENTS LTD

3. Local audit quality forum June 2019 slides, June 2019

The local audit quality forum meeting place in which all of the parties which share a responsibility for audit quality can share experiences and good practice. The June 2019 slides are now available. The forum addressed 'practical help for Audit Committees', including the following:

- what should the Audit Committee look for in the financial statements?
- what is it like being an Audit Committee Chair;
- support for Audit Committees from CIPFA;
- how can Internal Audit help the Audit Committee to deliver its remit;
- support from the Local Government Association for Audit Committees; and
- new Code of Audit Practice consultation.

The next Forum meeting is in November 2019. Local bodies, including Oldham Metropolitan Borough Council, who have opted into PSAA's national scheme are entitled to attend LAQF events free of charge (up to two delegates per body).

<https://www.psaa.co.uk/wp-content/uploads/2019/06/10-07-19-LAQF-Presentation-Slides.pdf>

4. Local Government audit opinions issued by 31 July 2019, August 2019

PSAA issued a press release after the end of the 2018/19 audit deadline to highlight the increase in the number of audit opinions that were not available by 31 July 2019. Reporting an increase in the number of opinions not available, the press release highlights the factors that have driven the increase in delays.

<https://www.psaa.co.uk/2019/08/news-release-local-government-audit-opinions-delivered-by-31-july-2019/>

2. NATIONAL PUBLICATIONS – CIPFA

5. A practical guide for Local Authorities on Income Generation (2019 edition), CIPFA, July 2019

CIPFA's revised income generation guide reflects on the income generation issues of 2019 and the changes that are being made.

The issues that are examined in this publication include:

- the need for thorough testing and business cases to robustly assess income proposals;
- the impact of the 2018 MHCLG Statutory Investment Guidance; and
- how the pattern of local authority income is changing.

The guide will allow councils to maximise their income potential against a backdrop of Brexit uncertainties and other economic changes. With more authorities relying on income generation to balance their budgets, the guide can help finance staff stand at arms-length to ensure councils act prudently.

The publication also has practical guidance on income generation for different service areas and there is a full coverage of discretionary charging rules.

<https://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-for-local-authorities-on-income-generation-2019-edition>

2. NATIONAL PUBLICATIONS – MHCLG

6. Review of local authority financial reporting and external audit, September 2019

The Ministry of Housing, Communities and Local Government announced in September that they had appointed Sir Tony Redmond to conduct a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. The review will not look at broader issues of local authority finances and sustainability.

The review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

As part of the review, MHCLG have issued a “Call for Views” which is linked below, along with the review’s terms of reference.

<https://www.gov.uk/government/publications/review-of-local-authority-financial-reporting-and-external-audit-terms-of-reference>

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

7. The government’s response to the report on Local Government Finance and the 2019 Spending Review, October 2019

The government has responded to the Housing, Communities and Local Government Select Committee report on Local Government Finance and the 2019 Spending Review. In the report, the government covers the decision to undertake a review of local government audit. The government also responds to several other recommendations from the Select Committee’s original report, including:

- developing a more consistent approach to the collection and monitoring of comparative data about councils’ performance, efficiency and financial sustainability;
- the need for MHCLG, working with HM Treasury and other departments, to clearly set out what tasks are expected of local government and how much funding it requires;
- the need for increased adult social care funding;
- the need for MHCLG and HM Treasury to provide a multi-year settlement for local government which runs for one year beyond the Spending Review period – similar to the approach that is currently used for Departmental capital budgets; and
- the need for reforms and substantial changes to the business rate retention system.

<https://www.gov.uk/government/publications/local-government-finance-and-the-2019-spending-review-response-to-the-select-committee-report>

2. NATIONAL PUBLICATIONS – MAZARS

8. Rethinking Social Value: Unlocking Resources to Improve Lives, June 2019

Mazars have issued a sector leading think piece on Social Value.

This report utilises the knowledge and understanding we have access to as one of the largest auditors of the wider public sector, with involvement across the public sector.

The report reflects views from our clients in the public and not-for-profit sectors on how social value is defined, delivered and its impact on communities. We are pleased to share the results of this research in our brand new report: *'Rethinking social value: unlocking resources to improve lives'*.

The report focuses on:

- the opportunities around social value;
- leadership, communication, and building support;
- case studies highlighting innovative approaches in charities, not-for-profits and private sector partnerships; and
- how to measure the impact of social value.

<https://www.mazars.co.uk/Home/Industries/Public-Services/Public-Services-Insights/Rethinking-Social-Value>

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Report to Audit Committee

Update on Audit Matters

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

14 November 2019

Reason for Decision

This report sets out an update on the following:

- a) The exercise to recruit an Independent Chair to the Audit Committee.
- b) Progress on the preparation of a Tender for one provider for External Audit services for Housing Benefit Subsidy, Teachers Pension Agency, Unity Partnership Ltd and MioCare Group CIC.
- c) Proposed training for the Audit Committee.

Executive Summary

The recruitment exercise for an Independent Chair of the Audit Committee using the local Council website for advertising vacancies for the second time did not attract a suitable shortlist. It is planned to undertake a further recruitment exercise using alternative, cost effective, routes to market to see if it is possible to recruit an Independent Chair. There will be a cost associated with this.

At present there are three separate suppliers providing External Audit services to the 100% Council owned companies (Unity Partnership Ltd and MioCare Group CIC) and in relation to specific areas where certification of expenditure is required (Housing Benefit Subsidy and Teachers Pension Agency). The tender specification has been prepared and it is anticipated tenders will be invited before the end of the month.

The Chartered Institute of Public Finance and Accountancy has been approached to provide some training to Members. It is proposed this training be held at the meeting set for 20 January 2020.

Recommendations

Members note:

- a) the revised approach to recruit an Independent Chair ;
- b) the progress made to appoint one External Auditor for wholly owned companies and to certify Housing Benefit Subsidy and Teachers Pension Agency Expenditure; and
- c) the proposed training for this Committee at the January 2020 meeting.

Update on Audit Matters**1 Background**

- 1.1 At present the Audit Committee is overseen by the Vice Chair who is appointed from elected members. The position of the Chair is reserved for an Independent Appointment. The previous attempt to make an appointment in this calendar year have not been successful.
- 1.2 There are three separate external auditors appointed by the Council in respect of the 100% owned companies and specific expenditure as detailed below:
- MioCare Group CIC is audited by Grant Thornton LLP.
 - Unity Partnership Ltd is audited by Price Waterhouse Coopers LLP.
 - The Housing Benefit Subsidy Claim and the Teachers' Pension Agency return are audited by KPMG LLP.
- 1.3 The appointment of the External Auditors to the two group companies can continue indefinitely. However, the appointment of the Auditor for the specific expenditure ended at the end of 2018/19 financial year with the option to extend for a further year. The Council is proposing to use the end of this assignment to undertake a procurement for one External Auditor.
- 1.4 The 100% owned companies now use the Council systems to support the production of their accounts. As such it is now felt an appropriate time to appoint one External Auditor before the end of this financial year as they are effectively auditing similar systems.

2. Recruitment of Audit Committee Chair

- 2.1 The Council has approval to appoint an Independent Chair to the Audit Committee. The exercise to appoint this Chair undertaken in September using the My Council website (see Appendix 1 for the advertisement) has not been successful. In order to progress this matter, it is proposed that the Council considers alternative, cost effective routes to market to see if a suitable candidate can be sourced. The options to do this are currently being reviewed

3. Tender for External Audit Services

- 3.1 The Council is proposing with the support of procurement to undertake an exercise to tender for one External Audit provider for the 100% owned companies and specific expenditure requiring audit. It is planned that the invitation to tender will be sent out in November with the selection planned for January 2020, so the appointment can be made in February 2020.
- 3.2 The MioCare Group CIC has a financial year of 1 January to 31 December, so the new arrangements will commence for the financial year 2021. MioCare accounts will continue to be audited by the current auditor for the period ending 31 December 2019.

4. Training for Audit Committee Members

- 4.1 In order to provide training for Members the Council has approached the Chartered Institute of Public Finance and Accountancy so they can deliver their established

training package for Audit Committee Members. It is proposed this training be provided in advance of the planned January meeting.

5. Way Forward

5.1 The Council:

- Recruits an Independent Chair to the Audit Committee via cost effective routes to market.
- Undertakes an exercise to appoint one external auditor to its 100% owned companies and grants requiring auditing.
- Provides a training course delivered by CIPFA for the Audit Committee.

6 Options/Alternatives

6.1 The Committee can support the proposals set out in this report or continue with the current arrangement.

7 Preferred Option

7.1 The Audit Committee supports the proposals set out in this report.

8 Consultation

8.1 N/A.

9 Financial Implications

9.1 The cost of external audit will be met by the 100% owned companies for their audit. The grant audit will be borne by the Council. The overall value of the audit is estimated to be over £60,000. It is anticipated appointing one external auditor will result in savings (Mark Stenson)

10 Legal Services Comments

10.1 N/A.

11 Cooperative Agenda

11.1 N/A.

12 Human Resources Comments

12.1 N/A.

13 Risk Assessments

13.1 N/A. (Jane Whyatt)

14 IT Implications

14.1 N/A.

15 **Property Implications**

15.1 N/A.

16 **Procurement Implications**

16.1 The process to select a preferred external auditor will be undertaken in accordance with the Council's Contract Procedure Rules.

17 **Environmental and Health & Safety Implications**

17.1 N/A.

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

18.1 N/A.

19 **Equality Impact Assessment Completed?**

19.1 None.

20 **Key Decision**

20.1 N/A.

21 **Forward Plan Reference**

21.1 N/A.

22 **Background Papers**

22.1 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 as Appendices
Officer Name:	Mark Stenson
Contact No:	0161 770 4783

23 **Appendices**

23.1 Appendix 1 Advert for Independent Chair

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Appendix 1



Appointment: Independent Chair of Audit Committee Oldham Council

This is an exciting opportunity for someone to join Oldham Council's Audit Committee, as its Chair, to support the Director of Finance in discharging her statutory responsibilities and proactively promoting good governance and effective control at the Council. You would be required to attend four/five meetings a year, most of which start at 6:00pm, but occasionally during the working day. The current remuneration for which is £2,106 per annum.

The Audit Committee provides independent assurance to the Council on the effectiveness of the Council's governance, financial management, risk management and internal control arrangements. It provides a key role in providing constructive challenge across the organisation and it approves the Council's financial statements.

Therefore, the Council is seeking to recruit someone who is able to facilitate and lead meetings and promote the efficient operation of the Committee, ensure that Members work together effectively and enable the proper conduct of business.

The Chair of the Audit Committee should take particular care that all Members of the Audit Committee observe the principles of behaviour in public life (the "Nolan Principles"), which embrace selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

As the Chair, you should have a financial, accountancy, risk-management or audit background and have experience in corporate governance, ideally in the public sector. The Council is specifically looking for people with skills and knowledge in the following areas:

- risk management
- treasury management
- audit governance
- strong financial literacy

You should also:

- be a proactive leader with the ability to act with independence, confidence and integrity
- be a good listener and communicator with strong facilitation skills
- have time to develop and closely monitor the Audit Committee agenda

It would be an advantage (but not essential) that you have a working knowledge of Audit Committee functions.

Applicants must be over the age of 18, be able to attend meetings at Oldham Council, and have not been Elected Members or employees of Oldham Council, or its wholly owned companies, in the last five years. Applicants must remain independent from the organisation and any political party,

To read minutes from previous meetings of the Audit Committee and to gain an understanding of what the role entails, please click:

<http://decisionrecording.oldham.gov.uk/ieListMeetings.aspx?CId=134&Year=0>

If you require further information on the role, please contact either Anne Ryans, Director of Finance on 0161 770 4902 or Mark Stenson, Head of Corporate Governance on 0161 770 4783, for an informal discussion.

If you wish to apply to join the Oldham Council Audit Committee, please submit your application explaining why you think you would be suitable for this position no later than DD MM 2019.

Please note:

Recruitment normally through our website but this also links in to the Indeed Jobs website.

Report to Audit Committee

Audit and Counter Fraud Progress Report

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

Officer Contact: Mark Stenson – Head of Corporate Governance

Report Author: Mark Stenson – Head of Corporate Governance

Ext. 4783

14 November 2019

Reason for Decision

To provide Members with the quarterly progress report up to the 31 October 2019 by the Head of Corporate Governance and report back to the Audit Committee on the matters required by the Code of Practice for Internal Audit.

Executive Summary

The report summarises the performance by the Audit and Counter Fraud Team for the first seven months of 2019/20 and the key performance highlights.

The team is on target to achieve the Corporate Performance Indicator M340, which is the Council's target that is: *"15% of Internal Audit Opinions resulting in Weak, Inadequate Opinions or Limited Assurance to be less than/equal to Adequate"*. The results for Quarter 1 and Quarter 2 of 15%, are recorded in CorVu.

In addition, other Audit and Counter Fraud Team highlights include:

- Significant assurance and advisory work have been delivered by the Internal Audit Team to colleagues, including those managing the People Programme and the implementation of the ICT solution to reflect the potential issues with the system, and for the business redesign of the Health and Adults Social Care service.
- Successful recruitment has been undertaken to the vacant posts in the wider Team; however, the days in the 2019/20 Plan have been reduced by 98 days to reflect team vacancies.
- The Counter Fraud and Direct Payments Audit Teams have delivered outcomes which have generated £0.172m and £1.177m (respectively) during the first 7 months of the year to 31 October 2019; totalling £1.349m.
- The Team is collaborating with colleagues to procure and implement a cost-effective solution to the Audit Management System, to ensure an appropriate mix of external and internal resources to achieve value for money.

The team is on track to deliver results for the agreed performance indicators, in line with its annual targets.

Recommendations

Members are requested to note the 2019/20 Progress Report up to 31 October 2019 by the Head of Corporate Governance.

Audit and Counter Fraud Progress Report

1. Background

- 1.1 This report summarises the work carried out in the first seven months of 2019/20 by the Audit and Counter Fraud Team and the team's key performance against agreed performance indicators.
- 1.2 The main content of the report is structured as follows:
- Section 2: 2019/20 Audit and Counter Fraud Plan: Progress Update.
 - Section 3: Corporate Counter Fraud.
 - Section 4: Audit of Direct Payments.

2 2019/20 Audit and Counter Fraud Plan: Progress Update

- 2.1 The priorities for the 2019/20 Audit and Counter Fraud Plan are to:
- Complete the Fundamental Financial Systems (FFS) work on 2019/20 transactions and work to support the 2019/20 audit of the financial accounts. In accordance with agreed close-down plans, the FFS audits are being undertaken in two stages to provide earlier assurance:
 - **Interim (Stage 1) Audits** which commenced in October 2019; and
 - **Final (Stage 2) Audits** to commence in February 2020 and to be completed by 31 March 2020.
 - A process of "Continuous Audit" and support for a number of key financial systems. This includes Payroll and Adults Social Care Financial Systems.
 - Provide assurance that the systems and procedures in place within Oldham are financially sound and in line with best practice.
 - Complete audits which are classed as "high" in the Annual Audit Needs Assessment.
 - Undertake a programme of Counter Fraud work to identify fraud risks within the corporate systems.
 - Undertake specific fraud investigations on Council Tax Reduction and Corporate Fraud.
 - Deliver the financial audits of Direct Payments in line with service plans and targets.
- 2.2 Members have requested that regular progress reports be submitted using a traffic light system. The 2019/20 Audit and Counter Fraud Plan shown at **Appendix 1** shows the progress of the plan together with a traffic light system devised as set out below:

Status	Definition
Green	Reviews that are expected to be completed by 31 March 2020
Amber	Reviews at risk of not being completed, days have been reduced or the work will be carried over into 2019/20
Red	Reviews that will not be completed during 2019/20
Blue	Reviews completed

- 2.3 Members of this Committee agreed the 2019/20 Audit and Counter Fraud Plan on 7 March 2019. Progress against the agreed plan is reported regularly during the year to the Audit Committee. This report is the first performance report for 2019/20 and covers the period 1 April to 31 October 2019.

- 2.4 **Appendix 1** shows the audits carried out by Directorate compared to the previously agreed Audit and Counter Fraud Plan. Total days in the Plan have been reduced by 98 days to reflect vacancies in the team, for which recruitment is well underway and offers of employment have been made at the time of writing this Audit Committee Report.
- 2.5 The Team has allocated greater resource than planned and has used contingency to provide Audit advice and support to the People Programme and the implementation of the iTrent technology (“ICT”) solution, by the provision of regular assurance Highlight Reports and pre-implementation advice around the proposed build and its associated processes.
- 2.6 The Team’s key performance indicators are discussed in the following paragraphs in line with the following targets, which are to:
- finalise 80 reports during 2019/20;
 - finalise audit reports within 10 days of completion of the fieldwork; and
 - achieve Customer Service Feedback of 4.8, out of a maximum 5.
- 2.7 The team have issued 28 Final Audit Reports and Briefing Papers since 1 April 2019, including those issued to the Council’s Group Companies, for which Audit Opinions have been withheld. The finalised reports are listed in **Appendix 2** together with the audit “opinion”. The details of these reports will be provided as part of each Progress Report on Internal Audit work in future Audit Committees. The number of Audit Reports is currently slightly behind the profiled target; however, at the time of writing this report, there are approximately 25 reports which are due for finalisation in Quarter 3.
- 2.8 **Appendix 2** shows that approximately 17.86% of the Audit and Counter Fraud reviews assessed Council’s systems as “good”, “adequate” or with “reasonable assurance”, 3.57% as “inadequate” or “amber” assurance and 10.71% as “weak”. The total reports issued to Group Companies and “Advisory” reviews were 19 (67.86%), which were conducted to support managers at key milestones.
- 2.9 The transition to a replacement Audit Management System has been delayed, in order to ensure that value for money is achieved from the agreed solution. However, plans are now in place with Procurement and ICT colleagues to select an appropriate solution via the G-Cloud 11 Framework. In the meantime, the data to support this report has been prepared using manual spreadsheets, which have been subject to quality assurance and some performance indicators will be measured and fully reported as part of the 2019/20 Year End Report by the Head of Corporate Governance.
- 2.10 In addition, in 2019/20 the Team continued to report performance in CorVu, against the agreed Corporate Performance Indicator, M340 (CP), which is **% of Internal Audit Opinions resulting in Weak, Inadequate Opinions or Limited Assurance: i.e. Internal Audit outcomes, which are less than adequate should be < 15%**. Results for Quarter 1 and Quarter 2 are shown in the table below: Results were recorded in CorVu as shown below, which shows that the service continues to be on target in 2019/20.

2019/20 CorVu Reporting: M340 Corporate Performance Indicator

2019/20 Quarterly Result: M340 (CP)	Actual	Target	Variance
As at 30 June 2019	15.0%	15.0%	0.0%
As at 30 September 2019	15.0%	15.0%	0.0%

3. **Corporate Counter Fraud**

3.1 The Corporate Counter Fraud Team has also performed well, and **Appendix 3** sets out the key outcomes from the work conducted. The location by Ward of the results obtained can be made available.

3.2 The key highlights are set out in **Appendix 3** and include:

- 49 positive cases of Council Tax Reduction (CTR) Fraud and Error identified;
- £54k of Council Tax Reduction (CTR) misuse and savings has been uncovered;
- 4 formal cautions, 1 prosecution in conjunction with the DWP and 44 Warning Letters have been issued to Council Tax customers reminding them of their duties to report changes in their circumstances;
- £99k of Housing Benefit Fraud and Error Overpayments identified as part of the CTR investigations;
- 51 allegations of Welfare Fraud reported to the Department for Work and Pensions; and
- 161 positive cases of non-CTR fraud/misuse including Blue Badge Fraud, Employee Abuse of Position, Council Tax Discount Fraud and Direct Payment Fraud.

3.3 In line with the priorities agreed by the Audit Committee on 7 March 2019, the Counter Fraud Team will continue to:

- collaborate with the Internal Audit Team;
- ensure the preparation and delivery of appropriate Counter Fraud training across the Council; and
- ensure the delivery of the Internal Audit and Counter Fraud Plan 2019/2020.

4. **Audit of Direct Payments**

4.1 The Direct Payments Audit team verifies that spending of the Direct Payment is in line with the agreed Support Plan and that client contributions to their care have been made. This team has a dual role as a compensating control, tasked with the responsibility to recover overpayments/unrecovered client contributions and also to ensure the client is spending the agreed funds in accordance with the agreed Support Plan.

4.2 **Appendix 4** sets the monthly Direct Payments Audit volumes and financial outcomes arising from Adults Services and Children's Services, which are £1,091,899 and £84,731 (respectively). Following the Direct Payment Audit, in approximately 54% of cases, an invoice is raised to recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payments.

4.3 In summary, by the 31 October 2019, the team had carried out 698 Adults and Children's Direct Payment Audits against the 2019/20 combined target of 750, so is highly likely to exceed its targets by the end of the financial year.

4.4 The Direct Payments Audit Team continue to collaborate with service colleagues as follows:

- The Direct Payments Audit Team, in collaboration with Counter Fraud colleagues, continue to review protocols around the response to, and the investigation of, complex and high-profile cases. The teams are currently collaborating with colleagues at the Department for Work and Pensions and other local authorities on two complex cases to ensure the best way forward for the Council. This reflects the potential risks associated with direct payments.
- The Direct Payment Review Task and Finish Group commenced in September 2019. The group consists of Health and Social Care professionals, Finance colleagues and the Direct

Payment Audit Service. The Group will review the end to end processes and identify ways of how to improve controls and procedures, and the key outcomes are currently being captured and assessed. The Implementation Plan for the agreed changes, which are identified by the Group, is currently being prepared, for review, by service colleagues.

- 4.5 In October 2019, the Direct Payment Audit Team commenced a pilot programme to conduct audits of Personal Health Budgets with colleagues from the NHS England (Clinical Commissioning Groups (CCGs)) and Oldham Cares. The pilot programme will be reviewed in due course, as part of an options appraisal by the service to determine whether it meets business requirements. If so, the Direct Payment Audit Service may be commissioned to undertake these reviews.

5 Options/Alternatives

- 5.1 The Audit Committee can either chose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team, or not do so. There are no other alternatives.

6 Preferred Option

- 6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

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 The 2019/2020 Audit and Counter Fraud Plan is prepared, reviewed and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)

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 **Equity, Community Cohesion and Crime Implication**

17.1 N/A.

18 **Equality Impact Assessment Completed**

18.1 No.

19 **Forward Plan Reference**

19.1 N/A.

20 **Key Decision**

20.1 No.

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 as Appendices 1 to 4
Officer Name: Jane Whyatt
Contact No: 4773

22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Audit and Counter Fraud Plan Performance – 1 April to 31 October 2019.
- **Appendix 2:** Audit and Counter Fraud 2019/20: Summary of Final Reports – 1 April to 31 October 2019.
- **Appendix 3:** Counter Fraud Results 1 April to 31 October 2019.
- **Appendix 4:** Direct Payments Results - 1 April to 31 October 2019

Audit and Counter Fraud Plan Performance – 1 April to 31 October 2019

All Directorates

The following pages set out the Audit and Counter Fraud Plan at Directorate level.

Directorate/Type	2019/20 Audit and Counter Fraud Approved Plan - 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan
	Days			
Corporate Projects -				
Fundamental Financial Systems (FFS)	350	171	350	0
Strategic Audits	245	136	270	25
Commercial Services	125	29	130	5
People and Place	115	40	80	-35
Health & Adult Social Care Community Services	155	70	160	5
Children's Services	175	106	217	42
Strategic Reform	30	8	25	-5
Responsive, Investigations, External Clients and Management	1,185	639	1,050	-135
Total	2,380	1,199	2,282	-98

Audit and Counter Fraud Performance - 1 April to 31 October 2019:
Directorate, Service and Audit Detail

2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
Page 61 Corporate Projects	Fundamental Financial Systems	Bank Reconciliations	High	10	5	10	0		Interim Opinion Due 30/11/19
		Fixed Assets	High	10	5	10	0		Interim Opinion Due 30/11/19
		Treasury Management	High	10	5	10	0		Interim Opinion Due 30/11/19
		Accounts Payable	High	25	15	25	0		Interim Opinion Due 30/11/19
		Accounts Receivable	High	25	15	25	0		Interim Opinion Due 30/11/19
		Council Tax (including Discounts and Exemptions)	High	20	8	20	0		Interim Opinion Due 30/11/19
		Council Tax Reduction Scheme	High	10	8	10	0		Interim Opinion Due 30/11/19
		Housing Benefit Payments	High	25	15	25	0		Interim Opinion Due 30/11/19
		Housing Rents	High	10	5	10	0		Interim Opinion Due 30/11/19
		Business Rates (Non Domestic Rates – [NDR])	High	20	10	20	0		Interim Opinion Due 30/11/19
		Payroll	High	50	30	50	0		Interim Opinion Due 30/11/19
		Cash Income	High	35	20	35	0		Interim Opinion Due 30/11/19
		Residential Care Payments (Adults Social Care/ Oldham Cares)	High	50	15	50	0		Interim Opinion Due 30/11/19

2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
		Personal Budgets and Direct Payments (Adults Social Care/ Oldham Cares)	High	50	15	50	0		Interim Opinion Due 30/11/19
		Total FFS Audits		350	171	350	0		
	Strategic – Devolution	Devolution Budget:	High	30	10	30	0		
		• Developments on Health Integration	High						Support for LD integration
		• Arrangements for Monitoring Indemnities and Financial Undertakings	High						
		• Assurance to the Combined Authority Current & Future Developments	High						
		• European Grants	High		20				Various – Reasonable Assurance
	Strategic – Other	External Funding Applications	High	10		5	-5		
		Cash Audits – Detailed reviews of Cash Collection	High	15	5	15	0		Various
		Grant Related Audits	High	50	15	50	0		Various - Reasonable Assurance
		Risk Review – AGS process	High	10	0	10	0		Advisory
		Implementation of HR/ Payroll System and Assurance	High	0	60	70	70		Assurance, Pre-Implementation Review, Advisory

2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
		Council Group Companies: MioCare CIC – 2019 Internal Audit Plan	High	30	15	30	0		Various
		Council Group Companies: Unity Partnership Ltd	High	50	1	10	-40		Advisory
		Council Group Companies: External Audit Tender	High	50	10	50	0		Advisory
		Total Strategic Audits		245	136	270	25		
Page 63 Commercial Services	Legal	Elections	High	40	10	40	0		Postal Vote Review – Adequate and Advisory/Support
		Governance Training for Members and Managers	High	5	2	5	0		Training to Economy Division April 2019
		ISO 37001	High	5	0	5	0		
	ICT	IT Audit Plan	High	50	5	50	0		Opinions below:
		• Intranet and Internet Monitoring – b/f 2018/19	High						Satisfactory
		• Email Management – b/f 2018/19	High						High
		• ICT Governance – Service Desk Management – b/f 2018/19	High						Satisfactory
	Procurement	End To End Review	High	15	2	15	0		Planning undertaken
	People	DBS – Follow up?	High	5	0	5	0		Weak

2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
		HMRC Emerging Risks/VAT Review	High	5	10	10	5		TBA – close to completion
		Total Commercial Services Audits		125	29	130	5		
People and Place	Regeneration Projects and Capital	Regeneration Projects Budget:	High						
		• Developing the Town Centre Vision	High	15	0	5	-10		TBA
		• Heritage and Theatre Project	High	15	0	5	-10		TBA
		• School Capital Programme:	High	15	0	5	-10		TBA
		• Greenfield Primary School	High		0	0	0		
		• Saddleworth Replacement School	High		0	0	0		
		Contingency/Planning for future schemes	High	20	20	20	0		Advisory
		Property Disposal including Capital Receipts	High	20	0	10	-10		
		Property Services/Review of Tenders	High	10	20	25	15		Advisory
	Environment	Highways Maintenance	High	10	0	5	-5		
		Parks Services	High	10	0	5	-5		
		Total People & Place		115	40	80	-35		
Health & Adults	Adults Services	Business Service Redesign	High	25	10	25	0		Advisory
		Working in Partnership with Health	High	25	10	25	0		Advisory

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2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
		Learning Disabilities Review	High	30	40	35	5		Advisory
		Changes to Financial Processes around the Care Act 2014	High	20	5	20	0		Advisory
		Mosaic	High	10	0	10	0		
		Supported Living	High	10	0	10	0		
		Brokerage (including in-house)	High	15	5	15	0		Advisory
		Safeguarding People	High	20	0	20	0		
		Total Health & ASC Community Services		155	70	160	5		
Children’s Services	Education, Early Years and Community Services	Children’s Services Financial Systems Support	High	30	5	30	0		Advisory
		Children’s Social Care Business Service Redesign:	High	15	8	15	0		Advisory
		Safeguarding Children	High	20	5	20	0		Advisory
		New School Places	High	15	0	15	0		Advisory
		Schools’ Audit Plan	High	50	10	50	0		Good
		Education Governance Training	High	10	0	2	-8		
		Academies/Free Schools	High	10	0	5	-5		
		Special Education Needs and Disabilities (SEND)	High	10	0	5	-5		
		Pre School Reviews (2)	High	0	30	30	30		Weak
		Establishment Review	High	0	40	30	30		Weak
		Early Years	High	10	3	10	0		

2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
		Home to School Transport	High	5	5	5	0		Inadequate
		Total Children's Services		175	106	217	42		
Strategic Reform	Strategic Design / Development, Policy & Communicatio ns, Public Health	Carbon Reduction Commitment	High	-10	8	10	0		Opinion Due
		Devolved Budgets to Members	High	10	0	5	-5		
		Public Health: Oldham Community Leisure (OCL) Follow Up	High	5	0	5	0		
		Oldham Community Power – Energy Company	High	5	0	5	0		
		Total Chief Executives Audits		30	8	25	-5		
Responsive, Investigations. QAIP and External Clients	Corporate Counter Fraud	Investigations	High	180	105	180	0		
		NW CAE HOA and Counter Fraud Sub Group	High	30	20	30	0		
		National Fraud Initiative and Other Data Matching	High	30	25	30	0		
		Annual Review of Policies	High	20	15	20	0		Audit Committee 12 September 2019
		Fraud Awareness Programme	High	10	2	10	0		
	Management, Planning and Quality Assurance Improvement	2019/20 Annual Audit Opinion	High	15		15	0		
		Committee Reporting	High	50	40	50	0		
		2020-2021 Audit & Counter Fraud Plan, Management Planning, Assurance	High	20	10	20	0		

2019/20 Audit and Counter Fraud – Audit Review			Priority	2019/20 Audit and Counter Fraud Approved Plan 1 Apr to 31 Mar 2020	Actual 1 Apr – 31 Oct 2019	2019/20 Proposed Revised Plan as at 14 November	2019/20 Variance Revised Plan to Original Plan	BRAG Status	Audit Opinion
	Programme (QAIP)	Contingency for Unplanned Work	High	100	50	80	-20		In Progress
		Follow Up Reviews	High	30	2	15	-15		In Progress
		Team Training and Development	High	100	60	100	0		In Progress
		Implementation – Audit Management System (AMS)	High	100	20	100	0		In Progress
	Personal Budgets	Personal Budgets Audits	High	500	290	400	-100		On-going Programme of Audits
		Total Responsive, Investigations, QAIP and External Clients		1,185	639	1,050	-135		
		2019/20 Total Audit and Counter Fraud Plan		2,380	1,199	2,282	-98		

Audit and Counter Fraud 2019/20: Summary of Final Reports 1 April to 31 October 2019

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Final Report Date	Month	Quarter	Opinion
1	People and Place	Economy Division Support and Training	Training	05/04/2019	Apr	Q1	Advisory
2	People and Place	Invitation to Tender Advisory – CR – Economy Division	Briefing Note	01/05/2019	May	Q1	Advisory
3	Commissioning Services	Local and Parish Elections Postal Vote Checks	Report	08/05/2019	June	Q1	Adequate
4	Commissioning Services	EU Elections Postal Vote Checks	Report	03/06/2019	June	Q1	Adequate
5	Children's Services	Home to School Transport – draft issued	Report	11/06/2019	June	Q1	Inadequate
6	Children's Services	Semi Independence Units	Report	11/06/2019	June	Q1	Weak
7	Commissioning Services	People Programme/i-Trent Success Criteria – Report to DOF	Briefing Note	30/07/2019	July	Q2	Advisory
8	Commissioning Services	People Programme/i-Trent Success Criteria – Assurance Highlight Report	Briefing Note	30/07/2019	July	Q2	Advisory
9	Children's Services	Preschool Review 1	Report	02/08/2019	Aug	Q2	Weak
10	Children's Services	Preschool Review 2	Report	02/08/2019	Aug	Q2	Weak
11	People and Place	Invitation to Tender Advisory – KS – Economy Division	Briefing Note	06/08/2019	Aug	Q2	Advisory
12	Commissioning Services	Tender Opening Review	Briefing Note	07/08/2019	Aug	Q3	Advisory
13	Commissioning Services	People Programme/i-Trent Success Criteria – Assurance Highlight Report	Briefing Note	08/08/2019	Aug	Q2	Advisory
14	Commissioning Services	People Programme – Assurance Highlight Report	Briefing Note	22/08/2019	Aug	Q2	Advisory
15	Commissioning Services	People Programme – Assurance Highlight Report	Briefing Note	05/09/2019	Sept	Q2	Advisory
16	Commissioning Services	People Programme – Assurance Highlight Report	Briefing Note	19/09/2019	Sept	Q2	Advisory
17	Commissioning Services	People Programme – Assurance Highlight Report	Briefing Note	03/10/2019	Oct	Q2	Advisory
18	Commissioning Services	People Programme – Review of Planned Processes to CIPFA Matrices	Briefing Note	04/10/2019	Oct	Q2	Advisory
19	Commissioning Services	People Programme – Assurance Highlight Report	Briefing Note	17/10/2019	Oct	Q2	Advisory
20	Commissioning Services	NDR Cheques to BACS/Write Backs	Briefing Note	28/10/2019	Oct	Q2	Advisory
21	Commissioning Services	Adults Debt Management	Briefing Note	28/10/2019	Oct	Q2	Advisory
22	Commissioning Services	People Programme/i-Trent Success Criteria – Assurance Highlight Report	Briefing Note	31/10/2019	Oct	Q2	Advisory

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Final Report Date	Month	Quarter	Opinion
23	Health & ASC Community Services	Learning Disabilities Audit	Report	31/10/2019	Oct	Q2	Advisory
24	MioCare Group CIC	MioCare – Audit Opinion Withheld	Report	31/10/2019	Oct	Q2	Opinion Withheld
25	Commissioning Services	Agresso User Access Policy Review	Briefing Note	31/10/2019	Oct	Q2	Advisory
26	Commissioning Services	Intranet and Internet Monitoring	Report	31/10/2019	Oct	Q2	Satisfactory
27	Commissioning Services	ICT Governance - Service Desk Management	Report	31/10/2019	Oct	Q2	Satisfactory
28	Commissioning Services	Email Management	Report	31/10/2019	Oct	Q2	High

2019/20: Summary of Final Reports by Audit Opinion

2019/20 Opinion	No.	% of Total		
Good/High Assurance	1	3.57		
Adequate/Reasonable/Moderate Assurance	4	14.29		
Inadequate/Amber Status	1	3.57		
Weak	3	10.71		
Advisory/Group Company	19	67.86		
2019/20: 1 April to 31 October 2019	28	100.00		

Counter Fraud Results 1 April to 31 October 2019

Performance Indicator	2019/20 Target	2019/20							
		1 April to 31st October							
		April	May	June	July	Aug	Sept	Oct	Total
Volumes:									
Corporate Cases - Positive Results	75	3	33	109	0	1	0	15	161
Council Tax Reduction (CTR) cases amended as a result of an investigation	100	6	16	7	3	0	6	11	49
Number of cases referred to SFIS	150	4	12	13	10	4	3	5	51
Financial Outcomes:									
Fraud and Error Overpayments identified as part of Corporate Cases	£60,000	£585.00	£9,007.29	£0.00	£0.00	£6,995.85	£0.00	£1,912.90	£18,501.04
HB Fraud and Error Overpayments identified as part of a CTR investigation	£300,000	£11,914.78	£10,480.69	£14,241.74	£1,342.56	£0.00	£51,872.34	£9,479.77	£99,331.88
CTR Fraud and Error Overpayments identified	£90,000	£5,814.33	£7,626.50	£13,672.84	£1,820.41	£0.00	£16,445.21	£8,887.33	£54,266.62
Counter Fraud Financial Outcomes	£450,000	£18,314.11	£27,114.48	£27,914.58	£3,162.97	£6,995.85	£68,317.55	£20,280.00	£172,099.54

Direct Payments Results - 1 April to 31 October 2019

Adults Services:

Month 2019/20	Audits Completed	Amount of monies Requested/Recovered following Audit	Non-Payment of Financial Contribution	Cumulative Total
April	92	£163,709.43	£19,391.45	£183,100.88
May	72	£120,465.96	£18,693.96	£322,260.80
June	71	£135,180.59	£21,301.03	£478,742.42
July	75	£76,668.89	£12,620.99	£568,032.30
August	78	£137,282.19	£30,253.54	£735,568.03
September	98	£186,962.81	£21,213.00	£943,743.84
October	131	£130,039.62	£18,115.07	£1,091,898.53
Total	617	£950,309.49	£141,589.04	£1,091,898.53

Children's Services:

Month 2019/20	Audits Completed	Amount of monies Requested/Recovered following Audit	Cumulative Total **	
April	10	£17,727.94	£17,727.94	
May	27	£20,048.92	£37,776.86	
June	25	£27,837.95	£65,614.81	
July	7	£5,646.75	£71,261.56	
August	8	£12,272.22	£83,533.78	
September	0	£0.00	£83,533.78	
October	4	£1,196.87	£84,730.65	
Total	81	£84,730.65	£84,730.65	

NB: ** There are no financial contributions paid by the recipients of Children's Direct Payments.

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Report to Audit Committee

Risk Management Strategy & Framework

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

Officer Contact: Mark Stenson – Head of Corporate Governance

Report Author: Mark Stenson – Head of Corporate Governance
Ext. 4783

14 November 2019

Reason for Decision

The purpose of this report is to propose a refreshed Risk Management Strategy and Framework.

Executive Summary

The Council produces a Corporate Risk Management Strategy and Framework, which is subject to regular review.

It is proposed that the existing Risk Management Policy is replaced with two separate documents i.e. Risk Management Strategy and a Risk Management Framework. The proposed Risk Management Strategy is a high level document that sets out the Council's strategic approach to risk management (Appendix 1), the proposed Risk Management Framework provides the detailed approach to risk management including the risk matrix and risk appetite tables for measuring the level of risk and ensuring that risks are managed within the Council's risk appetite (Appendix 2).

The refreshed Risk Management Strategy and Framework is presented for review.

Recommendations

The Committee notes and commends to Cabinet for approval:

- The refreshed Risk Management Strategy and Framework

Governance Matters

1 Risk Management Strategy and Framework

- 1.1 The Risk Management Strategy and Framework has been reviewed and a revised risk management framework and strategy produced. The format of the Strategic Risk Register was also considered and revised as part of this review. This document will be presented to the Audit Committee at a future meeting.
- 1.2 It is proposed that the existing Risk Management Policy is replaced with two separate documents i.e. Risk Management Strategy and a Risk Management Framework.
- 1.3 The proposed Risk Management Strategy is a high level document that sets out the Council's strategic approach to risk management (Appendix 1)
- 1.4 The proposed Risk Management Framework provides the detailed approach to risk management including the risk matrix and risk appetite tables for measuring the level of risk and ensuring that risks are managed within the Councils risk appetite (Appendix 2)
- 1.5 There are two levels of risks: strategic risks and operational risks. The Council's working definition of risk, to be applied to both strategic and operational risks is:

"Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat".

- 1.6 It is proposed to change the risk matrix from a current 7x5 matrix to a 4x4 matrix as set out in the Risk Management Framework. Risks will continue to be measured based upon likelihood and impact. It is understood various services are working on different matrices, and as long as a risk register is in place these may continue but any risks that are fed into the Strategic Risk Register will be reviewed on the 4x4 matrix.

2 Corporate Risk Register

- 2.1 The maintaining and monitoring of the Corporate Risk Register will support the delivery of the Council's corporate goals in ensuring that the identified risks are appropriately managed. The format of the Corporate Register has been reviewed and an updated document will be presented for the consideration of the Committee at its next meeting.

3 Conclusions

- 3.1 The changes in the Risk Management Strategy and Framework should be considered by the Audit Committee and if accepted, commended to Cabinet for approval.

4 Options/Alternatives

- 4.1 The Audit Committee can either:
 - a) Consider and accept the revised Risk Management Strategy and Framework.
 - b) Consider but not accept the revised Risk Management Strategy and Framework and suggest an alternative approval.

5 Preferred Option

5.1 The preferred option is that the Audit Committee accepts and notes this report in accordance with the recommendations made and therefore commends the Risk Management Strategy and Framework to Cabinet for approval.

6 Consultation

6.1 N/A.

7 Financial Implications

7.1 N/A.

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 N/A.

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 N/A.

17 Equality Impact Assessment Completed?

17.1 N/A.

18 **Key Decision**

18.1 N/A.

19 **Forward Plan 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 & 2

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21 **Appendices**

21.1 Appendix 1 Risk Management Strategy
Appendix 2 Risk Management Framework

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OLDHAM METROPOLITAN BOROUGH COUNCIL

Risk Management Strategy

November 2019

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1 Introduction

- 1.1 The purpose of this document is to outline an overall approach to risk management that addresses the risks, both negative and positive, facing the Council in achieving its objectives and which will facilitate the effective recognition and management of risks. The approach has been designed to support Members and officers in fulfilling their risk management responsibilities in a consistent manner.
- 1.2 Risk management will be embedded within the daily operations of the Council, from strategy and policy formulation through to business planning, general management and operational processes. It will also be applied where the Council works in partnership with other organisations to ensure that partnership risks are identified and managed appropriately.
- 1.3 Through understanding risks, decision-makers will be better able to evaluate the impact of a decision or action on the achievement of the Councils objectives.
- 1.4 Risk management will not focus upon risk avoidance, but on the identification and management of an acceptable level of risk. It is the Councils aim to proactively identify, understand and manage the risks inherent in our services and associated with our plans, policies and strategies, to support responsible, informed risk taking and as a consequence, aim to improve value for money. The Council will not support reckless risk taking.
- 1.5 The Council will seek to learn from other organisations where appropriate and to keep up to date with the best practice in risk management.

2 Risk Management Objectives

- 2.1 Oldham Council is committed to establishing and maintaining a consistent risk management approach throughout its decision making and operational processes.
- 2.2 The Councils risk management objectives are to;
 - Ensure that risks that could prevent the Council achieving its objectives are identified and appropriately managed
 - Ensure that risk management is clearly and consistently applied throughout the Council
 - Raise awareness of the principles and benefits involved in the risk management process
 - Inform policy and operational decisions through the identification of risks and their likely impact
 - Ensure compliance with statutory requirements
 - Ensure safety and wellbeing of staff, Members and customers

2.3 These objectives will be achieved by;

- Maintaining documented risk management procedures
- Considering risk management implications in reports and decision-making processes.
- Maintaining strategic and project-based risk registers that identify and rank all significant risks facing the Council, which will assist the Council achieve its objectives through pro-active risk management.

3 Risk Assessment

- 3.1 This will involve consideration of all potential risks facing the Council, with risks broken down into strategic risks, which could impact on the achievement of the Councils objectives, and operational risks which could impact upon service delivery or the achievement of service objectives.
- 3.2 Identified risks will be assessed based on the likelihood of the risk materialising and the impact to the Council should the risk materialise. This will include an assessment of both the inherent risk i.e. the level of risk prior to mitigating actions and controls being applied and the residual risk i.e. the level of risk considering the mitigating actions and controls in place. The Council's specified risk matrix will be used to score each risk.
- 3.3 Where the risk carried more than one risk type e.g. financial and compliance; the primary risk factor will be used to ensure the risk is managed within the Councils risk appetite.

4 Risk Appetite

- 4.1 The Council will define its risk appetite across designated risk types i.e. economic, reputational, financial, legal, operational, and regulatory. Appropriate mitigating actions and controls will be put in place to ensure that residual risk scores are within the risk appetite for the primary risk type.

5 Risk Registers

- 5.1 The Strategic Risk Register will be approved by the Audit Committee half yearly. Monitoring reports will be provided to the Audit Committee, where required.
- 5.2 Operational Risk Registers will be maintained in individual services and be reviewed as part of the Business Planning Process. Where an operational risk materialises to a level where it becomes a potential strategic risk this will be escalated to the Head of Corporate Governance for consideration.
- 5.3 Risks will be allocated a "Risk Owner" who will be responsible for ensuring that the risk is appropriately managed.

6 Governance

6.1 There will be clear accountability for all risks. This will be achieved by:

- The production of an Annual Governance Statement signed by the Chief Executive and Leader of the Council at the end of each financial year.
- Making the Council's risks and risk management process open to regular Internal Audit and external inspections (e.g. by the Council's external auditors).

The Audit Committee will be responsible for monitoring the Council's risk management arrangements.

6.2 An annual review of this Strategy will be undertaken to ensure it remains current and up to date and reflects current best practice in risk management. Recommendations will be made to Cabinet if it is considered that any improvements or amendments are required.

6.3 Members will be briefed to ensure they are aware of significant risks affecting their portfolios and any improvements in controls which are proposed.

6.4 Service Directors will update their operational risk registers as part of the Business Planning Process. To ensure that risks are identified then these will be reviewed by the Head of Corporate Governance.

6.5 The Internal Audit section will audit the process, to ensure effectiveness across the whole Council.

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OLDHAM METROPOLITAN BOROUGH COUNCIL

Risk Management Framework

November 2019

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	RISK MANAGEMENT FRAMEWORK	
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1 Introduction

- 1.1 The purpose of the risk management framework is to define how risks and opportunities will be handled within Oldham Council. The framework provides information on roles and responsibilities, processes and procedures. It sets the context for the management of risks and defines how they will be identified, assessed, managed and reviewed.
- 1.2 The Council has a clear framework and process for identifying, assessing, managing/controlling, reviewing and reporting of its risks. The leadership, roles and responsibilities are defined for managing those risks.
- 1.3 The Council expects all of its employees, officers and Councillors to have a level of understanding of how risks and opportunities could affect the performance of the Council and to acknowledge the management of those risks / opportunities as part of their everyday activities. This could be the management of strategic risks (those risks that need to be considered when making judgements about medium and long terms goals), or operational risks that managers and staff will encounter in the daily course of their work.
- 1.4 The Council has a four-step process for identifying, assessing, managing and controlling and reviewing the risk (See Figure 1, page 5). This is a continuous process and integrates with performance management. The Council has agreed criteria by which to judge the likelihood and impact of risks, effectiveness of control measures and required level of management of residual risks.

2 Leadership roles and responsibilities

- 2.1 The respective roles and responsibilities within the Council for the Risk Management Framework are set out below:

Cabinet

The Cabinet will:

- Approve the Council's Risk Management Strategy and Framework
- Consider risk management implications when making decisions

Audit Committee

The Audit Committee will:

- Maintain an independent oversight of the risk register and risk management issues
- Undertake reviews of specific areas of risk management activity or initiatives where required
- Review and approve the Council's Annual Governance Statement

Head of Corporate Governance

The Head of Corporate Governance will:

- Be responsible for the oversight of risk management activities of the Council
- Provide the Cabinet and Audit Committee with assurance that the Council's corporate business risks are being actively and appropriately managed
- Review and keep up to date the strategic risk register

- Ensure that the most appropriate and cost-effective measures are adopted to avoid, minimise and control those risks in accordance with 'Best Value' principles
- Encourage the development of contingency plans

Senior Management Team

The Senior Management Team will:

- Oversee the corporate approach to risk management
- Identify, assess and capture improved performance and value for money through risk and opportunity management
- Identify, monitor and manage the Council's strategic risks and opportunities
- Demonstrate commitment to the embedding of risk management across the organisation

Heads of Service

Heads of Service will:

- Identify and assess new risks and opportunities
- Maintain the Council's operational risk registers in relation to their areas of responsibility, identifying and reporting any significant risk management issues affecting their service area.
- Ensure that an effective process is in place to manage risks faced by the service.
- Identify and analyse risks for impact and likelihood and introduce risk control measures
- Identify initiatives that could reduce the impact and/or likelihood of risks occurring.
- Identify initiatives that could increase the likelihood of an opportunity being realised.
- Ensure that risk register entries and controls are accurate and up to date.
- Monitor the progress of planned actions on a quarterly basis to ensure that aims are achieved.

Risk and Insurance Team

The Risk and Insurance Team will:

- Ensure that risk management records and procedures are properly maintained and that clear audit trails exist in order to ensure openness and accountability.
- Provide the Head of Corporate Governance with progress of delivery of risk register timescales and any other risk issues as appropriate.
- Ensure the timely purchase of adequate insurance for the transfer of risk, where appropriate.

All employees

All employees, within their given areas of responsibility and work, will:

- Understand risks and regard their management as part of their everyday activities, including the identification and reporting of risks and opportunities which could affect the Council.
- Assist with risk assessments for their areas of work
- Support and participate in risk management activities.

Internal Audit

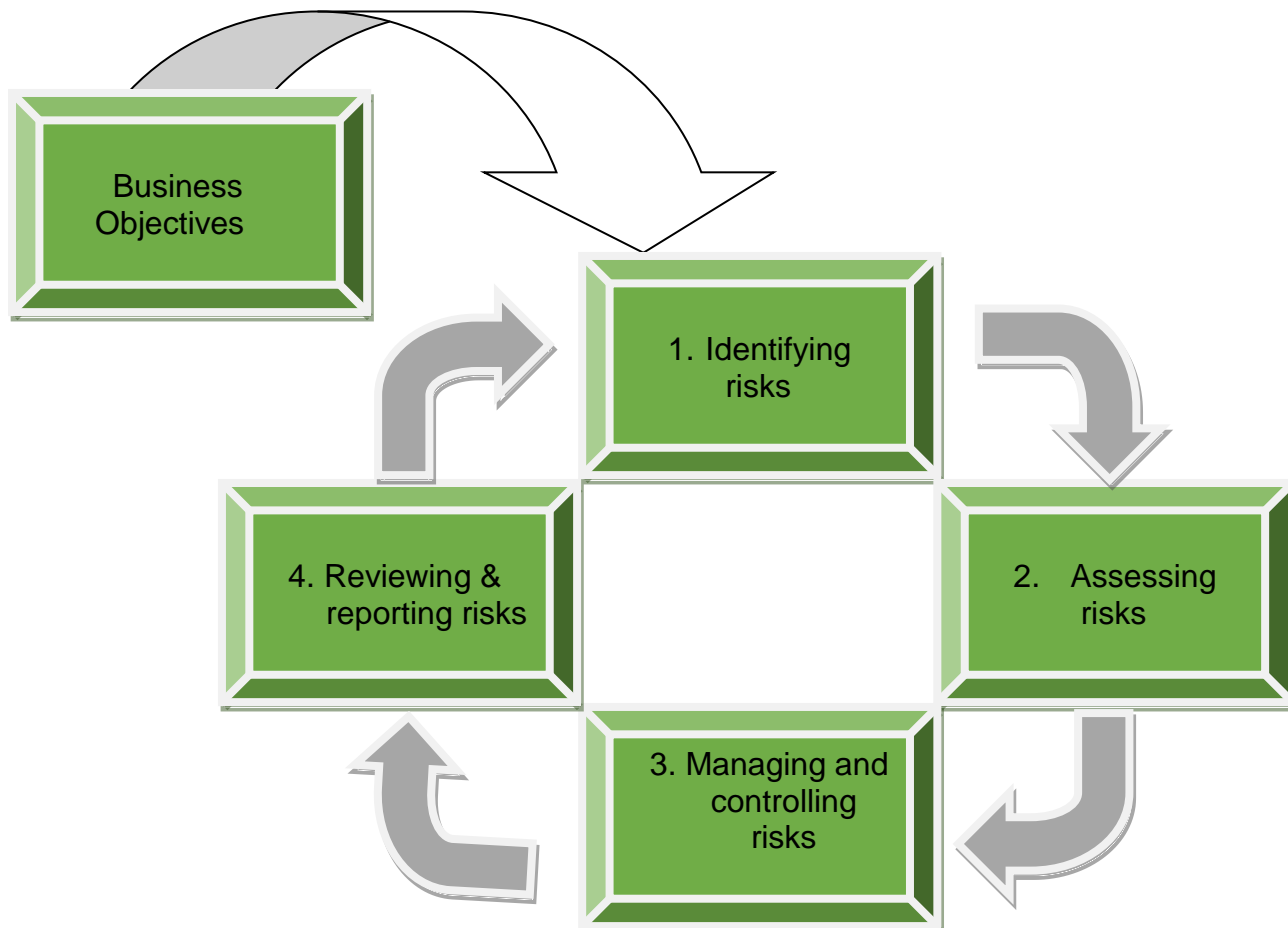
The Internal Audit team will:

- Independently assess the Council's risk management arrangements
- Review the adequacy of procedures by departments to assess, review and respond to risks
- Review the effectiveness of the Council's system of internal control
- Consider the content of the risk registers when preparing the Annual Audit Plan

3 Risk Management Process

The following four step process is fundamental to good risk management. Figure 1 below shows the four steps and the link to business objectives.

Figure 1: the four steps of the risk management cycle



Step 1 - Identifying Risks

The working definition of a risk is:

“Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat”

Drivers of risk

The Council faces risks from both internal and external factors. Understanding this helps us to assess the level of influence we may have over the risk.

There are three main parts to a risk – an **event** that has a **consequence** that leads to an **impact** on the Council objectives – and it can be measured by estimating the **likelihood** of the event happening and **impact** it may have on the objectives if it does.

It also helps to think of risk being driven by two basic categories **Strategic** and **Operational**. At Strategic levels, the focus is on identifying the key risks to successful achievements of the Councils overall objectives. Operational risks are the risks (or opportunities) that are most likely to affect the performance and delivery of business services.

Strategic and operational risk are not mutually exclusive, and a risk may escalate from one to another. They can all be driven by either external or internal factors, or a combination of both.

When identifying the risk, both positive and negative effects need to be considered. This will help with risk taking and exploiting opportunities. Insignificant risks can be ignored, significant risks can be planned for and the costs of taking action can be compared with the price to be paid if adverse events occur.

It will help to use prompts to identify the areas of risk e.g.

Risk	Consequence
Strategic	Doing the wrong things as an organisation, missing opportunities
Operational	Doing the right things in a wrong way (service delivery failure, targets missed)
Financial	Losing monetary resources or incurring unacceptable liabilities
Reputational	The Council's image, loss of public confidence
Political	Political embarrassment, not delivering local or national policies
Partnerships	The risks/opportunities the Council is exposed to as part of a partnership
Project	The risks/opportunities the Council is exposed to as part of a project
Legal/Regulatory	Claims against the Council, non-compliance
Information	Loss of inaccuracy of data, systems or reported information
Customer/residents	Understanding their needs, delivery of services
Environmental	Things outside control, environmental impact
People	Risks associated with employees, management

Using the categories above, it is important to consider the things that could prevent or hinder a team from achieving its business objectives. There should not be too much focus on the categories, or what risk fits under which category, they are just a general guide to assist.

The thoughts and ideas then need to be grouped into common themes and developed into the actual risk.

There should be, where possible, three parts to the risks **Event – Consequence – Impact**

This will ensure that focus and action is placed on the event.

Typical risk phrasing could be

Loss of	}	leads to resulting in
Failure of		
Failure to		
Lack of		
Partnership with		
Development of		

For example, Environmental Services may identify the failure of the waste collection service e.g. due to bad weather conditions, as a risk. Developed around event, consequence, impact to;

Failure of the waste collection service due to inclement weather **(the event)** could lead to unacceptable delays in collecting refuse **(the consequence)** resulting in public health issue and loss of reputation **(the impact)**.

Step 2 – Assessing Risks

Once a list of risks has been established, the next step is to assess those risks in terms of the likelihood that they will occur and the impact if they do. This provides an inherent risk score that will help identify the most serious risks before any controls have been applied. Decisions can then be made about the significance of those risks and how or whether they should be addressed.

The Council has agreed criteria for the levels of likelihood and impact for risks and criteria for opportunities should in tables 1 and 2 below.

Consideration should be given to each of the identified risks, from Step 1, and using the criteria in the table, assess the risk in terms of **likelihood** that it will occur and **impact** on the Council if it should occur.

There should be a focus on the description when assessing the level of likelihood and impact and the number rating should be used to summarise the descriptive information.

When both the risk likelihood and impact have been assessed, the likelihood score should be multiplied by the impact score – this will give the inherent risk score. This is the score used to identify which risks are the most serious, allowing decisions to be made about the significance of those risks to the Council and how, or whether they should be addressed.

Table 1 – Likelihood – Description and definitions

Rating	Score	Indicative Guideline	
		Threat	Opportunity
Very Likely	4	<ul style="list-style-type: none"> Regular occurrence Circumstances frequently encountered 	Favourable outcome is likely to be in short term (within 1 year)
Likely	3	<ul style="list-style-type: none"> Likely to happen at some point in the next 3 years Circumstance occasionally encountered 	Reasonable prospects of favourable outcome in short term (within 1 year)
Unlikely	2	<ul style="list-style-type: none"> Only likely to happen once every 3 or more years Circumstances rarely encountered 	Some chance of favourable outcome in medium term (up to 3 years)
Remote	1	<ul style="list-style-type: none"> Has never happened before Circumstance never encountered 	Little chance of a favourable outcome in short or medium term (up to 3 years)

Table 2 – Impact – Description and definitions

Rating	Score	Indicative Guideline	
		Threat	Opportunity
Major	4	<ul style="list-style-type: none"> Major loss of service for more than 5 days Severe disruption to the Council and its residents affecting the whole council Major financial loss > £1,000,000 Loss of life, intervention by HSE National news coverage Likely successful judicial review or legal challenge of Council decision Major environmental damage 	<p>Major improvement in service delivery</p> <p>Income generation/savings >£1,000,000</p> <p>Positive national press, national award or recognition</p> <p>Noticeable widespread environmental improvements</p>
Serious	3	<ul style="list-style-type: none"> Loss of service for 3 to 5 days Serious disruption, ability to service residents affected across several service areas of the council Serious financial loss £100,000 to £999,999 Extensive/multiple injuries, intervention by HSE Local adverse news item/professional press item 	<p>Noticeable improvement to residents in service delivery, quality and cost</p> <p>Income generation/savings >£100,000</p> <p>Sustained positive recognition and support from local press</p> <p>Noticeable improvement to local</p>

		<ul style="list-style-type: none"> • Likely judicial review or legal challenge of service specific decision • Serious damage to local environment 	environment
Significant	2	<ul style="list-style-type: none"> • Loss of service for 1 -3 days • Noticeable disruption, some residents would be affected across a service area of the Council • High financial loss £10,000 - £100,000 • Severe injury to an individual / several people • Local news/minor professional press item • Moderate damage to local environment 	Slight improvement in internal business processes. No noticeable change in service delivery or resident service. Income generation/savings > £10,000 Positive support from local press Minor improvement to local environment
Minor	1	<ul style="list-style-type: none"> • Brief disruption to service less than 1 day – minor or no loss of resident service • Low financial loss > £10,000 • Minor / no injuries • Minimal news/press impact • Affects single team only • Minor/ no damage to local environment 	No noticeable improvement to service delivery or internal business processes Income generation/ savings up to £10,000 No press coverage Insignificant/ no environmental improvements

When the inherent risk score has been calculated, the next step is to plot the risks on a risk prioritisation matrix to show the level of the risks and make decisions about the significance of those risks to the Council and how they will be managed.

Figure 2 Risk Prioritisation Matrix and Risk Rating

Likelihood	Very Likely (4)	4	8	12	16
	Likely (3)	3	6	9	12
	Unlikely (2)	2	4	6	8
	Remote (1)	1	2	3	4
		Minor (1)	Significant (2)	Serious (3)	Major (4)
		Impact			
Overall Risk Rating					
12-16	High				
6-9	Moderate				
3-4	Low				
1-2	Very Low				

Risks need to be managed within the Council's risk appetite. Whatever the risk score, mitigating controls and actions need to be applied to manage the risk down.

Risks identified will often have risk factors that fall within more than one risk type, in these cases the risk type deemed to present the highest level of risk should be designated as the Primary Risk Type.

Step 3 Managing and Controlling Risks

When all the risk and opportunities have been identified and assessed for likelihood and impact, there needs to be agreement on who will own the risk and who the risk/ opportunity will be managed, controlled or exploited.

There are three questions that will help?

- Can the likelihood of occurrence be reduced?
- Can the impact be reduced?
- Can the consequences of the risk be changed?

Tolerating the risk. An organisation that recognises the value of risk management may accept that it might be appropriate to continue with an “at risk” activity because it will open up greater opportunities for the future, or perhaps limited things can be done to mitigate a risk.

These risks must be monitored, and contingency plans should be put in place in case the risks occur.

Treating the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it in some way through either:

- Containment actions, these lessen the likelihood of consequences of a risk and are applied before the risk materialises
- Contingency actions, these are put in action after the risk has happened, thus reducing the impact.

Terminating the risk. Doing things differently and therefore removing the risk. This is particularly important in terms of project risk.

Transferring the risk. Sometimes a risk can be transferred to a third party, for example via insurance or by arranging for a third party to take the risk in another way.

Taking the opportunity. This is not an alternative to any of the above, rather it is an option to be considered whenever tolerating, treating, or transferring a risk.

The cost of risk management and control of the risk should be proportionate to the risk that is being addressed. There is a need to;

- Identify existing controls and actions plans that are in place. Develop new controls and action plans where none exist.
- Identify and agree who will own the risk and who will manage the risks. The risk owner should have authority to implement and manage the controls.

When the existing controls and action plans have been identified, the risk can be re-assessed for likelihood and impact.

Step 4 Recording and Reporting Risks (see diagram section 3)

Risks should be recorded on a risk register. The risk register template is appended at Appendix A to this framework.

The Council maintains two levels of risk register, the Strategic Risk Register which is monitored by Internal Audit and presented to the Audit Committee and Operational Risk Registers which are maintained at a service level.

Circumstances and business priorities can, and do change, and therefore risks, opportunities and their circumstance need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and new risks will be identified.

Conclusion

The risk management framework (the four steps of risk management) is a continuous cycle designed not only to identify, assess, manage and review risks, but also to support business objectives. The implementation of this framework will support the Council in recognising risk and minimising its impact through all areas of service provision.

APPENDIX A

Risk	Category of Risk	Risk Owner	Implications	Likelihood	Impact	Score	Mitigating Actions as at (input date)	Revised Score
Number the risk eg1 Describe the Risk	Eg Financial	Eg SMT	Why the risk has been identified	Pick a score from 1,2,3,4	Pick a score from 1,2,3,4	Times the likelihood by the Impact to obtain the score	Input Risk Mitigation Actions	New Score

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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