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WOKINGHAM
BOROUGH COUNCIL

A Meeting of the **AUDIT COMMITTEE** will be held in First Floor 12 - Civic Offices on **WEDNESDAY 6 FEBRUARY 2019** AT **6.30 PM**

Heather Thwaites
Interim Chief Executive
Published on 29 January 2019

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WOKINGHAM
BOROUGH COUNCIL

Our Vision
A great place to live, an even better place to do business
Our Priorities
Improve educational attainment and focus on every child achieving their potential
Invest in regenerating towns and villages, support social and economic prosperity, whilst encouraging business growth
Ensure strong sustainable communities that are vibrant and supported by well designed development
Tackle traffic congestion in specific areas of the Borough
Improve the customer experience when accessing Council services
The Underpinning Principles
Offer excellent value for your Council Tax
Provide affordable homes
Look after the vulnerable
Improve health, wellbeing and quality of life
Maintain and improve the waste collection, recycling and fuel efficiency
Deliver quality in all that we do

MEMBERSHIP OF THE AUDIT COMMITTEE

Councillors

Chris Smith (Chairman)	David Chopping (Vice-Chairman)	Daniel Sargeant
Imogen Shepherd-DuBey	Oliver Whittle	Graham Howe

ITEM NO.	WARD	SUBJECT	PAGE NO.
46.		**APOLOGIES** To receive any apologies for absence	
47.	None Specific	**MINUTES OF PREVIOUS MEETING** To confirm the Minutes of the Meeting held on 7 November 2018.	**5 - 12**
48.		**DECLARATION OF INTEREST** To receive any declarations of interest	
49.		**PUBLIC QUESTION TIME** To answer any public questions A period of 30 minutes will be allowed for members of the public to ask questions submitted under notice. The Council welcomes questions from members of the public about the work of this committee. Subject to meeting certain timescales, questions can relate to general issues concerned with the work of the Committee or an item which is on the Agenda for this meeting. For full details of the procedure for submitting questions please contact the Democratic Services Section on the numbers given below or go to www.wokingham.gov.uk/publicquestions	
50.		**MEMBER QUESTION TIME** To answer any member questions	
51.	None Specific	**UPDATE ON INTERNAL AUDIT OF HOUSING RENTS** To consider an update on the internal Audit of Housing Rents.	**13 - 16**
52.	None Specific	**ERNST & YOUNG 2018/19 AUDIT PLAN** To consider the Ernst & Young 2018/19 Audit Plan.	**17 - 58**
53.	None Specific	**CORPORATE RISK REGISTER** To consider the Corporate Risk Register.	**59 - 72**

54.	None Specific	**TREASURY MANAGEMENT STRATEGY 2019/20** To consider the Treasury Management Strategy 2019/20.	**73 - 114**
55.	None Specific	**2018/19 INTERNAL AUDIT AND INVESTIGATION Q3 PROGRESS REPORT** To consider the 2018/19 Internal Audit and Investigation Q3 Progress Report.	**115 - 124**
56.	None Specific	**2019/20 INTERNAL AUDIT AND INVESTIGATION PLAN** To consider the 2019/20 Internal Audit and Investigation Plan.	**125 - 136**

Any other items which the Chairman decides are urgent
A Supplementary Agenda will be issued by the Chief Executive if there are any other items to consider under this heading

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MINUTES OF A MEETING OF THE
AUDIT COMMITTEE
HELD ON 7 NOVEMBER 2018 FROM 6.30 PM TO 8.15 PM

Committee Members Present
Councillors: Chris Smith (Chairman), David Chopping (Vice-Chairman), Daniel Sargeant and Imogen Shepherd-DuBey

Also Present
Madeleine Shopland, Democratic & Electoral Services Specialist
Helen Thompson, Ernst and Young
Malcolm Haines, Ernst and Young
Martin Jones, Financial Planning Specialist
Angela Morris, Director Adult Services
Andrew Moulton, Assistant Director Governance
Bob Watson, Lead Specialist Finance

34. APOLOGIES
An apology for absence was submitted from Councillor Oliver Whittle.

35. MINUTES OF PREVIOUS MEETING
The Minutes of the meeting of the Committee held on 25 July 2018 and the Minutes of the Extraordinary meeting held on 18 September 2018 were confirmed as a correct record and signed by the Chairman.

36. DECLARATION OF INTEREST
Councillor Imogen Shepherd-DuBey declared a Personal Interest in Item 40 Wokingham Borough Council Annual Audit Letter for the year ended 31 March 2018 on the grounds that she had a pension from the Local Government Pension Scheme.

37. PUBLIC QUESTION TIME
In accordance with the agreed procedure the Chairman invited members of the public to submit questions to the appropriate Members.

37.1 Chris Wallace asked the Chairman of the Audit Committee the following question.
Question
A report was presented to the Audit Committee last December (Item 33) “Update on HRA Rent Audit” that showed an action plan to correct the faults found in the 2015/16 Rent Audit. The minutes show that “A further update would be provided at the Committee’s next meeting” but this doesn’t appear at any meeting since. Could you explain why, almost a year later, the current Audit Report (Pg 91/2 of this meetings' report pack) still shows Housing Rents and Debtors rated 3rd of 4?

Answer
A follow up review of the audit actions was completed in 2018 and a report issued within Wokingham Borough Council on 14 June. This is where the current grade 3 for the HRA rents has arisen from.

The report from the Council’s Internal Auditors stated the number of outstanding actions had reduced from six to three so progress is being made, and the report did say that

‘Considerable progress has been made to address the concerns raised last year, with the majority of countermeasures either implemented or near to being implemented.’

The three outstanding concerns are:

1 The older debt becomes, the more difficult it is to collect.
2 Without the required documentation in place, there is a risk that the tenancy is based on inaccurate information; and
3 Manual intervention is time consuming for staff and can cause delays.

On 10 September and further follow up Internal Audit were provided with evidence that the third concern, that manual interventions were time consuming, has been mitigated and this will be tested in November at the next review.

The other two concerns have not yet been mitigated as there is not all of the required documentation being obtained for new tenants, as I understand. However this again will be reviewed in November, so it might be mitigated by then. The older debts are in the process of being recovered however there are still significant sums that officers are chasing. The arrears have reduced from £900,000 as at March this year, however it had not been reduced sufficiently by June to say that there was no longer a risk to the Council.

While progress is being made, and at the end of week 31, so Sunday 4 November 2018, over 100% of the projected rent had actually been collected for this financial year. Internal Audit have emphasised the need to keep ongoing pressure as it is a high profile issue. Therefore, the audit opinion remains at 3rd of 4 due to the amount of the debt involved, even though progress has been made in reducing the amount outstanding, and they are likely to keep this open for the foreseeable future. So I think the comment is that progress is being made. The aim is to mitigate this by the end of 2020 year end and so all efforts are being put into chasing the arrears and that is why it is still rated 3 out of 4 because there is not yet the evidence that all the possible arrears that we could recover, have been recovered.

Supplementary Question:
I don’t know whether you are aware that in 2016, prior to that report with a small amount of errors, an investigation was done by Tony Newman of HQN, I don’t know whether you have seen the report. It had a list of 62 recommendations on rent arrears management. A lot of those still have not been implemented 2 and a half years later and because of that, tenants who pay by Direct Debit or standing order are still getting demand letters and statements showing arrears. One tenant has had three since March, an elderly lady, and she does not owe anything. She pays by Direct Debit but it is about the timing in the month. Now those are still being sent out to tenants. Why? Also, your reports are showing that between 1000 and 1500 tenancies a month are in arrears when 600 of them pay by Direct Debit. Are sure that is a correct figure and are you wasting time chasing up people?

Supplementary Answer:
What I will say is that I do not know the precise answer to that one. I do not believe we have someone from the HRA team here tonight who would be able to answer that. However, Bob will take that and action it and find out a detailed answer. If there is an issue that people are being charged because of something like that, that is not what the six concerns that I was told had driven the HRA Internal Audit findings. That is a different

circumstance. If Internal Audit are doing a subsequent review in November, can this be added to their work programme?

I do not think we have too much rent at the moment because that 100% does include some allowance for people who have not paid.

The Vice Chairman added the following:

The reason why we have over 100% paid is because of the way it is shown on the books. We have collected, for sake of argument, 98% of the outstanding rent and 4% of previously outstanding rent, so that gives 102% for this year. So it is a way of showing figures which is confusing. I think when you have considerations of this nature if you would like to give them to us, then we will investigate these particular, specific items through the right channels, specifically through the HRA, who are responsible for this sort of item.

38. MEMBER QUESTION TIME

There were no Member questions.

39. WOKINGHAM BOROUGH COUNCIL AUDIT PROGRESS REPORT

The Committee received the Wokingham Borough Council Audit Progress Report.

During the discussion of this item the following points were made:

- There was one small adjustment to make to the housing benefit subsidy claim but this would be completed by the 30 November deadline.
- Malcolm Haines highlighted that planning for the 2018/19 audit had begun. The initial planning visit had been undertaken and interim testing was scheduled for the week commencing 4 March 2019.
- The final accounts visit was due to begin the week commencing 17 June 2019 for 5 weeks.
- Councillor Sargeant asked how the timings compared with the programme undertaken this year and was informed that work next year would begin earlier.
- The External Audit plan would be presented at the February Audit Committee meeting.
- In response to a question from Councillor Shepherd-DuBey regarding Brexit, Helen Thompson stated that it had not been referenced in the report as it was a progress report. Ernst & Young were required to take into account information received up to the point of issuing its opinion. With regards to the Value for Money conclusion Ernst & Young were required to look at the situation between 1 April to 31 March of the relevant financial year. Ernst & Young would however consider what scenario planning the Council was undertaking.
- Helen Thompson commented that a Value for Money risk had not been identified for the Council for some time. However, the uncertainty around Brexit meant that this may be subject to change in future.
- Councillor Smith asked whether the Pensions report included within the accounts could be the March report and not the January report. The Lead Specialist – Finance stated that the Council was part of the Berkshire Pension Fund and would not want to fund a separate assessment to that carried out for the other Berkshire local authorities. Councillor Smith requested that this be investigated and included in the timeline.

- Members were informed that the figure presented to the Committee in July around pensions, had been overstated.

RESOLVED: That the Wokingham Borough Council Audit Progress Report be noted.

40. WOKINGHAM BOROUGH COUNCIL ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018

The Committee considered the Wokingham Borough Council Annual Audit Letter for the year ended 31 March 2018.

During the discussion of this item the following points were made:

- It was noted that with regards to the Pensions Liability Valuation a difference had been identified between the estimated fund value applied by the actuary as at 31 December 2017 and the actual outturn on the fund value of the Royal Borough of Windsor and Maidenhead Pension Fund as at 31 March 2018, which had resulted in an overall difference of £8.645million. Adjusted for the Wokingham Borough Council element this had resulted in an unadjusted difference of £0.983 million. This was different to the variance included in the representation letter from Ernst and Young.
- Ernst & Young's PFI expert had identified some non-material differences in the output from the Waste PFI model. These had been below the materiality level. Differences would be discussed with officers during the 2018/19 audit. Councillor Shepherd-DuBey asked what the materiality level was and was informed that it was £6million.
- Helen Thompson highlighted an issue identified with the 2017/18 cashflow statement which had been resolved. In response to a Member question the Lead Specialist - Finance explained that a 2018/19 transaction had been processed through 2017/18 as a result of human error. Councillor Shepherd-DuBey asked for more information on this matter. Helen Thompson indicated that she would work with officers to provide an update.
- Helen Thompson thanked Officers for their support. She commented that the Council was one of 431 organisations which had submitted its accounts on time. 95% of organisations had submitted by the old September deadline. 25 organisations had yet to submit.
- In response to a question from Councillor Chopping, it was clarified that the work on the housing benefits subsidy claim was not linked to the giving of the audit opinion. Helen Thompson indicated that a sample of 40 of each type of benefit had been requested for testing.
- The Certification of Claims and Returns – Annual Report 2017/18 would be presented to the Committee at its February meeting.

RESOLVED: That the Wokingham Borough Council Annual Audit Letter for the year ended 31 March 2018 be noted.

41. TREASURY MID TERM REPORT

The Financial Planning Specialist presented the Treasury Mid Term report.

During the discussion of this item the following points were made:

- Members were advised that there was an error in Table 10 (p65) and £4,000 should read £3,400.

- No prudential indicators had been broken in first six months of the financial year.
- Members were informed that the Capital expenditure forecast at year end outturn was £135m and the performance against the Medium Term Financial Plan budget was 77%. This performance was reduced to 59% when compared to the current budget. This meant that the Council's borrowing requirement had reduced by 26% compared to the Medium Term Financial Plan budget.
- Councillor Shepherd-DuBey questioned the total figure given in Table 2 General Fund capital expenditure and financing, for the 2018/19 Medium Term Financial Plan Budget. The Financial Planning Specialist agreed to check the figure and has since confirmed that it was correct.
- There had been some slippage in the delivery of the Capital Programme with 59% of projects achieved this year. It was confirmed that no projects had been cancelled but that there had been delays in some areas such as delivery of infrastructure and the provision of affordable housing, meaning that spending against those projects had been pushed back. Councillor Chopping suggested reference be made in the report to the fact that possible delays should be factored into the process as early as possible.
- In response to a question from Councillor Shepherd-Dubey it was confirmed that the Market Place project would be completed this financial year.
- The Financial Planning Specialist, confirmed that the Council had not taken new external borrowing in the first six months. It was being forecasted that the Council would take new loans in the final six months of the financial year but this would be reviewed by the Treasury Management Team and would only be taken out if prudent to do so.
- The debt charge budget outturn performance was forecast at 88%, which represented an underspend. The returns on investment budget outturn performance was forecast at 90%, a reduction in income. This meant that the underachievement of investment returns was being more than covered by the reduction in debt charges. The underachievement was due to a reduction in loans given to Wokingham Housing Limited.
- In response to a question from Councillor Smith, the Financial Planning Specialist confirmed that there was the facility for short term borrowing if required.
- Councillor Shepherd-DuBey asked whether there were any investments that had not performed as well as expected. The Lead Specialist Finance commented that the Council had a Strategy in place which set out which organisations it could invest with. The Council mostly invested with other local authorities.
- In response to a question from Councillor Shepherd-DuBey Officers explained why no figures had been included in Table B9 – Internal Investments: interest received, against HRA internal loan from the General Fund (2018/19 Budget), Wokingham Housing (2018/19 Budget) and Wokingham town centre regeneration loan (2018/19 Budget).
- Councillor Shepherd-DuBey questioned why the maturity date for the loan from the Local Enterprise Board was 2017. Officers agreed to look in to this. It was suggested that this may be an ongoing loan.
- Councillor Sargeant asked how the Council compared to other local authorities with regards to financial transactions. Helen Thompson stated that it was not immediately out of line with other local authorities but that it was quite geared towards borrowing.
- It was clarified that the properties listed in Appendix D Investment Portfolio were properties that the Council had purchased for income purposes. There was a strict definition as to what could be classified as an investment property. Councillor

Shepherd-DuBey asked where assets were listed and was informed that there was an asset register.

RESOLVED: That

1) the mid-year Treasury Management report for 2018/19 be noted;

2) the actual 2018/19 prudential indicators within the report, be noted;

3) the report, subject to the correction of minor errors identified, be recommended to Council for approval.

42. ANNUAL GOVERNANCE STATEMENT 2017-18 PROGRESS REPORT

The Committee considered an update on the progress of the issues highlighted within the 2017/18 Annual Governance Statement process.

During the discussion of this item the following points were made:

- Six actions had been identified.
- Under the Chief Executive's area a key risk identified had been the resourcing of the new Commercial Property team. The recruitment process had begun in May and one placement out of three had been made, with the individual starting in September. A further process was being developed to recruit the other two placements. Councillor Shepherd-DuBey commented that the recruitment process was taking some time.
- Within the Commercial Property team there had been an exception around the process for collecting and managing rental income which would be partially resolved when the Technology Forge module became live. Members were informed that the issue was being addressed with a process review underway, led by Finance with 21st century Council involvement. Councillor Shepherd-DuBey asked about commercial and residential rent collection rates and was informed that this information was recorded in one of the KPIs considered by the Overview and Scrutiny Management Committee.
- With regards to Corporate Services, Members were advised that in 2017-18 there had been a number of data breaches in Housing. To date in 2018/19 there had been no data breaches in this area. All staff had undergone data protection training earlier in the year as part of the GDPR implementation. Councillor Shepherd-DuBey questioned how frequently staff were tested and commented that she felt that staff should be tested regularly. The Assistant Director Governance indicated that he would bring back a report about the Council's current position and future plans with regards to GDPR.
- Managing the safe transition from the current Highways Alliance contract to the new one had been identified as an area for action in the former Environment area. Progress being made as at mid October 2018 was highlighted.
- Gaps in senior management level had been identified in People Services. It was noted that Angela Morris had now been appointed as Director Adult Services and that Carol Cammiss had recently been appointed as Director Children's Services. Some Assistant Director posts were still being recruited to. Councillor Shepherd-DuBey emphasised the need for a strong leadership team.
- A lack of leadership capacity had been identified at Customer and Localities Assistant Director level at a key point in the 21st century Council process. It was noted that Sarah Hollamby was now acting as Interim Director Locality and

Customer Services and the recruitment process for a permanent Director appointment was underway.

RESOLVED: That the 2017/18 Annual Governance Statement Progress Report be noted.

43. CORPORATE RISK REGISTER

The Committee received an update on the Corporate Risk Register.

During the discussion of this item the following points were made:

- The Assistant Director informed the Committee that at each meeting a Director would be invited to explain the key risk in their areas and the actions being taken to mitigate them.
- A lot of work had been undertaken following the Committee's Extraordinary meeting in September, to redraft the Corporate Risk Register. Further engagement with the Executive regarding accountabilities was required. It was hoped that input would also be received from the new Chief Executive once appointed. 16 risks had been included in the revised Corporate Risk Register. The Executive and Corporate Leadership Team would consider the Corporate Risk Register in November.
- The Director Adult Services outlined some of the key risks relating to Adult Services.
- With regards to safeguarding, the Council followed Berkshire wide policies and procedures. These policies and procedures were also reflected in the recording of safeguarding issues. There was a regular Safeguarding Board which had an independent chairman and the Council also learnt from good practice from other local authorities and partners such as the Police and health. Staff were trained in levels 1 to 3 regarding safeguarding as required. A Strategic Safeguarding Lead had been appointed who would start in January and a Principal Social Worker was in place, adding an additional layer of assurance.
- Management of the budget was another risk particularly as the number of residents with complex needs or frail elderly increased. There was a need to ensure that the ethos of the Care Act was correctly and fairly applied and that the right trigger for assessments was used. More work was being undertaken with regards to the prevention agenda.
- The Committee discussed workforce. The Director Adult Services commented that Wokingham was able to retain good staff and did not have a high level of agency staff. There was a high dependence on the independent market with regards to care homes and domiciliary care.
- Councillor Shepherd-DuBey asked about the anticipated impact of Brexit on the health and social care workforce. The Director Adult Services commented that an impact assessment was being produced corporately. Work was being undertaken with providers regarding their workforce and regular meeting were held with health. Many workers came from outside of the EU. Members asked whether there were any areas where there was a skills shortage and were informed that there was a higher turnover in nursing staff in nursing homes and domiciliary care staff.
- Councillor Chopping asked how the Council's adult social care compared with other local authorities and was informed that performance was in the top quartile.

RESOLVED: That the update on the Corporate Risk Register be noted.

44. 2018/19 INTERNAL AUDIT AND INVESTIGATION Q2 PROGRESS REPORT

The Assistant Director Governance presented the 2018/19 Internal Audit and Investigation Q2 Progress Report.

During the discussion of this item the following points were made:

- The Corporate Governance audit report was at a draft stage and the draft opinion was 3. Members would receive an update on the actions being taken to make improvements to corporate governance.
- The draft audit opinion issued in relation to the 21st century Council programme audit, was 2. It was noted that the 21st century Council programme was on track to deliver the mandated savings.
- With regards to the Council's need to respond to financial constraints placed on it and with the ongoing expectation of effective service delivery, a review of the benefits of Phase 1 of the 21st century Council programme had been commissioned.
- There had been three audit reviews (2017/18 Housing Rents, 2017/18 Debtors and 2017/18 Shared Property/Building Services) which had received the third or fourth category of audit opinion that had been completed to Final Report stage since the Quarter 1 progress report.
- Corporate Investigations had been working on areas of housing, disciplinary cases and code of conduct cases. In addition there was an ongoing investigation at a school which had been referred to the Police by Shared Legal Solutions. This did not relate to a safeguarding issue.
- Members were updated with regards to the External Review against the Public Sector Internal Audit Standards. The Audit Charter had been updated. Progress against the recommendations and suggestions was continuing. Updates on progress would be reported to future Committee meetings.

RESOLVED: That that 2018/19 Internal Audit and Investigation Q2 Progress Report be noted.

45. FORWARD PROGRAMME 2018-19

The Committee considered the forward programme for the remainder of the 2018-19 municipal year.

During the discussion of this item the following points were made:

- It was proposed that there be an additional committee meeting the next municipal year, in September.
- Councillor Smith asked that the February committee meeting begin at 6.30pm.
- In response to a question from the Assistant Director Governance regarding which Director the Committee would next like to discuss the Corporate Risk Register with, Members asked that the Director Children's Services be invited to the February meeting.

RESOLVED: That the forward programme be noted.

TITLE	**Update on internal audit of Housing Rents**
FOR CONSIDERATION BY	Audit Committee on 6 February 2019
WARD	None Specific
DIRECTOR	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

To provide assurance on the internal controls associated with rent collection.

RECOMMENDATION

That the Audit Committee note the update.

SUMMARY OF REPORT

The internal audit of Housing Rents concluded with a level 3 assurance which means there were weaknesses identified in the systems of internal control.

The Audit Committee has received a number of updates as part of the quarterly internal audit update report but, in this case, has asked for specific details on the latest position.

The report shows the progress made to date with a generally positive direction of travel.

Background

The Housing Rents team have been providing monthly reports to the Tenant and Landlord Improvement Panel (TLIP). These reports include details of current and former rent arrears and progress against the target to reduce arrears as a percentage of annual debt to 2% by the end of 2019/20.

The December 2018 report to TLIP shows that current tenant arrears have fallen from £736,186.88 (as at January 2018) to £690,190.59 (as at November 2018). Current tenant arrears as a % of total debt have reduced from 4.53% (as at April 2018) to 4.16% (as at Nov 2018).

At Sunday 6 January 2019, current tenant arrears were £728,564.58 (arrears as a % of total debt were 4.38%). The slight increase compared to November 2018 reflects that:

a) social housing landlords see an increase in December that is traditionally a month that puts financial pressure on many residents, and

b) £28,381.29 of Alternative Payment Arrangements (being Housing Costs paid direct to Wokingham Borough Council from the Department for Works and Pensions) for Universal Credit paid in arrears, were received on Thursday 3 January 2019, but were credited to rent accounts the following week so were not included when calculating the Sunday 6 January 2019 current tenant arrears.

The former tenant arrears amount has increased from £181,208.63 (as at March 2018) to £234,238.44 (as at Nov 2018). The Interim Rental Income Manager has explained the reason for this and that £110,706.76 of this debt has been referred to tracing/collection agencies:

'The former tenant arrears debt has increased that is reflective of when rent accounts end, some will have debt. So far in 2018/19, we have averaged 16 accounts ending each month that has included some accounts ending following eviction for non-payment that have high debts.

During 2018/19, we have provided two separate amounts of former tenant debt to a tracing/collection agency being total debts of £71,816.92 (70 different accounts) and £38,889.84 (14 different accounts). Any debt that is not collected and is not considered economic to continue to pursue, will be considered for write-off. Therefore, while the former tenant debt has increased, we are being pro-active in seeking to reduce the debt.'

The Interim Rental Income Manager has also confirmed that the process for sending out bulk reminder letters (that was one of the three remaining audit recommendations) is now fully automated.

Audit Conclusion: The figures show a fairly consistent trend of reduction in current tenant arrears. Although former tenant arrears have increased, the debt is being actively managed and all necessary steps are being taken before the debt is considered for write off.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue
Next Financial Year (Year 2)	Nil	Yes	Revenue
Following Financial Year (Year 3)	Nil	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
None

Cross-Council Implications
None

List of Background Papers
None

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Wokingham Borough Council
Audit planning report

Year ended 31 March 2019

25 January 2019

Agenda Item 52.

Building a better working world

25 January 2019

Audit Committee
Civic Offices,
Shute End
Wokingham, RG40 1BN

Dear Audit Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 6 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Helen Thompson

For and on behalf of Ernst & Young LLP

Enc

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Wokingham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Wokingham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Wokingham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue recognition – Inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. Our judgement is the significant risk at the Council relates to the improper capitalisation of revenue expenditure.
Valuation of Property Plant and Equipment/Investment Property	Inherent risk	No change in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension liability	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
PFI accounting	Inherent risk	No change in risk or focus	PFI is a complex areas and we have commissioned a detailed review of the RE3 Waste PFI arrangements for Bracknell, Reading and Wokingham Councils by our PFI specialist. This will include a review of the assumptions used in the RE3 PFI accounting model, comment on local adjustments made to the model, if any, and review the planned entries and disclosures in the 2018/19 financial statements.

Overview of our 2018/19 audit strategy (continued)

Risk / area of focus	Risk identified	Change from PY	Details
IFRS 9 financial instruments	Inherent risk	New accounting standard	This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. The Council will need to assess the impact of this accounting standard.
IFRS 15 Revenue from contracts with customers	Inherent risk	New accounting standard	This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The Council will need to assess the impact of this accounting standard.

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Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£6.9m

Materiality has been set at £6.9m, which represents 2% of the prior year's gross expenditure on provision of services.

Performance materiality
£5.2m

Performance materiality has been set at £5.2m, which represents 75% of materiality.

Audit differences
£348k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, housing revenue account and collection fund greater than £348k. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

Overview of our 2018/19 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

§ Our audit opinion on whether the financial statements of Wokingham Borough Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and

§ Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

§ Strategic, operational and financial risks relevant to the financial statements;
§ Developments in financial reporting and auditing standards;
§ The quality of systems and processes;
§ Changes in the business and regulatory environment; and,
§ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
Misstatements due to fraud or error *	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We will undertake our standard procedures to address fraud risk, which include: Ø Identifying fraud risks during the planning stages. Ø Inquiring of management about risks of fraud and the controls put in place to address those risks. Ø Understanding the oversight given by those charged with governance of management's processes over fraud. Ø Considering the effectiveness of management's controls designed to address the risk of fraud. Ø Determining an appropriate strategy to address those identified risks of fraud. Ø Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

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Risk of incorrect capitalisation of revenue expenditure*

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

We are focussing our testing on the risk of incorrectly classifying revenue expenditure as capital additions, This would decrease the next expenditure from the general fund, and increase the value of non-current assets.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

What will we do?

Our approach will focus on:

- For significant additions, we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS16.
- We will extend out testing of items capitalised in the year by lowering our testing threshold. We will also review a larger random sample of capital additions below our testing threshold.
- We will test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.
- Journal testing: we will identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
Valuation of Property Plant and Equipment/Investment Property The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances, at £776.1m and £6.1m respectively for the year ended 31 March 2018, in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: Ø Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. Ø Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre). Ø Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer. Ø Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated. Ø Consider changes to useful economic lives as a result of the most recent valuation. Ø Test accounting entries have been correctly processed in the financial statements.
Pension Liability The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by The Royal Borough of Windsor and Maidenhead Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £279.5m. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: Ø Liaise with the auditors of The Royal County of Berkshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Wokingham Borough Council. Ø Assess the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. Ø Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
PFI accounting The Council has one PFI arrangement with Waste Recycling Group RE3 Ltd, which is material to our audit. This is a joint PFI contract (entered into in 2006/07) with Reading and Bracknell Councils for the disposal of waste. The total value of the contract is estimated to be £467m as at 31 March 2018, to be shared between the Councils on relative throughout. Actual payments are based on the contractor's performance as well as that of the individual councils in waste collection. Estimated payments to be made by Wokingham Borough Council under the contract are £192.9m over the next 15 years of the contract. As part of the contract, the contractor built a transfer station, materials recycling facility and other amenities. The Council's share of the assets, valued at £8.9m as at 31 March 2018, are recognised as Property Plan and Equipment on the Council's Balance Sheet. The liability resulting from the contract, at the end of March 2018, was reported as £7.1m. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17. We will review the accounting entries and disclosures in relation to PFI in detail in 2018/19, with a focus on any significant changes since the expert's review in the previous year.	PFI is a complex area and we have commissioned a detailed review of the RE3 arrangements, for the three councils involved, namely Bracknell Forest, Reading and Wokingham. Our work, by our PFI specialist, will: Ø Include a review of the assumptions used in the RE3 PFI accounting model. Ø Comment on local adjustments, if any, by Wokingham Borough Council, made to the output from the RE3 model held by the host council, Reading Borough Council. Ø Review the planned entries and disclosures for the Council's 2018/19 statement of accounts and ensure they are consistently reported across the three councils.

Other areas of audit focus

What is the risk/area of focus?	What will we do?
IFRS 9 financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.	We will: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider the classification and valuation of financial instrument assets; • Review the new expected credit loss model impairment calculations for assets; and • Check additional disclosure requirements for compliance with the CIPFA Code.
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.	We will: • Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Check additional disclosure requirements for compliance with the CIPFA Code.

03 Value for Money Risks

Value for Money

Background

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

For 2018/19 this is based on the overall evaluation criterion:

"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"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

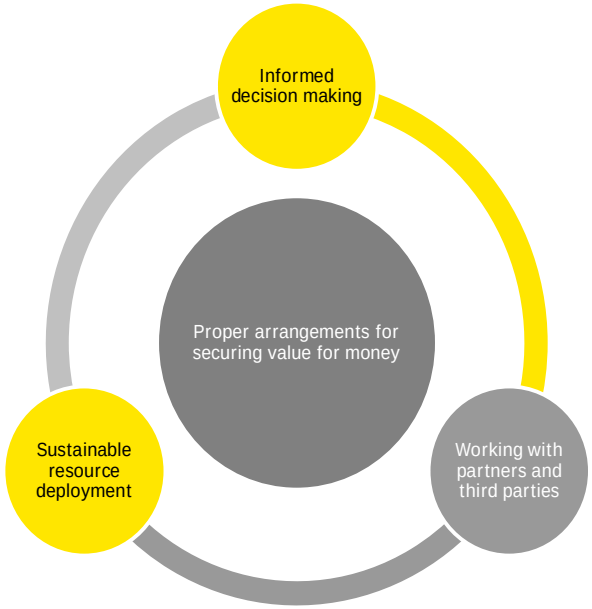
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. We've also considered the Council's progress on savings in 2018/19 to date, the medium term financial plan and the Council's history of delivery against such plans. This has not resulted in the identification of a significant risk.

At the date of this report we have not identified any significant VFM risks. However, this remains under review because our audit work is ongoing. If we do identify any risks we will communicate these to management and the Audit Committee at the earliest opportunity and bring them in writing to the next available meeting.



04 Audit materiality

Audit materiality

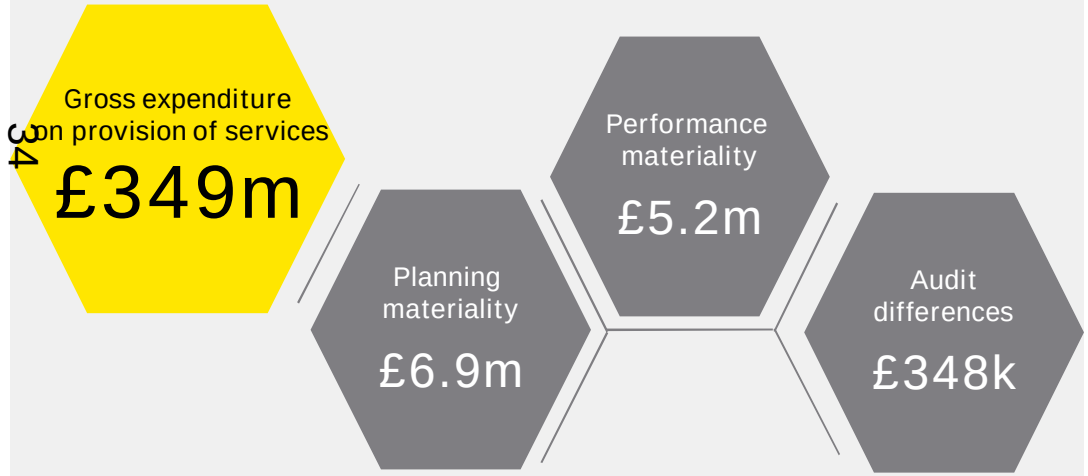
Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £6.9m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process.

The rationale for this is that for a public sector entity, the expectations of users (including regulators) of the entity are focused on the measurement of expenditure and cost of services. Therefore gross expenditure is the appropriate basis for determining materiality for public sector bodies.

We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £5.2m which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality – We have set a materiality of £1,000 for sensitive disclosures such as the remuneration disclosures , related party transactions, members' allowances and exit packages. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Lead Specialist for Audit and Investigation, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix D.

Optalis	Review - No audit necessary
WHL	Review - No audit necessary
Berry Brook Homes Ltd	Review - No audit necessary

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 4% of the Group's Gross Expenditure

06 Audit team

Audit team

Audit team structure:

Helen Thompson
Associate Partner

Malcolm Haines
Manager

Preeti Malik
Audit Senior

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team as required
Pensions disclosure	EY Actuaries PWC Actuary commissioned by NAO Barnett Waddingham - Actuary
PFI	EY PFI Specialist

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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Audit Plan
Reporting our independence, risk assessment, planned audit approach and the scope of our audit

Interim Audit Committee Update
Reporting our interim work and any control observations and progress of our work on significant risks

Audit Results Report
Reporting our conclusions on key judgements and estimates and confirmation of our independence

Annual Audit Letter
The Annual Audit Letter will be provided following completion of our audit procedures

Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug

Planning

Walkthroughs +Interim Audit

Substantive testing

Planning
Risk assessment and setting of scopes

Walkthroughs
Walkthrough of key systems and processes

Interim Audit
Controls assessment and early substantive testing

Year End Audit
Work begins on our year end audit. This is when we will complete any substantive testing not completed at interim

08 Independence

Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

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In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non–audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, we have not completed any non-audit work. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2018

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-201718

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09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£	£	£
Total Fee – Code work	81,325	81,325	105,617
Scale fee variation – additional work on CIES restatement	0	0	1,066*
Total audit	81,325	81,325	106,683
Housing Benefits certification work	n/a	n/a	8,397**

All fees exclude VAT

* The scale fee variation of £1,066, in relation to work done in 2017/18, related to our review of the restated balances following a restructure of the Council's portfolios. This work is outside the scope covered by the scale fee. The fee variation has been agreed with management and approved by PSAA.

** The total includes a proposed scale fee variation of £1,214, in relation to additional work carried out in 2017/18 over and above that undertaken in the year on which the scale fee was based (2015/16). The fee variation has been agreed with management and has been put forward for approval by PSAA.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements 52	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management	Audit results report
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud	Audit results report
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity	Audit results report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report
Consideration of laws and regulations	• Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report
Internal controls	• Significant deficiencies in internal controls identified during the audit	Management letter/audit results report

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
Group audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit planning report Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Key audit matters that we will include in our auditor's report • Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards 55	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and • Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix D

Scoping the group audit

We have considered the significance of the components identified to the group as a whole, and we have concluded that the components (as per FY 2017/18) values are not significant to the group, and that the risk of material misstatement is low given the amount of intra-group transactions and balances which are eliminated on consolidation. As these components represent a small portion of the group, they are not expected to present a risk of material misstatement of the group financial statements. Therefore, they will not be included in the group audit scope.

Given this (and subject to no significant changes in the value of the components) our approach for 2018/19 will be to test the consolidation of the components into the group accounts, and to review the elimination of intra-group transactions and balances. The primary audit team will be able to undertake this work locally, and we are not seeking to rely on the work of the component auditor. We will continue to review the Group position throughout the audit. It should also be noted that the approach being proposed above is consistent with that undertaken in 2017/18.

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TITLE	**Corporate Risk Register**
FOR CONSIDERATION BY	Audit Committee on 6 February 2019
WARD	None Specific
DIRECTOR	Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Enterprise Risk Management (ERM) provides for robust and transparent decision-making. Effective ERM is therefore an integral part of the council's control environment and helps demonstrate the effective use of resources and sound governance. The Council's Corporate Risk Register (CRR) demonstrates that the council is pro-actively identifying and managing its significant business risks.

RECOMMENDATION

That the Audit Committee consider and note the risks and mitigating actions of the Council's corporate risks as detailed in the attached CRR.

SUMMARY OF REPORT

The report shows the latest Council Corporate Risk Register (CRR) following a comprehensive review by officers and Members of this Committee.

In summary, 11 key corporate risks have been identified. The details of the CRR including an assessment of risk impact and likelihood, and mitigating actions to reduce the risk are attached to this report (Appendix A).

The Director of Children's Services will attend the meeting to cover the specific risks in CRR for Children's Services together with a more general briefing on risk identification and mitigation within her department.

Background

The roles and responsibilities of Members and Officers with respect to Risk Management are detailed in the Council's Enterprise Risk Management Policy (ERMP) which was last reviewed and approved by the Audit Committee in December 2018.

The ERMP states that CLT is responsible for identifying and managing the Council's risks and opportunities, and for setting an example to staff. CLT is also responsible for identifying, analysing and profiling high-level strategic and cross-cutting risks on a regular basis.

The Audit Committee is required to seek confirmation that the Council's strategic risks are being proactively managed. Strategic risks are essentially those risks that might occur and could prevent the Council from achieving its objectives.

Analysis of Issues

The Audit Committee held a special meeting in September 2018 to review and rebase the CRR in detail. This has facilitated a focused approach to corporate risk management with the Audit Committee also receiving specific briefings from individual directors on the major risks in their department.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue
Next Financial Year (Year 2)	Nil	Yes	Revenue
Following Financial Year (Year 3)	Nil	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
There are no financial implications to be noted as a result of this refresh. However there are risks within the register that should they materialise, would have a significant financial impact on the authority.

Cross-Council Implications
A risk is an unexpected event or action that can adversely affect the Council's ability to achieve its objectives and successfully execute its strategies. Risk Management is about managing opportunities and threats to objectives. Therefore good risk management will assist the Council in delivering its services and achieving its priorities.

List of Background Papers

Corporate Risk Register

Contact Andrew Moulton	**Service** Governance
Telephone No Tel: 07747 777298	**Email** andrew.moulton@wokingham.gov.uk

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Corporate Risk Register
Summary Page
Updated 25/1/19

APPENDIX A

Key

Current Score:	VH = Very High	H = High	M = Medium	L = Low

Risk Matrix

LIKELIHOOD				
6			5, 12	
5			3	
4			4, 8	1, 6
3			2	7
2	11		9	10
1				
	2	4	6	8

IMPACT

Summary of Corporate Risks

1. Budgeting & financial mgt (inc forecasting demand & investment and commercial strategy)
2. Corporate Governance
3. Workforce
4. Local Plan (including five year land supply)
5. Delivering SEN Role
6. Safeguarding Children and Young People
7. Safeguarding Adults
8. Information and Data Management
9. 21st Century Council programme
10. Health and Safety
11. BREXIT
12. Ofsted

Key to Abbreviations

JMS	Councillor Julian Mc Ghee Sumner
PJ	Councillor Pauline Jorgensen
PB	Councillor Parry Baath
SM	Councillor Stuart Munro
PHS	Councillor Pauline Helliar-Symons
JH	Councillor John Halsall
AP	Councillor Anthony Pollock
SW	Councillor Simon Weeks
PM	Councillor Philip Mirfin
HT	Heather Thwaites, Interim Chief Executive
GE	Graham Ebers, Director of Corporate Resources & Deputy Chief Executive
SH	Sarah Hollamby, Director of Customer & Localities
CC	Carol Cammiss, Director of Children's Services
AM	Angela Morris, Director of Adult Social Services
AC	Audit Committee
O&S	Overview & Scrutiny Management Committee

Ref	Risk	Existing controls	Further Actions to Mitigate Risk	Lead	Risk Rating

	Cause	Consequence/ Impact			Officer	Member	Impact	Likelihood	Current Score	Appetite/ Target
1	**<u>Budgeting and financial Management (inc forecasting demand & investment and commercial strategy)</u>**. *Budgeting* - Effectively and efficiently achieving outcomes for the community as per the Council's Plans and Priorities. Risks: a budget that is:- a. Value for money b. Achieves priorities c. Meets statutory duties d. Sustainable in the long term e. Owned and managed by those responsible and accountable f. Controlled and monitored to targets set *Demand* - Effectively preventing and managing demand-led services in areas such as Adult Social Care and Children's Social Care and special needs. Risks:- a. Forecasting and profiling the demand for the long term. b. Managing increasing public expectations to be realistic to the resources available c. Prevention strategies based on analyses of nature of demand d. Reviewing existing services and/or placements to reduce demand and enable independent living *Investment and Commercial Strategy* Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning The Council has significant investment aspirations including Strategic Development Locations (SDL's), Town Centre Regeneration, school rebuilds and housing provision. This is in the context of limited resources and a complex funding source. The Council needs to ensure		• Medium term financial (MTFP) planning processes over three years. • Budget management and monitoring controls as set out in financial regulations • Internal Audit programme covering major financial systems • 21st Century Council programme • Reduce capital programme in line with delay in receipts • Increase borrowing • Closer monitoring of on-site schemes • Quarterly refresh of capital programme • Refreshed corporate asset management plan • Annual capital bidding system and capital programme in place • Programme Board for Town Centre Regeneration Project • Forward Funding • Asset Review Programme • Meeting the Council's strategic capital	• Performance management framework implemented and embedded covering Borough Plan, Executive Priorities, Services Plans, individual staff appraisals • Improvement Plan for ASC to incorporate risks including increasing demand. • Improvement Plan for Children's Services to incorporate risks including increasing demand. • Ongoing response to internal/external audits and sources of external assurance including implementation of recommendations. • Establishment of Capital Review Group (CRG) and Investment Group with appropriate senior representation. • Establishment of healthy reserve balances in line with good practice. **Audit Committee to monitor progress**	HT AM CC GE GE GE	JMS PB PHS AP AP AP	8	4	H	L

	it guards against any unmet critical needs and prioritise its aspirations over the long term. Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning. Risks:- • Insufficient school places for children with additional needs • Financial shortfall • Negative PR • Loss of rental income • Scheme slippage / downsizing **This is a permanent, long-term risk to the Council.**	requirement, incorporating Strategic Development Locations (SDL) in the medium term financial plan. • Resource planning for Strategic Development Locations (SDL) infrastructure needs**.** • £100m commercial investment approved.							
2	**<u>Corporate Governance</u>** <u>(inc Political Governance)</u> Governing effectively to ensure achievement of the Council's purpose and priorities within the resources available and achieving value for money. Risks:- a. Assurance framework for carrying out different types of assurance activity that is understood and discharged effectively b. Leadership culture and tone models good governance (i.e. Nolan principles of standards in public life) c. Effective risk management d. Effective decision making tools that inform value for money proportionate to the risk e.g. evidenced in business cases e. Effective arrangements for the safe delivery of services and programmes for the delivery of projects. Effective political governance that sets priorities to deliver purpose, allocate resources, and holds to account through development of policies and strategies Risks:- a. Leadership and culture sets the tone that models and holds to account, motivates, and learns from delivery b. Quality decisions that are based on balancing evidence, public perceptions and political considerations	• Council and Borough Plan processes. • Code of Local Corporate Governance • Constitution (e.g. Member/Officer protocol, delegations, Code of Conducts etc)	• Internal Audits of Corporate Governance, Performance Management and Risk Management and implementation of recommendations. • LGA Peer Review action plan completion from 2017 • Training for staff (e.g. Code of Conduct e learning by 30/11/18) **Audit Committee to monitor progress**	HT HT HT	JMS JMS JMS	6	3	M	L

	c. Effective monitoring of priorities, risks and business cases d. Leadership and culture sets the tone that models and holds to account, motivates, and learns from delivery e. Quality decisions that are based on balancing evidence, public perceptions and political considerations f. Effective monitoring of priorities, risks and business cases g. Effective Administration and effective political opposition supported to achieve outcomes for the community h. Members partake in development and training to effectively discharge their responsibilities i. Clarity of officer/member boundaries and relationships to avoid politicisation of officers. **This is a permanent, long-term risk to the Council.**								
3	**<u>Workforce (inc Capacity)</u>** A workforce that is stable, motivated and attracted to work for the Council with an organisational workload that is aligned to capacity available. Resources are allocated proportionate to priority and risk. Risks:- a. Reward and recognition policies b. Recruitment policies c. Value for money d. Sustainable e. Career development opportunities f. Clarity of roles g. Empowerment – staff have appraisal and development that gives clarity to objectives, nurtures and develops, in addition to holding to account. **h.** Clarity of offer **This is a permanent, long term risk to the Council.**	• People strategy • Management training	• Updated People strategy including HR continuous improvement plan. **Overview & Scrutiny to monitor (through oversight of Performance reports)**	GE	AP	6	5	H	L
4	**<u>Local Plan (including five year land supply)</u>** Reputational, financial and legal risks associated with the process of producing the latest Local Plan.	• Project plan in place • Resources allocated to deliver project plan.	To be updated by Louise S	SH	SM	6	4	H	L

	This is a temporary, shorter-term risk to the Council.								
5	**Delivering SEN Role** Role of the Council in SEN in an environment of academies and national formulas for education budgets, and increasing special needs. Risks:- a. Relationship with education partners and schools b. Future services and delivery models that are fit for purpose c. School places meeting the growth in population d. Managing special needs demand and public expectations of Council resources. **This is a temporary, shorter-term risk to the Council.**		A draft SEND strategy will be ready for consultation from 31 January 2019 with the aim of agreeing final strategy 31 March 2019 or earlier. Will include plans to reduce High Needs Block overspend. **Children's Services Overview & Scrutiny to monitor**	CC	PHS	6	6	VH	L
6	**Safeguarding children and young people** Risk of serious or significant harm to a vulnerable child or young person with whom the council is working. WBC has a duty to care for the needs of, and to provide safeguarding services for the most vulnerable children and young people in the Borough. Risks:- • Avoidable harm to a vulnerable child • Damage to reputation • Litigation • Low staff morale – loss of staff, unstable workforce – poor outcome for future children, impact on budget. • Impact of being judged inadequate by Ofsted could lead to statutory/government intervention. **This is a permanent, long-term risk to the Council.**	• Safeguarding Board • Children's Overview & Scrutiny Committee • Policies and Procedures in place • Staff appraisal. Supervision, training • Practice Framework implementation • Quality Assurance System and framework • Recruitment and retention strategy embedded	**Children's Services Overview & Scrutiny to monitor** -	CC	PHS	8	3	H	L
7	**Safeguarding adults**	• Policies and Procedures (multi-agency) in place	• Appointment of a new Strategic Safeguarding Lead –start in January 2019.	AM	PB	8	3	H	L

	Risk of avoidable serious harm or death of a vulnerable adult for whom the council has a responsibility. WBC has a statutory duty to meet the care needs of, and safeguard the most vulnerable adults in the Borough. It is vital to ensure continued focus on Safeguarding systems and procedures. Risks:- • Damage to reputation and public confidence in services • Possible external intervention from statutory agencies such as DH, CQC or Police) • Disruption of service provision • Litigation • Impact on staff morale • Recruitment and retention problems • Removal and replacement of senior managers **This is a permanent, long-term risk to the Council.**	• Referral system and assessment processes • Management and supervision of staff • Staff Training and awareness • Berkshire West Safeguarding Board operating effectively • Optalis contract as emergency provider in case of external provider failure • Care Governance Quality Assurance system for providers • Market Failure Protocol in place	• Development of strategic safeguarding plan Jan 2019 • Embed a new Quality Assurance Framework which includes QA of adult safeguarding practice. March 2019 • Implement a Scheme of delegation for Optalis social care staff Dec 2018						
8	**<u>Information and Data Management</u>** Risk of a significant fine and reputational damage due to loss of confidential/ sensitive data. The Council holds information of a confidential and sensitive nature. There have been past breaches of information security and it is an area under intensive scrutiny from the Information Commissioner. The primary risk is likely to concern paper based documents. Loss of confidential or sensitive data, leading to a significant fine and reputational damage for the council, with a potentially damaging impact on the resident/ customer to which the information relates. Risks:- • Imposition of a substantial fine • Reputational damage/ bad media coverage • Breach of contract and payment of damages • Loss of future business • Increased number of complaints • Loss of trust from partner organisations/contractors.	• Information Security Management System - governance for this area including SIRO & IGG roles • Encrypted IT equipment • Secure storage/ lockers at council offices • Robust policies in this area • Mandatory refresher programme recently undertaken • Archiving of physical records • Training for staff on document / information	Internal compliance review of information and data management arrangements to CLT before end of March 2019 with implementation of associated recommendations.	GE	AP	6	4	M	L

	This is a permanent, long-term risk to the Council.	handling and basic information security practice • Secure e-mail solution • Document marking scheme • GDPR implemented for 25/5/18 to address new obligations							
9	**<u>21CC Programme</u>** Risk that the council, delivering and embedding a major change programme, the 21 Century Council, fails to maintain service delivery standards, to manage information security, to deliver associated savings, or to effect the change, in structures and behaviours, to deliver the vision for the new Council's operating model There needs to be clarity and understanding, among officers and politicians, about the new model and its implementation. Buy-in and commitment from staff will be necessary as ways of working change. Effective leadership, management, engagement and training will be critical factors. Risks that:- a. the council does not deliver its vision and priorities because of service failure. b. Service delivery failure c. Organisational dissonance d. Confusion or discontent within the organisation e. Lack of clarity f. Non-compliance with legislation **This is a temporary, shorter-term risk to the Council.**	• C21 Council Business Case and Implementation Plan • Joint Board • C21C Member-Officer Working Group through Special Finance Group • Council Plan • Programme and project management • Performance management framework • ECLT & CLT ownership and leadership • Monthly highlight report on Joint Board progress • Programme Board Risk Register and risk management • Departmental 21st Century Council Risk Registers	**Lessons Learned from Phase 1 incorporated into the plan and approach for Phase 2.** **Governance arrangements examined by Audit Committee.** **Overall programme considered by Overview & Scrutiny management committee.** **Regular update reports considered and approved by Executive – next due on 21/2/19 which will provide detail of end of Phases 1 and 2, with Phase 3 being incoproated into Service and Financial Planning.**	HT	AP	6	2	M	L

10	**<u>Health and Safety</u>** If the council fails to protect the health and safety of its employees and other persons who come into contact with the services provided by the authority there is a risk of serious injury or death. There is a risk that a health and safety failing could result in an intervention by a relevant enforcement agency and potential enforcement action or conviction. Risks:- a. Enforcement notices and HSE fines for intervention b. Unlimited fine c. Custodial Sentence d. Publicity Order (Corporate Manslaughter only) e. Remedial Order (Corporate Manslaughter and HSWA) f. Publicity Order (Corporate Manslaughter only) g. Removal of key staff h. Reputational damage i. Service delivery loss due to depleted resources j. Damage to individuals wellbeing k. An avoidable death or injury **This is a permanent, long-term risk to the Council.**	• Risk profile - Awareness of high risk areas • Ongoing compliance with statute policies and procedures • Seeking Assurance programme • Compliance with Health and Safety policies and procedures • Management and Member performance monitoring reporting from Health and Safety staff • Contracts with third parties include a Health and Safety clause, setting out what the Council expects from the contractor in relation to Health and Safety obligations • Incident reporting, following Health and Safety process should death or serious injury occur • Training of managers and staff - Health and Safety training • Annual historical benchmarking review of all Corporate Manslaughter and relevant Health and	Health and Safety training to be included in the Management Induction Programme for all new managers. Training for managers and staff who procure and manage contracts to ensure that the Council as a client discharges its H&S duties. To set up a Lone Working and Work-related Violence Task & Finish Group with representatives from all services to develop a short term and long term improvement plan. Latest statutory Health & Safety report for 2017/18 refers to current plans. Internal Audit of Health & Safety reported April 2018 giving a category 2 “good” level of assurance.	GE	AP	8	2	M	L

		Safety cases in order to identify the key risk area • Review across the Council of the arrangements in place to protect staff against violence at work							
11	**<u>BREXIT</u>** As the UK prepares to implement the result of the 2016 Referendum there is a risk that the Council fails to plan for the implications and impacts of BREXIT. **This is a temporary, shorter term risk to the Council.**	• Self-assessment of preparedness undertaken • Corporate Working Group established to develop more detailed responses.	• Further guidance from Central Government **Overview & Scrutiny to monitor**	GE	AP	2	2	L	L
12	**<u>Ofsted</u>** Children's Services will be inspected by our regulators later in 2019. There is likely to be a SEND inspection and an ILACS inspection. The directorate will not be given notice of when the inspections will occur. Risks:- a. The directorate is vulnerable to a negative inspection in the SEND inspection. The predicted outcome for the ILACS inspections is to receive a grading of requires improvement.	• Performance data • Self evaluation	• Work has been commissioned to ameliorate the position. • The continuous improvement board is being set up from February 2019 and will address actions arising.	CC	PHS	6	6	VH	

TITLE	**Treasury Management Strategy 2019/22 – 2021/22**
FOR CONSIDERATION BY	Audit Committee on 6 February 2019
WARD	None Specific;
DIRECTOR	Deputy Chief Executive - Graham Ebers

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)
Effective and safe use of our resources to deliver service improvements and service continuity through the management of the council's cash flow and investments whilst providing sustainable funding for the capital programme.

RECOMMENDATION

The Audit Committee is asked to recommend to the Council for approval the following:

1) Capital Prudential indicators, 2019/20;
2) Borrowing strategy 2019/20;
3) Annual Investment Strategy 2019/20;
4) Flexible use of capital receipts strategy;
5) MRP policy; and
6) Treasury indicators: limits to borrowing activity 2019/20.

SUMMARY OF REPORT

This report outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to treasury management for the next three years. Further reports are produced during the year: a mid-year monitoring report and post-year end outturn report. A key requirement of this report is to explain the risks associated with the treasury service and how they will be managed. This strategy covers:

- The Council's debt and investment projections;
- The expected movement in interest rates;
- The Council's borrowing strategy;
- The Council's investment strategy – treasury and commercial;
- Treasury management prudential indicators and limits on activity;
- Local treasury issues;
- The Council's minimum revenue provision (MRP) policy. This represents an amount set aside for the repayment of the principal element of outstanding loans which must be charged to revenue each year;
- The Council's strategy relating to the flexible use of capital receipts. This relates to revenue projects which will use capital receipts as funding. The Council currently has no plans to use this.

The report also gives an overview of the UK and world economic outlook.

BACKGROUND
The Council must operate a balanced budget; this means cash raised during the year should meet its cash expenditure. A key part of the Council's treasury management operations is to ensure that this cash flow is adequately planned and managed, with temporarily surplus monies being invested in suitable low risk counterparties, thus providing adequate liquidity initially before considering maximising investment return.

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 prudential borrowing need of the Council; essentially the longer term cash flow planning to ensure the Council can meet its capital expenditure programme. This management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses (internal borrowing). On occasion, debt previously drawn may be restructured to meet Council risk or cost objectives.

Analysis of Issues

External Debt
For 2019/20, the Council's level of external debt is estimated to increase by £125m to £304m. This increase is a prudent estimate based on the capital expenditure plans but will be influenced by the rate of delivery of the capital programme.

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
CFR (Year-end position)	337,865	472,063	528,136	552,200
Less other long term liabilities	8,600	8,600	8,600	8,600
Expenditure to be funded by borrowing	**329,265**	**463,463**	**519,536**	**543,600**
External Borrowing c/fwd.	(145,256)	(145,256)	(304,170)	(357,182)
Loan Maturities	3,348	2,738	41,988	3,482
New Loans	(40,000)	(36,652)	(125,000)	(95,000)
External borrowing	**(181,908)**	**(304,170)**	**(357,182)**	**(383,700)**
Internal borrowing	(147,357)	(159,293)	(162,354)	(159,900)
External Borrowing	(181,908)	(304,170)	(357,182)	(383,700)
Total borrowing	**(329,265)**	**(463,463)**	**(519,536)**	**(543,600)**
Cumulative expenditure to be funded by borrowing	329,265	463,463	519,536	543,600

The total forecast additional borrowing (£544m - £329M = £215m) will be fully met by the following resources within 20 years

- Returns on investments from WTCR and WHL including capital receipts
- Returns on investments from Commercial properties
- Developer contributions from forward funded programmes

The Council will only borrow when needed and the decision on the optimum time to borrow will be taken by the chief finance officer.

Capital Expenditure
For 2019/20 capital expenditure is £237m; all capital expenditure must be for the benefit of the local taxpayer and in accordance with the Council's Borough Plan and its priorities. The table below shows the three-year programme by council key priorities:

	Year 1 2019/20	Year 2 2020/21	Year 3 2021/22	Total
Asset area greater than 10m in year 1	**£'000**	**£'000**	**£'000**	**£'000**
Strategic asset enhancement/New build	**64,655**	**1,100**	**4,175**	**69,930**
Road & Highways infrastructure improvement scheme	**47,729**	**62,478**	**46,261**	**156,468**
Town Centre Regeneration	**42,276**	**11,482**	**3,951**	**57,710**
Schools	**20,558**	**7,667**	**3,323**	**31,548**
Social Housing	**22,470**	**20,692**	**10,338**	**53,499**
Subtotal	**197,688**	**103,418**	**68,049**	**369,155**
Assets area less than 10m in year	**39,509**	**47,023**	**30,688**	**117,220**
Total	**237,197**	**150,442**	**98,736**	**486,375**

Investment forecast year end outturn
For 2019/20 the budgeted returns on investments (external and internal companies) is set to increase from 2018/19 estimated outturn by £3m to £3.6m. This increase is due to further investment in the commercial activities of the Council. The interest received will used to repay the debt-financing costs on the borrowing of the commercialisation agenda and make a contribution to the Council's balances.

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000
Internal investments	**(2,515)**	**(3,182)**	**(3,357)**
Local Authorities/fund managers *	**(546)**	**(451)**	**(451)**
	(3,061)	**(3,634)**	**(3,808)**

Note: * interest is charged to WHL, Wokingham Housing ltd and the HRA.

Appendices

Treasury Management Strategy 2019/20 – 2020/21	Appendix A
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FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£237m capital £3.0m revenue income		Revenue & Capital
Next Financial Year (Year 2)	£150m capital £3.6m revenue income		Revenue & Capital
Following Financial Year (Year 3)	£98.7m Capital £3.8m revenue income		Revenue & Capital

Other Financial Information
None

List of Background Papers
Appendices as listed above

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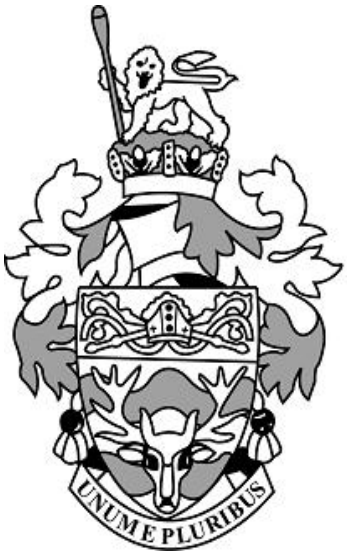
WOKINGHAM BOROUGH COUNCIL



WOKINGHAM
BOROUGH COUNCIL

Treasury Management

Treasury Management Strategy Report 2019-20

Contents

Appendices

1. Introduction

This report presents the Council's Treasury Management Strategy for 2018-19 in accordance with the Council's Treasury Management practices.

The Council is required to receive and approve three main reports each year, which incorporate a variety of policies, estimates and actuals. These are the Treasury Management Strategy (this report), the Treasury Management mid-year report and finally the annual outturn treasury report:

Treasury Management Strategy:

The first and most important report covers:

- The treasury management strategy ***-How the investments and borrowings are to be organised*** including treasury indicators
- An investment strategy -***The criteria on how investments are to be managed and the limitations including investment in assets***
- The capital plans (including prudential indicators)
- A minimum revenue provision (MRP) policy ***-How outstanding borrowing in respect of capital expenditure is repaid by charges to revenue over time***

Treasury Management mid-year report

This report updates members with the progress of the capital position, amending prudential indicators as necessary, and confirming whether the treasury strategy is being complied with or whether any policies require revision.

Annual Treasury report

This report, which is produced following the year-end provides details of a selection of actual Prudential and Treasury indicators and actual Treasury operations compared with the estimates within the strategy.

Training

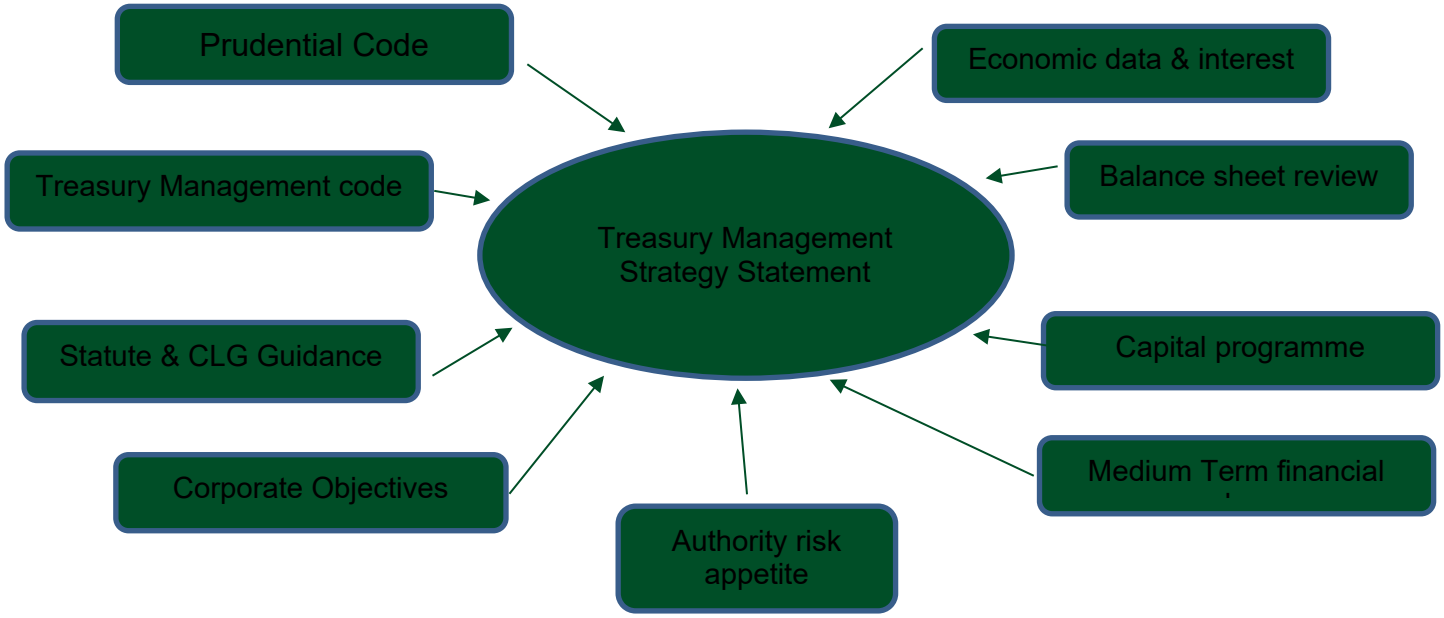
The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training for members will be arranged in the period covered by this report.
The training needs of treasury management officers are periodically reviewed.

Treasury management consultants

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

2. Treasury management policy statement

Factors that shape the Treasury Strategy



Wokingham Borough Council Treasury Management Policy Statement for 2019/20 is:

- The Council defines it's treasury management activities as:
    - the management of the Council's investments and cash flows, banking, money market and capital market transactions,
    - the effective control of the risks associated with above mentioned activities and,
    - the pursuit of optimum performance consistent with those risks.
- The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
- The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

3. The Economy and Interest Rates forecast

World update

Most European stocks rose to near two month highs on the 25-01-19, following gains on Wall Street the day before, and further helped by US Treasury Secretary saying that the US and China were “making a lot of progress” on trade talks, The DAX and CAC close 1.4% and 1.1% higher respectively. By contrast the FTSE dipped by 0.1% to post a fourth successive negative session dragged lower by Vodafone, which stumbled to an eight and a half year low, and stronger Sterling, which pushed to a fourteen week high 1.3201, helped by news that the Democratic Unionist Party will support the PMs Brexit deal this week and hopes that exit from the EU will not occur without a deal. Wall Street closed strongly higher, with gains of 0.75-1.3% on the news of the government reopening. Asia/Pacific markets have had a mixed session this morning, as investors remain cautious ahead of earnings reports. The Nikkei turned lower as the Yen firmed but gains were seen in Sydney, lifted by energy and mining stocks.

UK update

According to the CBI Distributive Trades Survey, retail sales volumes were unchanged in the year to this month, following the contraction in December. Sales for the time of year remain well below average, and are the weakest since November 201. The outlook for the coming months is more upbeat, with sales volumes and orders expected to increase next month. In December The British Bankers Association reported that mortgages approvals are up by 6.4% from a year earlier. Net mortgage lending rose to £1.325bn, the weakest since August 2016, with credit card lending falling by £0.02bn, the largest fall since April 2016.

Investments

The December MPC meeting delivered the expected no change vote with a unanimous 9-0 vote. The November Inflation Report suggested that inflation could breach the target level within the three year time horizon and later comments that the budget measures had the "potential to be significant" will add to the view that the Bank has its finger on the rate trigger, but has been restrained by the impasse over Brexit. A February/March rate hike is off the table. The markets are still slightly pricing in a hike later in the year, the expectations for November/December rated around 50% likely.

The markets' expectations of a rate cut by the end of this year are seen as about 5% in December, but the possibility has been weakened by a potential of a Brexit delay. Given the volatility of sentiment, and the UK's uncertain Brexit position, the prospect that 2019 may pass without a rate hike remains a possibility

Table 2: Interest rate forecast @ 28-01-19:

	Mar 2019	Jun 2019	Sept 2019	Dec 2019	Mar 2020	Jun 2020	Sept 2020	Dec 2020
Bank rate								
Link	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%
Cap econ	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%
5yr PWLB rate								
Link	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%
Cap econ	1.90%	2.20%	2.40%	2.70%	2.70%	2.80%	2.80%	2.90%
10yr PWLB rate								
Link	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%
Cap econ	2.30%	2.60%	2.80%	3.10%	3.10%	3.10%	3.10%	3.10%
25yr PWLB rate								
Link	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%
Cap econ	2.80%	3.10%	3.30%	3.60%	3.50%	3.50%	3.40%	3.40%
50yr PWLB rate								
Link	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%
Cap econ	2.70%	2.90%	3.20%	3.20%	3.40%	3.40%	3.40%	3.40%

4. The Council's Capital Expenditure and Financing 2019/20

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- financed in year, immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need or;
- funded by prudential borrowing (internal or external).

The capital expenditure plan is one of the key drivers of the treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Table 3: Capital expenditure

	2018/19 Estimated outturn	2019/20 Budget	2020/21 Budget	2021/22 Budget
	£'000	£'000	£'000	£'000
Council's infrastructure capital	81,923	119,200	126,806	82,631
HRA	6.995	13,045	6,154	6,154
Commercial activities	56,602	104,52	17,482	9,951
Total	145,519	237,197	150,442	98,736

Note: The capital strategy forms part of the Council's budget submission which will be presented to full Council in February 2019and summary by key area can be found in appendix B

The capital financing requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from resources (e.g. capital receipts, capital grants etc.). It is essentially a measure of the Council's indebtedness and its underlying borrowing need to support its capital expenditure plans. Any capital expenditure above which has not immediately been paid for will increase the CFR. Tables 3, 4 and 5 below demonstrate the Council's infrastructure capital HRA, and Commercial activities CFR.

Table 3: Capital financing requirement:	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Council's infrastructure capital				
Opening balance (estimated)	182,899	162,289	200,024	248,413
Capital expenditure funded by Borrowing	69,414	41,422	52,078	22,024
Transfer to commercial activities CFR	(87,113)			
Sub Total	165,200	203,712	252,101	270,437
Less Minimum Revenue Provision				
MRP charge	(2,495)	(3,340)	(3,340)	(3,340)
PFI principal charge	(283)	(215)	(215)	(215)
Swap funding /repayment of forward funding	(133)	(133)	(133)	(133)
Loan repayment				(976)
Sub Total	(2,911)	(3,688)	(3,688)	(4,664)
Closing Balance	162,289	200,024	248,413	265,773
Movement	(20,610)	37,734	48,390	17,360

The in-year increase in the general fund borrowing requirement is due to a large increase in the capital programme for schemes such as the town centre regeneration, loans to group companies and commercial investments; this will later reduce when capital receipts from scheme asset disposals are received or loans repaid. It has also increased as a result of forward funded schemes (where the Council funds infrastructure in advance of agreed developer contributions, to enable developments to proceed). These will be cleared as the developer contributions are received. The CFR is also reduced each year by the minimum revenue provision (MRP) (see section 4).

Table 4: Capital financing requirement:	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
HRA				
Opening balance (estimated)	88,650	85,552	85,372	81,890
Capital expenditure funded by Borrowing	0	1,808	0	0
Sub Total	88,650	87,360	85,372	81,890
Less Minimum Revenue Provision				
Loan repayment	(3,098)	(1,988)	(3,482)	(4,223)
Sub Total	(3,098)	(1,988)	(3,482)	(4,223)
Closing Balance	85,552	85,372	81,890	77,667
Movement	(3,098)	(180)	(3,482)	(4,223)

The table above shows the Housing Revenue account (HRA). The capital expenditure of £13,045k in 2019/20 is funded by the major repairs reserve, HRA revenue contribution, Right to Buy Receipts and borrowing

Table 5: Capital financing requirement:	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Commercial activities				
Opening balance (estimated)	0	87,113	182,979	194,144
Capital net expenditure funded by Borrowing	0	95,866	11,165	9,951
Transfer from Council's infrastructure capital CFR	87,113			
Sub Total	87,113	182,979	194,144	204,096
Less Minimum Revenue Provision				
*				
Sub Total	0	0	0	0
Closing Balance	87,113	182,979	194,144	204,096
Movement	87,113	95,866	11,165	9,951

*MRP to reviewed and realigned between capital infrastructure CFR and commercial activities CFR during 2019-20

Due to central Government support falling, part of the Council's financial strategy is also based on diversifying income streams, by growing revenue generating assets through its commercial activities (e.g.: housing companies).

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is

available to meet both the day-to-day running costs of the Council and also its capital plans.

The treasury team manages the daily cash balances to meet daily cash requirements, but on occasions the Council may have to borrow short-term to meet cash-flow requirements and this is permissible under this strategy.

For its capital expenditure, the Council does not have to borrow all of this money externally but uses some of its internal cash reserves to fund this expenditure. This is referred to as "internal borrowing". This means that the Council's capital financing requirement is higher than its external borrowing figures. External borrowing may be sourced from bodies such as the Public Works Loan Board [PWLB] or the money markets, and the decision on when to borrow is taken by the chief finance officer.

5. Balance sheet forward projection

The following is a forecast funds available for investment/internal borrowing position at year end. Where the funds available for investments go into deficit, this illustrates the need for further external loans.

Table 6: Wokingham Borough Council -Balance Sheet Projections:

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
CFR (Year end position)	337,865	472,063	528,136	552,200
Less other long term liabilities	8,600	8,600	8,600	8,600
Expenditure to be funded by borrowing	**329,265**	**463,463**	**519,536**	**543,600**
External Borrowing c/fwd	(145,256)	(145,256)	(295,920)	(353,932)
Loan Maturities	3,348	1,988	41,988	3,482
New Loans	(40,000)	(36,652)	(116,000)	(100,000)
External borrowing	**(181,908)**	**(295,920)**	**(353,932)**	**(395,450)**
Internal borrowing	(147,357)	(167,543)	(165,604)	(148,150)
External Borrowing	(181,908)	(295,920)	(353,932)	(395,450)
Total borrowing	**(329,265)**	**(463,463)**	**(519,536)**	**(543,600)**
Expenditure to be funded by borrowing	329,265	463,463	519,536	543,600
Variance	**0**	**0**	**0**	**0**
% of internal borrowing to CFR	**44.75%**	**36.15%**	**31.88%**	**27.25%**
Internal borrowing funded by				
General Fund Balance	9,124	9,124	9,124	9,124
Housing Revenue Account Balance (inc MRA)	7,511	7,511	7,511	7,511
Collection Fund Adjustment Account	9,338	9,338	9,338	9,338
Earmarked reserve	51,200	51,200	51,200	51,200
Capital Receipts Reserve	5,567	5,567	5,567	5,567
Provisions (exc. any accumulating absences)	3,005	3,005	3,005	3,005
Capital Grants Unapplied	26,397	26,397	26,397	26,397
Reserves available for Investment	**112,142**	**112,142**	**112,142**	**112,142**
Working Capital (Deficit) / Surplus	66,222	66,222	66,222	66,222
Internal borrowing	(147,357)	(167,543)	(165,604)	(148,150)

Total amount available for investment/ (external borrowing required)	31,007	10,821	12,760	30,214

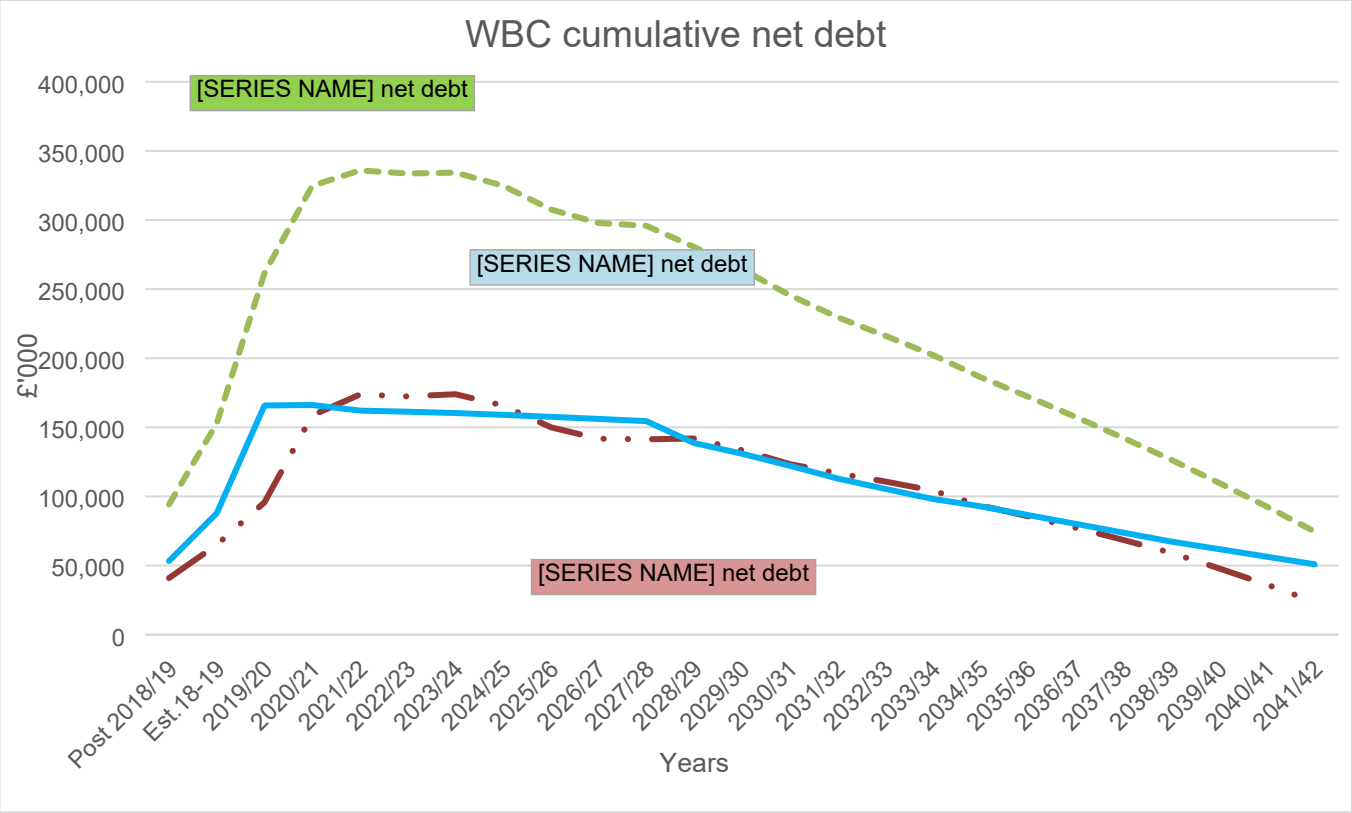
NB: a targeted sustainable surplus balance of £10m is considered prudent

Total forecast additional borrowing (£544m - £329m = £215m)

The additional borrowing of £215m taken out between 1st April 2019 and 31st march 2022 will be a mixture of external and internal. This is planned to be repaid within 20 years by the following resources:

- Returns on investments from WTCR and WHL including capital receipts
- Returns on investments from Commercial properties
- Developer contributions from forward funded programmes

The graph below illustrates the additional borrowing cumulative net debt over the next 20 years.



The council's capital programme now includes many large infrastructure schemes that span a number of years. It is not uncommon or unreasonable for the profiling of these to be further refined once the initial budget has been approved and the precise timing of expenditure becomes clearer as projects move from feasibility and planning through to delivery.

Our capital finance specialists meet regularly with our key project and programme managers to update predictions and find ways to improve the accuracy of our capital monitoring. This has included the receipt of more detailed information on projects and

a new profiling methodology for the capital programme in accordance with The Royal Institute of British Architects (RIBA) planned stage process. Work will continue to do what we can to improve the financial arrangements, however it should be recognised that it contains by its nature, sizeable and often uncontrollable, fluctuations which can often impact on the level of debt financing costs and investment returns in-year.

6. Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the 'CFR') through a revenue charge known as the minimum revenue provision (MRP). The Council is also permitted to undertake additional voluntary payments known as voluntary revenue provision (VRP).

The Ministry for Housing, Communities and Local Government (MHCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision lies with the Council although a prudent provision must be made. The Council is recommended to approve the MRP Statement which can be found in Appendix G.

Some principles in the guidance have been reflected in the Council strategy now the guidance has been finalised. However where we identify an alternative prudent and more pertinent MRP policy, we are permitted to follow that instead.

For 2019/20 Wokingham Borough Council's MRP policy will follow the main MHCLG principles, except in some instances, the table below summarises other area where WBC are planning to divert from the draft guidance.

Table 7: Changes to MRP Guidance

Expenditure type	Guidance maximum 'C', (MRP repayment period)	WBC MRP charging policy
Freehold land	maximum of 50 years	Maximum 60 years
bridges	maximum of 50 years	Maximum 60 years
Investment assets	maximum of 50 years	10% of maximum 60 years asset life
loan capital in WBC holdings	20 years	No charge - Loan covered by Asset
Forward funding Schemes	maximum of 50 years	No charge – Developer contribution are used to repay principle

Under section 21(1A) of the Local Government Act 2003 local authorities are required to "have regard" to this guidance.

The guidance remains guidance not an enforced treatment.

7. External borrowing and compliance with treasury limits and Prudential Indicators for debt

The previous sections cover the overall capital programme but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators found in table 4. Further detail on each of these indicators is included in Appendix D.

Table 8: Prudential Indicator – Debt

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Authorised limit £,000	334,954	585,500	656,000	684,500
Gross external borrowing £,000	(181,908)	(295,920)	(353,932)	(395,450)
HRA debt limit £,000	102,000	102,000	102,000	102,000
% of internal borrowing to CFR	44.75%	36.15%	31.88%	27.25%
Maturity structure of borrowing	See Appendix C			
Operational boundary for external debt £'000	334,954	492,000	551,000	575,000
Ratio of financing costs to net revenue stream*	1.59%	3.01%	3.01%	3.01%

*Note: The increase is due to the estimated increase in borrowing for the capital programme but as shown above the savings from this investment are already being shown. (These figures are estimates and will be updated once the MTFP has been approved by budget)

In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (plus the estimates of any additional capital financing requirement for the current and next two financial years). This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

8. Investments

The treasury management team ensure the cash flow is adequately planned, with surplus monies being invested in suitable low risk counterparties, providing adequate liquidity initially before considering maximising investment return. The return on investments contributes to the Council's budget for both the general fund and housing revenue account.

8.1 Annual investment strategy

CIPFA Code and the DCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

The Council may invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list, as shown below

	* Minimum credit criteria / colour band*	Money Limit	Max. maturity period
DMADF – UK Government	UK sovereign rating	£20M	3 months
UK Government gilts	UK sovereign rating	£5m	1 year
UK Government Treasury bills	UK sovereign rating	£5m	1 year
Money market funds	AAA	£5m	Liquid
Local authorities	N/A	£5m	2 year
Term deposits with banks and building societies**	AA	£5m	Liquid
Term deposits with building societies	A-	£5m	Liquid
CDs or corporate bonds with banks and building societies	AA	£5m	Liquid

Note*: The credit criteria shown here is Fitch credit ratings agencies long term, When using the credit rating the Council will use the lower of the three credit rating agencies.(See appendix D)

Note **for each banking group the following limits will apply, dependent on the rating of the Parent Bank (i.e. Lloyds group)

- AAA : £7m with a maximum average duration of 1 year
- AA- :£5m with a maximum average duration of 6 months

The investment policies can be found in Appendix D

8.2 Investment projections treasury and non-treasury

The table below shows the Councils investment projections

Table 9: Table 11: Investments (total amount invested during the financial year)

	2018/19 Estimate £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Loans to WHL/HRA/WTCR	79,032	115,159	123,205	128,887
Local Authorities/fund managers	178,782	180,000	180,000	180,000
Total	257,815	295,159	303,205	308,887

8.3 Non-Treasury Investments

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the MHCLG Guidance, the Council may also make loans and investments for service purposes or where the local authority is setting up local authority owned companies. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this Treasury Management Strategy. Commercial properties investment will be made in line with previously strategy agreed by Council on 23/11/2017. Where these investments have treasury or MRP implications this strategy will be followed.

8.4 Cash flow management

The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short term investments such as those to cover precept payments. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

8.4 Estimated Investment return rates

Investment returns are likely to remain low during 2019/20 but to be on a gently rising trend over the next few years'. Political uncertainty will continue to weigh on the economy and imported inflation is likely to be a feature for some time.

8.5 Compliance with treasury limits and prudential indicators for investments

As with debt, the Council has a framework prudential indicators for investment which it is uses to assess its investment strategy. The Council is asked to approve the following indicators found in table 7. Further detail on each of these indicators is included in Appendix D.

Table 8: Prudential Indicator – Investment **2019/20**

Review of investment strategy to be undertaken during year	Yes
Investment risk benchmarking	
Security - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables	0.10%
Liquidity – in respect of this area the Council seeks to maintain:	
Bank overdraft	£0.5m
Liquid short term deposits available with a week's notice of at least	£5m
Weighted average life benchmark is expected to be 0.25 years, with a maximum of 0.5 years.	0.5 Years
Investments – internal returns above the 7 day LIBID rate	
Investment Balance as 31st March 2020	£40.m
Returns on investments	£3.6m

9. Flexible use of Capital Receipts

Since December 2015, the government has provided local authorities with the flexibility of utilising capital receipts for qualifying expenditure. This is to enable authorities to fund transformation and cost reduction programmes from capital receipts rather than revenue expenditure.

The guidance recommends that a strategy should be prepared that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility and that the strategy is approved by full Council. The Council currently does not plan to use this flexibility.

10. Updates to Treasury Management Strategy

The Director of Corporate Services confirms that the treasury team will abide by the strategy set out within this document and will report to the Audit Committee in November 2018 as part of the mid-year report any breaches to limits and prudential indicators.

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Wokingham Borough Council Capital Program 2019-2022

MTFP Category	Year 1 2019/20 £'000	Year 2 2020/21 £'000	Year 3 2021/22 £'000
Affordable Housing	22,470	20,692	10,338
Clean, green and enjoyable spaces	1,504	469	419
Economic prosperity	70,577	12,806	15,726
Encouraging physical and mental wellbeing	10,219	12,825	75
Ensuring opportunity for all children	22,118	7,667	3,323
Promoting quality of life for vulnerable adults	2,774	3,873	3,392
Sustainable towns and parishes	101,052	81,580	58,515
Traffic congestion	6,484	10,530	6,948
Total	237,197	150,442	98,736

Note: To see the detail of the capital programme and strategy 2019/22 refer to papers for the executive 22nd February 2019

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Prudential Indicators - Forecast 2019-2022

Debt

Table 1: Capital financing requirement:	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Council's infrastructure capital				
Opening balance (estimated)	182,899	162,289	200,024	248,413
Capital expenditure funded by Borrowing	69,414	41,422	52,078	22,024
Transfer to commercial activities CFR	(87,113)	0	0	0
Sub Total	165,200	203,712	252,101	270,437
Less Minimum Revenue Provision				
MRP charge	(2,495)	(3,340)	(3,340)	(3,340)
PFI principal charge	(283)	(215)	(215)	(215)
Swap funding /repayment of forward funding	(133)	(133)	(133)	(133)
Loan repayment				(976)
Sub Total	(2,911)	(3,688)	(3,688)	(4,664)
Closing Balance	162,289	200,024	248,413	265,773
Movement	(20,610)	37,734	48,390	17,360

Table 2: Capital financing requirement:	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Commercial activities				
Opening balance (estimated)	0	87,113	182,979	194,144
Capital net expenditure funded by Borrowing	0	95,866	11,165	9,951
Transfer from Council's infrastructure capital	87,113			
Sub Total	87,113	182,979	194,144	204,096
Less Minimum Revenue Provision				
	0			
Sub Total	0	0	0	0
Closing Balance	87,113	182,979	194,144	204,096
Movement	87,113	95,866	11,165	9,951

Prudential Indicators - Forecast 2019-2022

Table 3: % Ratio of financing costs to net revenue stream:

Council's infrastructure capital & Commercial activities

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£'000	£'000	£'000	£'000
Financing Costs (including MRP & interest costs)	3,527	3,527	3,527	3,527
Divide By				
Net Revenue Stream	115,289	117,128	117,128	117,128
Total services	3.06%	3.01%	3.01%	3.01%

Note: These will be updated once the MTFP budget is set by council

HRA

Table 4: Capital financing requirement HRA

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Opening balance (estimated)	88,650	85,552	85,372	81,890
Capital expenditure funded by Borrowing	0	1,808	0	0
Sub Total	88,650	87,360	85,372	81,890
Less Minimum Revenue Provision				
Loan repayment	(3,098)	(1,988)	(3,482)	(4,223)
Sub Total	(3,098)	(1,988)	(3,482)	(4,223)
Closing Balance	85,552	85,372	81,890	77,667
Movement	(3,098)	(180)	(3,482)	(4,223)

Prudential Indicators - Forecast 2019-2022

General Fund & HRA

Table 5: Capital financing requirement – General fund and HRA

Wokingham Borough council (tables 1,2 &4)	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2021/22 Budget £'000	2021/22 Budget £'000
Opening balance (estimated)	271,549	334,954	468,375	524,448
Capital net expenditure funded by Borrowing	69,414	139,097	63,243	31,975
Sub Total	340,963	474,051	531,618	556,423
Less Minimum Revenue Provision				
MRP charge / loan repayment	(5,593)	(5,328)	(6,822)	(8,539)
PFI principal charge	(283)	(215)	(215)	(215)
Swap funding /repayment of forward funding	(133)	(133)	(133)	(133)
Sub Total	(6,009)	(5,676)	(7,170)	(8,887)
Closing Balance	334,954	468,375	524,448	547,536
Movement	63,405	133,421	56,073	23,089

Table 6: Borrowing – Internal/external split

	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
External Borrowing c/fwd.	(145,256)	(181,908)	(295,920)	(353,932)
Loan Maturities	3,348	1,988	41,988	3,482
New Loans	(40,000)	(36,652)	(116,000)	(100,000)
External borrowing	(181,908)	(295,920)	(353,932)	(383,700)
Internal borrowing *	(147,357)	(167,543)	(165,604)	(148,150)
External Borrowing	(181,908)	(295,920)	(353,932)	(395,450)
Total borrowing	(329,265)	(463,463)	(519,536)	(543,600)
Expenditure to be funded by borrowing	329,265	463,463	519,536	543,600
Variance	0	0	0	0
% of internal borrowing to CFR	44.75%	36.15%	31.88%	27.25%

Note:* This will be reviewed on a regular basis to make sure we are getting best value for money. The Council is currently using its own cash flow (as rates of return are low), if rates start to increase a new external loan may need to be taken out.

Prudential Indicators - Forecast 2019-2022

The council's capital programme now includes many large infrastructure schemes that span a number of years. It is not uncommon or unreasonable for the profiling of these to be refined once the initial budget has been approved and the precise timing of expenditure becomes clearer as projects move from feasibility and planning through to delivery. Our capital finance specialists meet regularly with our key project and programme managers to update predictions and find ways to improve the accuracy of our capital monitoring. This has included the receipt of more detailed information on projects and a new profiling methodology for the capital programme in accordance with The Royal Institute of British Architects (RIBA) planned stage process. Work will continue to do what we can to improve the financial arrangements, however it should be recognised that it contains by its nature, sizeable and often uncontrollable, fluctuations

Table 7: Budgeted Maturity structure of borrowing

	Estimated 18-19	budgeted 19-20
Under 12 months	1.51%	2.00%
12 months to 2 years	18.41%	15.00%
2 years to 5 years	10.27%	15.00%
5 years to 10 years	12.77%	10.00%
10 years and above	57.05%	58.00%
	100.00%	100.00%
Average borrowing rate	3.10%	3.50%

Prudential Indicators - Forecast 2019-2022

Investment

Table 8 : Investment (total amount invested)

	2018/19 Estimate £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Loans to WHL/HRA/WTCR	79,032	115,159	123,205	128,887
Local Authorities/fund managers	178,782	180,000	180,000	180,000
Total	257,815	295,159	303,205	308,887

Table 9: Interest Received from investments

	2017/18 Estimated Outturn £'000	2018/19 Estimated Outturn £'000	2019/20 Budget £'000	2020/21 Budget £'000
Loans to WHL/HRA/WTCR		(2,515)	(3,182)	(3,357)
Local Authorities/fund managers		(546)	(451)	(451)
	(1,627)	(3,061)	(3,634)	(3,808)

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Investment policies and strategies

ANNUAL INVESTMENT STRATEGY

The CIPFA Code and DCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

The council may invest its surplus funds in accordance with its time and monetary limits for institutions on the Council's counterparty list, as shown below

	Fitch Long term Rating	Moody's	Standard & Poors	Money Limit	Time Limit
Banks 1 higher quality	***F1+/AAA***	***P-1Aaa***	***A-1+/AA-***	**£5m**	**365 days**
Banks 1 medium quality	***F1+/AA-***	***P-1Aa3***	***A-1+/AA-***	**£3m**	**365 days**
Building Societies				**£2m**	**6 Months**
Debt Management Office Account (DMADF)	-	-	-	**£20m**	**3 Months**
Guaranteed Organisations	-	-	-	**£2m**	**3 Months**
other local authorities				**£5m**	**732 days**
Other Institution Limits (Money Market Funds, Gilts and Supranational investments)	-	-	-	**£5m**	**365 days**

Creditworthiness policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections ; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

Investment policies and strategies

The Director of Corporate Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

Credit Rating criteria:

Credit rating information is supplied by Link Asset Services, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list.

- Banks a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
    - I. Short term – F1+ (Fitch), P-1 (Moody's), A-1+ (Standard and Poor's)
    - ii.Long term – AA (Fitch), Aa2 (Moody's) , AA (Standard and Poor's)
- Building societies. Subject to a minimum asset size of £5bn and meeting a minimum credit rating of A-.
- UK Government: including Money market funds – the Council and its Fund Managers will use AAA rated funds.

Bank criteria

The Council will only use good credit quality banks which:

- are UK banks; and/or
- are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA (in house team only)

• Group Limits – For each banking group the following limits will apply, dependent on the rating of the Parent Bank

- AAA : £7m with a maximum average duration of 1 year
- AA- :£5m with a maximum average duration of 6 months

Other institutions

Gilts and the Debt Management Account Deposit Facility (DMADF)

• Local authorities, parish councils etc.

• Supranational institutions – multilateral investment organisations such as the World Bank or European Investment Bank (sometimes used by the Fund Managers)

Note: investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Investment policies and strategies

TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The CLG issued Investment Guidance in 2010, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council applies its principles to all investment activity. In accordance with the Code, the Director of Corporate Services has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained above in this Appendix and in the body of the treasury strategy statement found in Appendix A section 7.

Investment policies and strategies

SPECIFIED INVESTMENTS:

These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is very low. These would include sterling investments with:

- The UK Government (such as the Debt Management Office, UK Treasury Bills or a gilt with less than one year to maturity).
- Supranational bonds with less than one year to maturity.
- A local authority, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. This covers a money market fund rated AAA by Standard and Poor's, Moody's or Fitch rating agencies
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society) this covers bodies with a minimum short term rating of F1+ (or equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

NON-SPECIFIED INVESTMENTS:
Non-specified investments are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments with:

a.	Supranational Bonds greater than 1 year to maturity (a) Multilateral development bank bonds - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). (b) A financial institution that is guaranteed by the United Kingdom Government (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
b.	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.
c.	Building societies which are subject to a minimum asset size of £5billion and meeting a minimum credit rating of A-. These investments will be restricted to a maximum period of 6 months and £2m per institution.

Investment policies and strategies

d.	NatWest Bank for the provision of Banking Services. The Council is limited to daylight exposure only (i.e. the flow of funds in and out during the day), with a maximum limit of 1 working day.
e.	A body which has been provided with a government issued guarantee for wholesale deposits within specific timeframes. Where these guarantees are in place and the government has a AAA sovereign long term rating these institutions will be included within the Council's criteria, temporarily until such time as the ratings improve or the guarantees are withdrawn. Monies will only be deposited within the timeframe of the guarantee. In addition to this, a maximum limit of £2m with a maximum duration of 3 months is also set.
f.	Eligible Institutions for the HM Treasury Credit Guarantee Scheme initially announced on 13 October 2008, with the necessary ratings required. These institutions have been subject to suitability checks before inclusion and have access to HM Treasury liquidity if needed.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.
The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	* Minimum credit criteria / colour band	Money Limit	Max. maturity period
DMADF – UK Government	UK overeign rating	£20M	3 months
UK Government gilts	UK sovereign rating	£5m	1 year
UK Government Treasury bills	UK sovereign rating	£5m	1 year
Money market funds	AAA	£5m	Liquid
Local authorities	N/A	£5m	2 year
Term deposits with banks and building societies	AA	£5m	Liquid
CDs or corporate bonds with banks and building societies	AA	£5m	Liquid
Corporate bond funds	AA	£5m	3 Years

Investment policies and strategies

Currently not in our strategy are the following investment categories:

a.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.
b.	**Loan capital** in a body corporate.
c.	**Property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.

Accounting treatment of investments

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken

The monitoring of investment counterparties

The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded after an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Corporate Services, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers

It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's investment strategy, which will be defined in an updated Treasury Management Strategy post fund manager's appointment. The performance of each manager is reviewed at least quarterly by the Director of Corporate Services.

Wokingham Borough Council's approved counter parties

Banks and Building Societys

Counterparties	Counter party type	Country	Individual Limit £'000
Australia and New Zealand Banking Group	Bank	Australia	3,000
Bank Nederlandse Gemeenten N.V.	Bank	Netherlands	3,000
Bank of Scotland	Bank	United Kingdom	3,000
Barclays Bank	Bank	United Kingdom	3,000
Commonwealth bank of Australia	Bank	Australia	3,000
DBS Bank Ltd	Bank	Singapore	3,000
DZ BANK AG Deutsche Zentral-Genossenschaftsbank S	Bank	Germany	3,000
HSBC Bank PLC	Bank	United Kingdom	3,000
Landesbank Berlin AG	Bank	Germany	3,000
Landwirtschaftliche Rentenbank	Bank	Germany	3,000
Lloyds banking group	Bank	United Kingdom	3,000
National Australia Bank Limited	Bank	Australia	3,000
Nederlandse Waterschapsbank N.V.	Bank	Netherlands	5,000
Nordea Bank AB	Bank	Sweden	3,000
NRW Bank	Bank	Germany	3,000
Oversea-Chinese Banking Group	Bank	Singapore	3,000
RBS (Authority's Own bank group)	Bank	United Kingdom	N/A
Royal Bank of Canada	Bank	Canada	5,000
Svenska Handelsbanken	Bank	Sweden	3,000
Swedbank	Bank	Sweden	3,000
Toronto-Dominon Bank	Bank	Canada	3,000
United Overseas Bank limted	Bank	Singapore	3,000
Westpac Banking Corporation	Bank	Australia	3,000
Coventry BS	Building Society	United Kingdom	2,000
Leeds BS	Building Society	United Kingdom	2,000
Nationwide BS	Building Society	United Kingdom	2,000
Skipton BS	Building Society	United Kingdom	2,000
Yorkshire BS	Building Society	United Kingdom	2,000

Money Market

Counterparties	Counter party type	Country	Individual Limit £'000
Deutsche Global (Henderson)	Money Market Fund	Ireland	5,000
Goldman Sachs	Money Market Fund	United Kingdom	5,000
Goldman Sachs Govt	Money Market Fund	United Kingdom	5,000
Invesco	Money Market Fund	United Kingdom	5,000

Government Bodies & Local Authorities

All Government bodies and all local authorities in the United Kingdom local authorities are available to the council to invest in.

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2019/20 Wokingham Borough Council MRP policy

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), and it is also allowed to undertake additional voluntary payments (voluntary revenue provision - VRP).

Department for Communities and Local Government (DCLG) regulations have been issued which require the full Council to approve a MRP Statement in advance of each financial year. The decision lies with the Council although a prudent provision must be made. The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008, the MRP policy will be:

- MRP will be based on the CFR (option 2);

These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all borrowing (including PFI and finance leases) the MRP policy will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

This option provides for a reduction in the borrowing need over approximately the asset's life. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

Repayments included in annual PFI or finance leases are applied as MRP.

Wokingham will follow the statutory guidance, except in some instances, as disclosed below. Final guidance is expected to be issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to this guidance.

For some investment assets WBC believes it would be overly prudent to charge MRP in line with the draft guidance, as it would stop the Council making an investment which could otherwise strengthen its financial position, due to an artificial self-implemented restriction.

For assets which WBC or one of its subsidiary companies is investing in purely for the return on investment, we will charge a 10% charge for MRP. The MRP will be applied with a maximum useful economic life of 50 years for freehold land, and 40 years for other asset classes.

2019/20 Wokingham Borough Council MRP policy

Alternative prudent assumptions will be used in the following circumstances.

Expenditure type	Guidance maximum 'C', (MRP repayment period)	WBC MRP charging policy
Freehold land	maximum of 50 years	Maximum 60 years
bridges	maximum of 50 years	Maximum 60 years
Investment assets	maximum of 50 years	10% of maximum 60 years asset life
loan capital in WBC holdings	20 years	No charge - Loan covered by Asset
Forward funding Schemes	maximum of 50 years	No charge – Developer contribution are used to repay principle

TREASURY MANAGEMENT SCHEME OF DELEGATION

- Audit and Executive recommend approval of treasury management strategy and policies to Council.
- Executive consider Budget and recommends its approval to Council
- Council approve the Treasury Management Strategy
- Audit monitors treasury management decisions to ensure compliance with approved Treasury Management Strategy

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers

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Glossary of terms

Authorised Limit – 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 desirable, could be afforded in the short term, but is not sustainable in the longer term.

Boundary Limit – Is an estimate of the authorised limit but reflects an estimate of the most likely, prudent, but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements.

Capitalisation direction – This permits local authorities to fund expenditure by borrowing or capital receipts, which would under normal accounting rules, need to be funded from revenue resources.

CFR - Capital Financing Requirement- reflects the Council's underlying need to borrow for a capital purpose. It shows the total estimated capital expenditure that has not been resourced from capital or revenue sources. This requirement will eventually be met by revenue resources through the Minimum Revenue Provision mechanism.

CIPFA Prudential Code - is a professional code of practice to support local authorities in taking capital investment decisions. Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services in accordance with the Prudential Code.

Consumer price index (CPI) - measures changes in the price level of a market basket of consumer goods and services purchased by households.

Cost of carry - Costs incurred as a result of an investment position. These costs can include financial costs, such as the interest costs on borrowing in advance of the expenditure.

Ministry of Housing, Communities and Local Government (MHCLG) formerly Department for Communities and Local Government (DCLG) - Is a ministerial department, supported by 12 agencies and public bodies. They are working to move decision-making power from central government to local councils. This helps put communities in charge of planning, increases accountability and helps citizens to see how their money is being spent.

ECB - European Central Bank.

FED - The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States.

Fair value - Is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties

knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price

Financing Cost to Net Revenue Stream-The percentage of the revenue budget set aside each year to service debt financing costs.

Gilt - is a UK Government liability in sterling, issued by HM Treasury and listed on the London Stock exchange.

Gross domestic product (GDP) - is the market value of all officially recognized final goods and services produced within a country in a given period of time (usually the fiscal year).

Local enterprise partnerships - Are partnerships between local authorities and businesses. They decide what the priorities should be for investment in roads, buildings and facilities in the area.

London Interbank Bid Rate - the rate at which banks will bid to take deposits in Eurocurrency from each other. The deposits are for terms from overnight up to five years.

MPC - Monetary Policy Committee Interest rates are set by the Bank's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be achieved.

MRP - Minimum Revenue Provision- Is a provision the council has set a method of revenue to repay loans arising from capital expenditure financed by Borrowing.

Private Finance Initiative (PFI) - This is funding public infrastructure projects with private capital.

PWLB - Public Works Loan Board

- is a statutory body operating within the Debt Management Office, an Executive Agency of HM Treasury.

PWLB certainty rate - A reduced interest rate from PWLB to principal local authorities, which provided required information to government on their plans for long-term borrowing and associated capital spending.

Quantitative easing (QE) -A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Voluntary Revenue Provision (VRP) – This a discretionary provision to reduce the unfinanced capital expenditure (Borrowing) by additional loan repayments.

TITLE	**Internal Audit & Investigations Q3 Progress Report**
FOR CONSIDERATION BY	Audit Committee on 6 February 2019
WARD	None Specific
DIRECTOR	Deputy Chief Executive – Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

Assurance on the work of the Internal Audit & Investigations service.

RECOMMENDATION

That the Audit Committee note the 2018/19 Internal Audit and Investigation Progress Report to the end of quarter 3 (attached).

SUMMARY OF REPORT

The Internal Audit and Investigation Progress Report details the work of the team from the 1 April 2018 to 31 December 2018. This is an update on the progress towards the formation of the Chief Audit Executive opinion which will contribute towards the 2018/19 Annual Governance Statement. It provides assurance through the Audit Committee to the Council and the wider public that the Council is managing its key risks and identifies any weaknesses identified in the governance, risk management and internal control environment.

The report provides the opportunity for the Assistant Director, Governance (and Chief Audit Executive) to provide details of the work undertaken this financial year and highlight any areas of weakness the Committee should be aware of.

Background

This Progress Report fulfils two functions for the Audit Committee:

- It enables the Committee to hold the Assistant Director, Governance (and Chief Audit Executive) to account for the performance of internal audit and investigation.
- It facilitates the Audit Committee in holding management to account for managing weaknesses identified during the course of internal audit and investigation activities.

Analysis of Issues

The Audit Committee should ensure that it receives the coverage, performance and results of Internal Audit and Investigation activity and any other appropriate additional assurances.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue
Next Financial Year (Year 2)	Nil	Yes	Revenue
Following Financial Year (Year 3)	Nil	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
None

Cross-Council Implications
The internal audit & investigations service covers all aspects of the Council's operations and governance.

List of Background Papers
None

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Appendix A

Shared Audit and Investigation Service
Wokingham Borough Council Performance Report
2018/19 to 31 December 2018
Audit Committee 6 February 2019

2018/19 Quarterly Progress Report (to 31 December 2018)

1. Executive Summary

1.1 This report summarises the work of Internal Audit and Investigation to 31 December 2018.

1.2 The financial years 2017/18 and 2018/19 have seen a period of significant change within the Council as it goes through its 21 CC Transition Programme. The audit of Corporate Governance is being completed this month and a comprehensive work programme, supported by CLT, will be used to address any areas identified for improvement.

1.3 The internal audit of the 21CC Programme continues with ongoing work on the financial aspects of the programme currently under review.

2. Internal Audit

Performance against Audit Plan to 31 December 2018

2.1 Appendix A(I) presents progress made against the approved 2018/19 Internal Audit and Investigation Plan approved at the meeting of this Committee on 7 February 2018. We are reporting progress as at the 31 December 2018 and are actively managing the Audit Plan to take account of developments regarding the 21st Century Council initiative to ensure that our audit work is focussed on assisting the organisation to achieve its objectives and to add value.

2.2 There were 10 audits carried forward from 2017/18, all of which have been completed. For 2018/19 audits there are 9 at final report stage, 7 at draft report stage, 6 are work in progress and there are 4 grant certifications.

Third and Fourth Category Audit Opinion Reviews

2.3 There are no audit reviews receiving the third or fourth category of audit opinion (as shown in Appendix A(I) – Legend Section) that have been completed to Final Report stage since the quarter 2 progress report submitted to the Audit Committee on 7 November 2018 that relate to the 2018/19 financial year. An update on those audits that were reported in the quarter 2 progress report that had received a third category of audit opinion are as follows;

2017/18 Housing Rents – See separate report on agenda.

2017/18 Debtors - The 2017-18 review of Debtors included 3 High Risk concerns. With regard to the concern of adequate resourcing required to robustly collect corporate debt, as part of 21 CC, the permanent debtor staff have transferred to Customer Delivery Officers (CDOs) and some training has recently commenced for other CDOs on debtors work. There are two agency workers covering specialist debtor work on Adult Social Care debt/reporting /complex cases, and the other chasing the very old debt. Future options for improving debt recovery are under consideration.

Further work is required on the management information template. Once produced, it will be presented to CLT and Joint Board for approval and then introduced. The verification that all services receive their monthly aged debt report are to be considered as part of the 21 CC review of budget books and enhancements early in 2019.

The 2018-19 Debtors audit is due to be undertaken in Quarter 4 and will verify the progress as stated above and further assess the impact of the recent structure changes.

Shared Building Services - The direction of travel of the Shared Building Service is positive, and in view of the current and future changes it is progressing clearly towards a position where controls are substantially complete and generally effective. The Term Contracts have been tendered and let and a new cloud-based system is bedding-in to more effectively manage works and payments. The tender process for the service contracts is to commence in 2018-19 Quarter 4, for which some of the original risks remain in the interim and these will be re-visited in detail as part of the 2019/20 Internal Audit review.

2.4 Where concerns are classified as being Very High or High that have been tolerated by management, these are highlighted to the Audit Committee. There have been no cases in Quarter 3 of Very High or High concerns being tolerated by management.

2.5 Management are given one month between the draft and final reporting stage to address any countermeasures and, where applicable, improve the overall audit opinion. There was one audit (as shown in Appendix A(I)) during the quarter where the opinion was improved from the draft to final report stage.

2.6 Contingency days to date have been spent on consultancy work requested by management.

3. Corporate Investigations

3.1 Corporate investigations have been working on the areas of housing, disciplinary cases and code of conduct cases. In addition to this there is an ongoing investigation at a school, which has been referred to the Police by the Shared Legal

Services. An update on progress has been requested and it has been advised that as this is a Police investigation, there is currently no further update.

Regulation of Investigatory Powers Act

3.2 No new investigations have been undertaken during 2018/19 that have required Regulation of Investigatory Powers Act surveillance approval to be requested.

Audit and Investigation - Other Work Areas

Audit

IIA External Review Against the Public Sector Internal Audit Standards

3.3. As reported in the Annual Report submitted to the Audit Committee on 6 June 2018, Internal Audit service providers are required to have an independent external assessment every five years. As such, a consultant representing CIPFA was engaged to complete this external assessment during quarter 4 of last year.

3.4 The service achieved a “Generally Compliant” category which is the top opinion and a small number of recommendations were made to ensure full compliance with the Standards, plus a number of advisory points raised to assist the development of the Shared Service and the achievement of best practice going ahead.

3.5 The Audit Committee should note that progress in addressing the recommendations and suggestions is continuing.

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2018/19 Wokingham Borough Council Internal Audit Plan Status (as at 31 December 2018)

AUDIT TITLE	DIRECTORATE	STATUS	DRAFT AUDIT REPORT OPINION	FINAL AUDIT REPORT OPINION
2018/19 Audits				
Key Financial Systems				
Treasury Management	Corporate Services	FINAL	2	2
Fixed Asset Register	Corporate Services	DRAFT	2	
BACS, CHAPS and Cheques	Corporate Services	WIP		
Budgetary Control and Reporting	Corporate Services	WIP		
Capital Accounting	Corporate Services	WIP		
Cash and Bank Reconciliation	Corporate Services	WIP		
General Ledger	Corporate Services	WIP		
Governance Building Blocks				
Constitution	Cross Cutting	FINAL	2	2
Performance Management	Cross Cutting	FINAL	2	2
Corporate Governance	Cross Cutting	DRAFT		
Project Management	Cross Cutting	DRAFT	2	
Risk Management	Cross Cutting	DRAFT	2	
Key Corporate Risks				
21st Century Council	Cross Cutting	FINAL	2	
Vulnerable Child	People	DRAFT	2	
Key Operational Risks				
Shared Property Services (follow up review)	Corporate Services	FINAL	3	3
Public Health	Corporate Services	DRAFT	3	
Town Centre Regeneration	Cross Cutting	WIP		
Servicing the Business				
Keep Hatch Primary School	Corporate Services	FINAL	2	2
Sonning C of E School	Corporate Services	FINAL	2	2
Walter Infant School	Corporate Services	FINAL	2	1
Emmbrook Secondary School	Corporate Services	FINAL	1	1
Hawthorn Primary School	Corporate Services	DRAFT	2	
Bus Subsidy Grant	People			C
DfT Transport Capital Grant	People			C
Disabled Facilities Grant	People			C
Troubled Families Grant	People			C
Consultancy				
Planning Controls	Corporate Services			
Building Control	Customer and Locality Services			
Licensing	Customer and Locality Services			

Right to Buy	Customer and Locality Services			
Fosters Extra Care Scheme	People			
2017/18 Audits Carried Forward				
Key Financial Systems				
General Ledger	Corporate Services	FINAL	2	2
Housing Rents	Corporate Services	FINAL	3	3
Benefits/CTRS	Corporate Services	FINAL	1	1
Budgetary Control and Reporting	Corporate Services	FINAL	2	2
Capital Programme	Corporate Services	FINAL	1	1
Debtors	Corporate Services	FINAL	3	3
Payroll	Corporate Services	FINAL	2	2
Creditors	Corporate Services	FINAL	2	2
Key Corporate Risks				
21st Century Council	Cross Cutting	FINAL	2	2
Servicing the Business				
Colleton Primary School	Corporate Services	FINAL	2	1

Audit Opinion – Legend	
1. Complete and Effective	• All necessary Treatment Measures are in place and are operating effectively. • Residual risks have been reduced to an acceptable level • There are no unacceptable financial implications. • Concerns reported are minor. (Risk management processes are strong and controls are adequate and effective).
2. Substantially Complete and Generally Effective	• Most key Treatment Measures are in place and these operate effectively. • The majority of residual risks have been reduced to an acceptable level. • There are some unacceptable financial implications. • The majority of concerns are of a predominately moderate impact/likelihood. (Risk management processes are good and controls are adequate although only partially effective).
3. Range of Risk Mitigation Controls is incomplete and risks are not effectively mitigated	• Not all key Treatment Measures are in place and / or do not operate effectively • Residual risks have not all been reduced to an acceptable level • There are some unacceptable financial implications associated with more than one risk mitigation control or because of a lack of risk mitigation control. • There are a number of concerns that are predominantly of a major impact/likelihood. (Risk management processes and controls are adequate but not effective in mitigating the identified risks).
4. There is no effective Risk Management process in place	• There are no appropriate Treatment Measures in place. • Residual risks remain at an unacceptable level • Reported concerns are predominantly of a catastrophic or major impact/likelihood. (Risk management processes and controls are weak).
C	Certification
E	Exempt from classification

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TITLE	**2019/20 Internal Audit & Investigations Plan**
FOR CONSIDERATION BY	Audit Committee on 6 February 2019
WARD	None Specific
DIRECTOR	Deputy Chief Executive, Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

The Council's 2018/20 Internal Audit and Investigation Plan details the proposed Internal Audit and Investigation activity and seeks to:

- provide all key stakeholders with independent assurance that the risks within the Council's fundamental systems and processes are being effectively and efficiently managed;
- allow the Council to demonstrate it is complying with the relevant legislation and applicable professional standards;
- demonstrate the Council's commitment to good governance and a zero tolerance approach towards fraud and corruption; and
- set out that the Team's resources are being properly utilised.

RECOMMENDATION

That the Audit Committee consider and approve the 2019/20 Internal Audit and Investigation Plan.

SUMMARY OF REPORT

This report presents the 2019/20 Internal Audit and Investigation Plan (Appendix A)

A consultation draft Internal Audit and Investigation Plan was presented to Corporate Leadership Team on 22 January 2019.

If adopted, the key financial implications for the Council are revenue costs of providing, and contributing to, the Shared Audit and Investigation Service.

Background

The Accounts and Audit Regulations 2015 require that every local authority undertakes an effective internal audit of their risk management, control and governance processes. The Regulations also require the authority to produce an Annual Governance Statement (AGS) that forms part of the Statement of Accounts.

In addition, under S151 of the Local Government Finance Act 1972, the Council's Director of Corporate Services (as S151 Officer) has a statutory duty to maintain an appropriate framework of internal controls over the Council's financial affairs. Reliance upon Internal Audit and their annual programme of work in reviewing the operation of systems of internal control and financial management is fundamental to the fulfilment of that responsibility.

Internal Audit work is undertaken in accordance with the Internal Audit Charter, approved by Audit Committee in September 2016, which complies with the Public Sector Internal Audit Standards 2016.

The 2019/20 Internal Audit and Investigation Plan has been agreed by CLT, is attached to this report. It has been prepared using the Council's Corporate and Service Risk Registers, where possible. It is intended to demonstrate how the Internal Audit and Investigation Service supports the overall aims and objectives of the Council. Consultations have been undertaken with key internal stakeholders:- the Chief Executive and all Directors.

The Internal Audit and Investigation Plan focuses efforts / cost on only those audits that feed directly into:-

- the regulated External Audit which would result in higher external audit costs if not done internally.
- other regulated reporting but only the minimum effort necessary to deliver compliance, including the AGS.
- facilitating the provision of an overall opinion each year for the Audit Committee on the operation of the Council's internal control environment, risk management arrangements and governance framework.
- other CLT/Executive/Audit Committee strategic & tactical priorities which are at high risk from changes in customer needs, funding, processes or resourcing.
- areas identified by External Audit as requiring improvement.
- areas of audit or investigation which are deemed to be 'important' to support operating objectives.

In addition to the work of Internal Audit, there are other sources of assurance that the Chief Executive, Directors and the Audit Committee can place reliance on. Where these sources of assurance are provided by suitably qualified third parties, Internal Audit may be able to place reliance on these providers.

Whilst a number of audit reviews within the Audit Plan are effectively considered as mandatory (key financial systems, particularly high risk items etc), others enter or leave the Audit Plan based on the views of officers and CLT/Audit Committee.

There is another aspect to the Internal Audit Service and that is the provision of advisory or consultancy services. This work is available at management request and where agreed, supplied on demand. The focus of this work is to suggest improvements.

The Internal Audit Service is well placed to provide advice based on its access and knowledge of other parts of the Council, its partners and clients systems and processes. The Investigations element of the Plan includes fraud awareness, proactive fraud drives and investigation of fraud and malpractice.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe financial challenges over the coming years as a result of the austerity measures implemented by the Government and subsequent reductions to public sector funding. It is estimated that Wokingham Borough Council will be required to make budget reductions in excess of £20m over the next three years and all Executive decisions should be made in this context.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	Nil	Yes	Revenue
Next Financial Year (Year 2)	Nil	Yes	Revenue
Following Financial Year (Year 3)	Nil	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
None

Cross-Council Implications
2019/20 Internal Audit and Investigation Plan - Appendix A

List of Background Papers

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Chargeable Audit & Investigations Work

Summary

Area	Description	Proposed Days
Key financial systems	Meeting section 151 and external audit statutory duties	123
Governance building blocks	Facilitating the overall internal audit assurance opinion	50
Key corporate risks	Providing assurance to Management on the Council's most significant risks	110
Operational risks	Providing assurance to Management on the Council's operational risks	215
Fraud & investigation	Focusing on cashable saving fraud work as per agreed strategy	306
Servicing the business	Various, majority of which is at request of management	85
TOTALS		889

Details

Key Financial Systems

Traditionally, the service has undertaken full coverage of the key financial systems below. The coverage is listed in the outline scope. The Service will be continually reviewing this coverage in consultation with the Council's External Auditor and the Director of Corporate Services (section 151 officer) in year to ensure that audit coverage, if any, is relevant and focused correctly.

Audit	Reason for Audit	Outline Scope	Proposed Days	2018/19 Audit
Payroll	Main financial system	To provide assurance that only bona fide, authorised and accurate payments are made in a timely manner; to ensure that all payroll transactions are accurately reflected in the accounting system; to ensure correct classification on payments made to individuals to confirm the Council is compliant with guidance regarding the employment status of workers.	12	Y

Income systems and Debtors	Main financial system	To provide assurance that income-generating activities are identified and accurately invoiced; that all invoices are paid and the income is accounted for and reflected in the Council's accounts; the extent of debt is minimised and overdue accounts are promptly followed up.	8	Y
Payment systems and Creditors	Main financial system	To provide assurance that creditor payments are valid authorised, accurate and timely in respect of goods and services ordered and received by the Council.	8	Y
General Ledger	Main financial system	To provide assurance that all financial transactions of the Council are recorded, including ensuring their completeness and integrity with the aim of providing the data from which management accounts, final accounts and statutory returns can be prepared.	5	Y
Cash & bank reconciliation	Main financial system	To provide assurance on the effectiveness, accuracy and completeness of reconciliations.	5	Y
Cashiers	Main financial system	To provide assurance on the operation of the cashiering function.	5	Y
Treasury Management	Main financial system	To provide assurance on the implementation and operation of the treasury function in compliance with the Treasury Management Strategy.	8	Y
Housing Rents	Main financial system	To provide assurance on effectiveness, timeliness, accuracy and completeness of housing rent collection.	10	Y
Benefits/CTRS	Main financial system	To provide assurance on Benefit/CTRS operations.	12	Y
Council tax and NNDR	Main financial system	To provide assurance on Council tax and NNDR collection and recovery processes.	12	Y

Capital Accounting	Main financial system	To provide assurance that the Council is correctly and accurately accounting for its assets.	10	Y
Budgetary Control and Reporting including MTFP	Main financial system	To provide assurance on the Council's budget setting, budget monitoring including forecasting, budgetary control and reporting process.	15	Y
Fixed asset register	Main financial system	To provide assurance on the completeness and accuracy of the fixed asset register.	8	Y
BACS/CHAPS/Cheques	Main financial system	To provide assurance on the effectiveness, security and accuracy of payments.	5	Y
SUB TOTALS			123	

Governance Building Blocks

These reviews cover the key governance elements and are necessary for the formation of the Head of Internal Audit Opinion (HIAO) and Annual Governance Statement (AGS)

Audit	**Reason for Audit**	**Outline Scope**	**Proposed Days**	**2018/19 audit**
Facilitating the preparation of the AGS	Governance and reporting	To support and advise Directors and Assistant Directors in producing Management Assurance Statements as evidence for the Annual Governance Statement which forms part of the Council's financial statements. To include the golden thread of Corporate Governance	10	Y
Procurement	Building block	To cover; Compliance with Procurement Directive, Engagement with consultants , Compliance with EU thresholds, Compliance with WBC thresholds, Material decisions, Use of standing lists, Major Suppliers	20	N

Corporate Governance	Building Block	To include decision making, vision, strategy, whistleblowing, HR policies and reporting.	20	Y
SUB TOTALS			50	

Key Corporate Risks

With reference to the Council's Corporate Risk Register, these audits are intended to provide assurance to management that the expected mitigating actions and controls to manage risks are operating as expected. All key corporate risks are expected to be covered over a two to three year period.

Audit	**Reason for Audit**	**Outline Scope**	**Proposed Days**	**2018/19**
Transport infrastructure	Key corporate risk	Coverage of risk mitigations as per risk register	10	N
Health & safety	Key corporate risk	Coverage of risk mitigations as per risk register	10	N
Information security including GDPR compliance	Key corporate risk	Coverage of risk mitigations as per risk register	15	Y
Delivering SEN role	Key corporate risk	Coverage of risk mitigations as per risk register	15	N
Vulnerable adults	Key corporate risk	Coverage of risk mitigations as per risk register	20	N
21st Century Council	Key corporate risk	Coverage of risk mitigations as per 21C transitional risk registers	15	Y
Risk that the Council fails to deliver key investment priorities through insufficient resources or inadequate planning	Key corporate risk	Coverage of risk mitigations as per risk register	20	N
Brexit	Key corporate risk	Coverage of risk mitigations as per risk register	5	N
SUB TOTALS			110	

Operational Risks

With reference to the Departmental Risk Registers and through discussion with Directors, these audits are intended to provide assurance to management that the expected mitigating actions and controls to manage risks are operating as expected.

Audit	Reason for Audit	Outline Scope	Proposed Days	2018/19
Procurement cards	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
Shared Property Services (follow up)	Key Operational Risk	Coverage of risk mitigations as per risk register	10	Y
Highways	Key Operational Risk	Coverage of risk mitigations as per risk register	15	N
Governance and operations of WBC Housing companies	Key Operational Risk	To ensure appropriate corporate governance is in place for the WBC companies.	15	N
Leisure Centre Contract	Key Operational Risk	To cover; Contract content, contract management and contract monitoring	15	N
Borough Local Plan	Key Operational Risk	To cover; Achieve, complete and adopt the BLP BLP working Member Group Staff resources and Pan Berkshire Council relationships Changes in national and larger than local planning policy	15	N
Consultation	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
Equality	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
Civil Parking Enforcement	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
Property Assets	Key Operational Risk	Coverage of risk mitigations as per risk register	15	N
Communities	Key Operational Risk	Coverage of risk mitigations as per risk register	20	N
Elections	Key Operational Risk	To review governance, planning and operation of elections	10	N
Direct Payments – Adults	Key Operational Risk	To cover; Policies and Procedures, Application, Self directed and financial assessments, approval, safeguarding guidance, PA employment guidance, support plan, review, performance monitoring and reporting, agreements, financial monitoring and risk assessments, unspent funds and record maintenance	20	N

Direct Payments – Children's (follow up)	Key Operational Risk	To cover; Policies and Procedures, Application, Self directed and financial assessments, approval, safeguarding guidance, PA employment guidance, support plan, review, performance monitoring and reporting, agreements, financial monitoring and risk assessments, unspent funds and record maintenance	10	N
People Services Recovery	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
Childcare Provision	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
Investment Strategy	Key Operational Risk	Coverage of risk mitigations as per risk register	10	N
SUB TOTALS			215	

Fraud and Investigation			
Activity	**Outline Scope**	**Proposed Days**	**2017/18**
Reactive Investigations	Investigation of ad hoc referrals, including whistleblowing work where suspected irregularity has been detected	150	Y
Proactive Investigations	Proactive counter fraud work that includes targeted testing of processes with inherent risk of fraud (Council Tax Reduction, Council Tax Discounts, New Homes Bonus) – to be undertaken jointly with any audits in the same area	80	Y
National Fraud Initiative	Management of Council's provision of data and investigation of matches	10	Y
Member Code of Conduct investigations	Investigations into breaches of Code of Conduct on behalf of the Monitoring Officer	30	Y
Disciplinary investigations	Investigations on behalf of management	30	N
Training	Development and delivery of Fraud Awareness Sessions - authority wide and service specific	3	N
Other	Continued development of Counter Fraud policies in line with current legislation and best practice; providing Statutory data such as Transparency information.	3	N
		306	

Servicing the Business			
Reason	**Outline Scope**	**Proposed Days**	**2018/19**
Optalis	Jointly commissioned by WBC and RBWM as the shareholders.	20	Y
Schools Finance	Undertake testing of the following areas; Governance, Financial Stability, Budget Setting, Budget Monitoring, Payroll and Income.	25	Y
Effectiveness of internal audit	Progress on PSIAS Action Plan.	5	Y
Advice on demand	Requests for adhoc advice on control, risk management and governance issues	10	Y
Grant certifications	Statutory compliance e.g. DfT, Troubled Families	10	Y
Follow ups	High risk only	5	Y
Contingency	To cover management/member and other unforeseen requests throughout the year for both audit and investigation	10	Y
SUB TOTALS		85	

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