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Addenbrooke House Ironmasters Way Telford TF3 4NT

AUDIT COMMITTEE

Date	**Tuesday, 28 January 2020**	Time	**6.00 pm**
Venue	**Meeting Rooms G3/G4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT**		

Enquiries Regarding this Agenda		
Democratic Services	Jayne Clarke	01952 383205
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Committee Membership:	Councillors N A M England (Chair), V J Holt, A Lawrence, K S Sahota, C F Smith (Vice-Chair), W L Tomlinson and P Watling

AGENDA

Continued…

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AUDIT COMMITTEE

Minutes of a meeting of the Audit Committee held on Tuesday, 1 October 2019 at 6.00 pm in Meeting Rooms G3/G4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT

Present: Councillors C F Smith (Vice-Chair), N A M England, V J Holt, A Lawrence and W L Tomlinson

In Attendance:

Apologies: Councillors K S Sahota

AU25 Appointment of Chair

RESOLVED – that Councillor Nathan England be appointment as Chair for the remained of the 2019/20 municipal year.

AU26 Declarations of Interest

None.

AU27 Minutes of the Previous Meeting

RESOLVED – that the minutes of the meeting the Audit Committee held on 23 July 2019 be agreed and signed by the Chair.

AU28 Audit Findings

Grant Thornton, External Auditors, gave a brief update on the Audit Findings report which presented the observations arising from the Audit. This included the conclusion to the work on revaluation of property, plant and equipment which had not been revalued in year and some transactions relating to NuPlace. Additional management representations were awaited before they were in a position to sign off the opinion.

During the debate some Members asked for clarification with regard to the sign-off deadline.

Grant Thornton confirmed that the sign off date was 31 July 2019, but that due to recent changes some Audits had not commenced until August. Although the Audit Opinion was overdue and sufficient assurance had been ascertained to issue the opinion it was acknowledged it was past the deadline.

AU29 Update Report on the Work of Internal Audit

The Principal Auditor presented the report which gave on overview of progress made against the Annual Audit Plan. There had been no changes to the plan between the period 1 July 2019 and 6 September 2019.

A total of four reports had been issues within the reporting period Newport Pool (Amber), Syrian Refugee (Yellow), Horsehay Golf Centre (Yellow) and Benefits (Green). Progress had been made with regard to Direct Payments which had moved to Yellow. Further testing to take place with a fuller Audit in January 2020.

No unplanned work had been undertaken during the reporting period although an audit had taken place at Oakengates Town Council as part of a three year agreement with them.

Internal Audit maintained a quality Assurance and Improvement Programme in order to comply with Public Sector Internal Audit Standards (PSIAS) which ran alongside the quality review process. The Team Leader undertook monthly independent checks to ensure that they complied with requirements of the PSIAS, the Rules of the Code of Ethics, Internal Audit processes and procedures and the approved Internal Audit Charter. Only one minor issue had been found from these checks and this had been fed back to aid continuous improvement in the service.

During the discussion, some Members were pleased that follow ups took place and that Members could see this being monitored.

RESOLVED – that the report be noted.

AU30 Public Sector Internal Audit Standards - Self Assessment

The Audit & Governance Team Leader presented the report on Public Sector Internal Audit Standards (PSIAS) self-assessment which had now been completed. The assessment demonstrated that Internal Audit fully complied with 69% and partially complied with 31% of the standards set. An action plan had been drawn up to ensure that requirements were fully complied with in the future.

During the discussion some Members were pleased to note the internal checks and asked if Member checks were due and if they also needed an external check.

The Audit & Governance Team Leader confirmed to Members that an external check was undertaken once every 5 years and that the next check was due in 2021/22.

RESOLVED – that the contents of the self-assessment be noted.

AU31 Speak Up/Whistleblowing Policy

The Audit & Governance Team Leader presented a brief overview of the Speak Up (Whistle Blowing) Policy 2019 which was reviewed and approved every 2 years. Members were asked to note that the reporting channels had been updated to provide easier reporting methods which now included a confidential internet friendly referral form to allow anonymous referrals to be made.

During the discussions, some Members asked if they had been able to test the system by a referral being made, if antifraud and corruption information was reported and if the Council undertook benchmarking. Other Members asked who decided if referrals were malicious or vexatious and how the updated Policy was communicated to staff.

The Audit & Governance Team Leader confirmed that limited referrals were received even though more channels of reporting were now available, but as there were less Red and Amber reports it was felt that the Council had strong governance and straightforward fraud and prevention controls. It was the Council's policy to report on antifraud and corruption and that the policy was shared within the West Midlands Fraud Group and it was comparable with other policy documents within the Group. With regard to vexatious or malicious referrals, this had yet to be tested although procedures were in place with the Customer Relationship Team, the Freedom of Information (FOI) process and good practice and that the Assistant Director Governance, Procurement & Commissioning and the Governance & Legal Services Delivery Manager made any decisions on such complaints. Once the updated Policy had been agreed, an online Ollie course would be available and this would be communicated in the Staff News, Managers briefings and on flyers/posters in order to have a dynamic approach to promoting the new Policy.

RESOLVED – that the adoption of the Speak Up (Whistleblowing) Policy 2019 be approved.

The meeting ended at 6.23 pm

Chairman: ....

Date: Tuesday, 28 January 2020

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TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE – 28TH JANUARY 2020
CABINET – 20TH FEBRUARY 2020
COUNCIL – 5TH MARCH 2020

2020/21 TREASURY STRATEGY AND TREASURY UPDATE REPORT

REPORT OF THE CHIEF FINANCE OFFICER (DIRECTOR: FINANCE & HUMAN RESOURCES)

LEAD CABINET MEMBER – CLLR LEE CARTER

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

1.1 The report updates members on Treasury Management activities during 2019/20 to-date and details the Treasury Strategy recommended to be adopted for 2020/21.

The strategy in 2019/20 and recent years has been to limit investments in third parties, which reduces the Council's exposure to counterparty risk, and to take advantage of lower interest rates for borrowing. Maintaining high levels of very cheap temporary financing has generated surplus treasury management returns of more than £17.0m in recent years which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services.

Following discussion with the Council's external treasury advisors, Arlingclose, we also continued to lock into some fixed term borrowing during 2019/20 taking advantage of lower long term interest rates as well as reducing the risk of future interest rate fluctuations. The PWLB (currently the main source of long-term lending for Local Authorities) increased interest rates by 100 basis points in October 2019 and the associated impact has been built into the budget strategy going forward. For the remainder of 2019/20 we will aim to use temporary borrowing where possible to minimise the in-year impact. It should be noted that the Council's budget for 2019/20 and the Cabinet's proposals issued for consultation in January 2020 for 2020/21 include allowance for locking in all the anticipated financing requirement at fixed interest rates that are higher than current PWLB rates for any duration (from 1 year to 50 years) which ensures that the Council's budget in relation to Treasury Management is robust. The Council will continue to receive regular advice from Arlingclose who are a firm of expert advisors specialising in all aspects of local government treasury management and we act in accordance with the advice received.

The report also sets out expected external financing requirements. We have an excellent track record of complying with all the prudential indicators and limits agreed by Council and are operating well within the overall approved credit ceiling. The proportion of the Council's net revenue budget used to service loan repayment is 9.1% in the current financial year. This compares to 9.7% for the average unitary authority. The Council has increased its external financing requirements in recent years as it follows a more commercial approach. This has included investment in NuPlace which provides high quality homes for rent from a reliable landlord, mainly at market rent levels and an expansion of the Property Investment Portfolio to attract and retain jobs for local people and to provide other regeneration benefits for our residents. These investments are expected to bring long term capital growth which will strengthen the Council's balance sheet as well as generating revenue returns well in excess of the associated loan repayment charges. They will also bring other direct and indirect financial and other benefits to the residents of the Borough including additional income from council tax, business rates and new homes bonus which will be used to help support front line services such as Adult Social Care, as well as protecting and creating jobs for local people. The Council's solar farm generates an index linked surplus of around £200k pa the surplus is used to help support front line services.

This report and the Prudential Indicators report, which will be considered by Cabinet on 20th February and Full Council on 5th March, set out our overall approach to treasury management and the controls that are put in place to ensure that council taxpayers' interests are protected and risks are managed as effectively as possible.

1.2 2019/20 Treasury Management Update

The treasury portfolio at the end of December 2019 showed overall net indebtedness of £239.8m (borrowing: £262.9m less investments: £23.1m). Base rates have remained at 0.75% throughout 2019/20 and are not expected to increase in the short term.

The borrowing strategy for 2019/20 is

- to take new borrowing within shorter maturities before gradually lengthening maturities, and
- to take advantage of longer term loans when opportunities arise.

The PWLB (currently the main source of long-term lending for Local Authorities) increased interest rates by 100 basis points in October 2019 and the associated impact has been built into the budget strategy going forward. For the remainder of 2019/20 we will aim to use temporary borrowing where possible to minimise the in-year impact. Fortunately, £90m long-term borrowing was taken in the months prior to the interest rate change to lock into the very low rates available at the time and to reduce exposure to future interest rate fluctuations.

To date in 2019/20 part of our Equal Instalment of Principal PWLB loans have matured and 5 new PWLB loans totalling £25m have been taken (£10m since the last update report (see 4.3)). Short term borrowing has been used to fund short term cash flow requirements and take advantage of low interest rates.

As referred to above, a large part of the Council's total existing borrowing and planned further borrowings relates to funding projects which will generate some income. These are budgeted to generate returns in excess of the annual loan repayment charges and other operating costs.

The overall investment strategy for 2019/20 is to gain maximum benefit but with security of the principal sum invested being the primary consideration. The weighted average return on internal investments at the end of December 2019 was 0.61%

compared to a benchmark return for the period of 0.5% based on average DMO overnight rate. A schedule of short-term investments is shown at Appendix F.

The Markets in Financial Instruments Directive II (MIFID II) came into place on 3 January 2018 and the Council has opted to be categorised as a professional client which allows access to financial services and advice it may otherwise be unable to obtain (such as advice from Arlingclose, our treasury advisors). As part of the regulations, the authority must hold a minimum investment balance which is currently set at £10m.

1.3 TREASURY STRATEGY

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services and the Prudential Code.

The Council is currently expected to be required to borrow up to £29.6m in 2020/21 based on the current capital programme plans and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing external financing, interest rate and refinancing risk as well as borrowing source, which is usually expected to be the Public Works Loan Board, but may also include the LGA Municipal Bonds Agency, European Investment Bank or commercial sources, and any new opportunities which may arise following the PWLB rate increase.

The strategy for any investments will generally be to reduce investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will look to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters. We would generally anticipate holding investments equal to the requirements set out under MIFID II, currently £10m. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved whilst recognising that strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £15m at any one time.

The report also includes: the Council's Minimum Revenue Provision Statement - the policy is in line with that previously agreed and the Prudential Indicators associated with Treasury Management for 2020/21.

It should be noted that there may be some changes to the Treasury Strategy before it is presented to Cabinet on 20 February as further information becomes available. If this is necessary, the final strategy will be circulated to Audit Committee Members for information with any significant changes highlighted.

2. RECOMMENDATIONS

2.1 Members are asked to

1. Note the treasury management activities for the first half year,
2. Note the Treasury Management Policy Statement (Appendix A) and
3. Recommend that Cabinet and Full Council approve the Treasury Strategy, including the Annual Investment Strategy for 2020/21 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which will apply from 2019/20 onwards.

3. SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific priority plan objectives?	
	Yes	Maximisation of investment income whilst managing risks and minimising borrowing costs helps to support the council's overall financial position and therefore the delivery of all service and policy objectives.
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION / DELIVERY DATE	Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.	
FINANCIAL / VALUE FOR MONEY IMPACT	Yes	Where appropriate these are detailed in the body of the report
LEGAL ISSUES	Yes	The Council's Treasury Strategy has to comply with the relevant statue, codes and guidance which are set out both in the main body of this report and its appendices. The Director: Finance & Human Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Director: Finance & Human Resources is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."
OTHER IMPACTS, RISKS AND OPPORTUNITUES	Yes	The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

4. 2019/20 TREASURY MANAGEMENT UPDATE

4.1 CURRENT PORTFOLIO POSITION

	31 March 2019 Principal £m	*31 Dec 2019* Principal £m
Fixed Rate Borrowing – PWLB	159.526	177.936
Fixed Rate Borrowing – LOBO	25.000	25.000
Fixed Rate Borrowing – Market	15.000	15.000
Variable Rate Borrowing – Temporary Market	67.398	45.000
Total External Financing	**266.924**	**262.936**
Investments (excl. NuPlace share capital)	15.685	23.121
Total Investments	**15.685**	**23.121**
Net Indebtedness (excl. NuPlace	**251.239**	**239.815**
Investment in NuPlace	11.600	12.000
	239.639	**227.815**

4.2 Interests Rates

UK interest rates have remained at 0.75% throughout 2019/20 to date. The Bank of England Quantitative Easing programme remains at £435bn. The Bank of England having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report that the MPC now believe this is less likely in the event of a deal. Arlingclose expects the base rate to remain at 0.75% for the foreseeable future, although this is also dependent on clarity relating to Brexit. The markets forecast an even slower rise over the same period.

4.3 Borrowing & Rescheduling

The borrowing strategy for the current year has been to borrow temporarily to take advantage of low interest rates where possible and to undertake new longer term borrowing initially in shorter maturities before gradually extending maturities.

Rescheduling

During 2019/20 no rescheduling of debt has taken place as market conditions have not been favourable, however the scope for opportunities is regularly monitored.

New Borrowing

Between the period 1 June 2019 (previous Member update) and 31 December 2019, £72.0m of temporary loans have been raised in order to fund short-term cash flow requirements at various points. Interest rates have ranged from 0.70% to 0.81% - interest rates have remained fairly low during this time. Outstanding temporary borrowing at 31 December 2019 was £45.0m

The following longer term borrowing has been undertaken since June 2019 with a view to slowly locking in to some longer-term fixed interest rates.

Date	Loan	Period	Amount	Interest Rate
06/08/19	Maturity	50 years	£5,000,000	1.99%
20/08/19	Maturity	50 years	£5,000,000	1.67%

4.4 Investments

The strategy for the current year is: The Authority's objective when investing money is to strike an appropriate balance between risk and return.

The majority of the Council's investments are internally managed – currently just temporary investments for cash flow purposes.

<u>Temporary Investments</u>
The majority of funds are invested by the Council's own officers in order to maximise returns from day to day cash flows. In total £4,831m of investments were placed between 1 June and 31 December. Interest rates have ranged from 0.50% to 0.80% and periods ranged from overnight deposits to 2 days. £23.121m temporary investments were held at 31 December 2019.

<u>Longer Term Investments</u>
We currently hold no longer term investments.

It should be noted that under the current guidance from our Treasury Advisors our investment policy would mean that new deposits with financial institutions should not be placed for longer than 13 months

Overall the weighted average return on all internal investments for the year to date was 0.61% compared to a benchmark return for the period of 0.50%.

<u>Overall Position and Exposure</u>
A full analysis of all Council investments at the end of December 2019 is shown in Appendix F.

Our current counterparty limit and maximum exposure is £15.0m for the current year with any one counterparty, with exception of the Debt Management Office (DMO) which is unlimited as it is Government guaranteed. At the end of December the greatest exposure with a single counterparty was £6.139m with Lloyds Bank (26.6% of the total portfolio).

The Council is guided by its Treasury advisers, Arlingclose, in assessing investments.

4.5 Leasing

Each year the Council arranges operating and finance leases for assets such as vehicles, computers and equipment. This helps to spread the cost over a number of years.

There have been two drawdowns to date in 2019/20 which were undertaken in January. The drawdowns consisted of finance leases from JCB Finance totalling £0.029m and funded the purchase of Leisure equipment over three years and a van over five years.

5. TREASURY STRATEGY FOR 2020/21 TO 2021/22

5.1 Background

5.1.1 The CIPFA Treasury Management Code of Practice

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy which is also part of the Service & Financial Planning suite of reports considered by Cabinet and full Council.

5.1.2 External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. The General Election has removed some uncertainty and the Withdrawal Agreement Bill is now expected to pass through Parliament in January. However, uncertainties around the UK's future trading relationship with the EU remain as these have to be concluded in an ambitious transition period timeframe by December 2020.

GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The International Labour Organisation (ILO) unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 2.0% in October 2019 and is likely to have some beneficial impact on household spending.

Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate at 0.75% in December following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2020. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

Credit outlook: The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major Banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank’s approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ring-fencing, as the tests ignore the restrictions on transferring capital between ring-fenced “retail” banks and non-ring-fenced “investment” banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ring-fenced banks.

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

Looking forward, the potential for a no UK-EU trade deal being agreed and ratified and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast: The Authority's treasury management advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit/trade deal outcomes as well as the evolution of the global economy.

Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judges the risks to be weighted to the downside.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix D.

For the purpose of setting the budget, it has been assumed that new treasury management investments will be made at an average rate of 0.56%, and that new long-term loans will be borrowed at an average rate of 4.0%.

5.1.3 Local Context

The Authority's current level of external financing and investments is set out at Appendix B.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Authority's Treasury Management activities.

The Authority is able to borrow funds in excess of the current level of its CFR up to the projected level in 2022/23. The Authority is likely to only borrow in advance of need if it felt the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing was actually required.

The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The estimates, based on the current Revenue Budget and Capital Programmes, are:

Table 1: Capital Financing Requirement (CFR)

	31/03/19 Actual £m	31/03/20 Estimate £m	31/03/21 Estimate £m	31/03/22 Estimate £m	31/03/23 Estimate £m
Capital Financing Requirement	445.020	469.165	496.636	534.086	556.617
Less: Other long term liabilities (e.g. PFI)	-53.864	-51.545	-50.337	-51.186	-48.300
Borrowing CFR	**391.156**	**417.620**	**446.263**	**482.900**	**508.317**
Less: External Borrowing	-266.924	-298.888	-328.486	-365.913	-392.120
Internal Borrowing	**124.232**	**118.732**	**117.777**	**116.987**	**116.197**

The table above shows an increasing Capital Financing Requirement and will require the Council to undertake additional longer term borrowing as well as converting from temporary borrowing we currently hold to fix borrowing at the most appropriate time for the Council dependent on market conditions.

The row relating to external borrowing includes debt associated with funding the Council's Housing Investment Programme through NuPlace, the Telford Growth Fund/PIP investments, solar farm and other commercial investments. The anticipated income from these projects is projected to generate a surplus after funding the debt and operational costs which will be used to support front line services. The outstanding debt relating to the Housing Investment Programme could be repaid by the eventual sale, in many years time, of some or all of the properties held by the Council's wholly owned company.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to fully comply with this recommendation during 2020/21.

5.1.4 Borrowing Strategy

The Authority currently holds £262.9m of loans, a reduction of £12.7m on the previous year. The balance sheet forecast shows that the Authority expects borrowing to increase by year end and continue to increase over the next few years. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next 1 – 2 years as official interest rates remain low, it is unlikely to be sustainable in the medium-term. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now clearly a more expensive option than previous although may still represent good value compared to alternative options. The Authority will consider alternative options for borrowing any long-term loans, such as banks, pension funds and local authorities, and the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Authority may arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of Borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- Registered Housing providers
- Capital market bond investors

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to meet its obligations for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

LOBOs: The Authority holds £25.0m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £20m of these LOBOs have remaining options prior to the end of the financial year, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. Rates payable were competitive compared to PWLB rates at the time that the loans were taken out. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to £25.0m.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.2 Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the current financial year, the Authority's investment balance has ranged between £10.1m and £35.45m and we expect to normally maintain an investment balance of between £10 million and £20 million in the forthcoming year – unless the MIFID requirement is relaxed in which case the amount of investment held may reduce.

Objectives: The CIPFA Code requires the Authority 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 Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative Interest Rates: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, the Council would seek, to the extent possible, to minimise and keep the impact of negative rates close to zero within the framework of the Council's creditworthiness policy.

Strategy: All of the Authority's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2019/20.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Approved Investment Counterparties

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£15m 5 years	£15m 20 years	£15m 50 years	£7.5m 20 years	£15m 20 years
AA+	£15m 5 years	£15m 10 years	£15m 25 years	£7.5 m 10 years	£15m 10 years
AA	£15m 4 years	£15m 5 years	£15m 15 years	£7.5m 5 years	£15m 10 years
AA-	£15m 3 years	£15m 4 years	£15m 10 years	£7.5m 4 years	£15m 10 years
A+	£15m 2 years	£15m 3 years	£15m 5 years	£7.5m 3 years	£15m 5 years
A	£15m 13 months	£15m 2 years	£15m 5 years	£7.5m 2 years	£15m 5 years
A-	£15m 6 months	£15m 13 months	£15m 5 years	£7.5m 13 months	£15m 5 years
None	£0m	n/a	£4m	£1,000	£0m

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
	6 months		25 years	5 years	5 years
Pooled funds and real estate investment trusts	£10m per fund				

There is no intention to restrict investments to bank deposits, and investments may be made with any public or private sector organisations that meet the above credit rating criteria. The table reflects a lower likelihood that the UK and other governments will support failing banks as the bail-in provisions in the Banking Reform Act 2016 and the EU Bank Recovery and Resolution Directive are implemented.

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency, although they are not without risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing, formerly known as housing associations. These bodies are tightly regulated by the Homes & Communities Agency and as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment funds: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if officers working on treasury management issues have substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment Limits: The Authority has revenue reserves, which could be used to cover investment losses which were £92.3 million on 1st April 2019 although not all of these are available. In order that no more than 50% of reserves (as recommended by the code) will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million, which is clearly well within the limit. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Approved Instruments: The Authority may lend or invest money using any of the following instruments:

- interest-bearing bank accounts
- fixed term deposits and loans
- callable deposits and loans where the borrower may repay before maturity, but subject to a maximum of £5 million in total
- certificates of deposit
- bonds, notes, bills, commercial paper and other marketable instruments, and shares in money market funds and other pooled funds,

Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below.

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

5.3 Ethical Investments

The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations suitably credit assessed.

The Council's lending activity will be subject to (in order of rank)

- the assessment of meeting the minimum lending criteria as specified in the current Treasury Management Strategy and the minimum credit ratings as outlined in the Strategy.
- meeting the Security, Liquidity & Yield (SLY) criteria as set out in the current Treasury Management Strategy, and
- investments are not contrary to the values outlined in the Ethical Investment Framework (Appendix G)

5.4 The use of Financial Instruments for the Management of Risk

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

In line with CIPFA Code, the Authority will seek external advice and will consider that the advice before entering into financial derivatives to ensure that it fully understands the implications.

5.5 Financial Implications

The budget for investment income in 2020/21 is £0.12m, based on an average investment portfolio of £21.3m at an interest rate of 0.56%. The budget for debt interest paid in 2020/21 is £9.9m million, based on an average debt portfolio of

£316.6m at an average interest rate of 3.14%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

5.6 Balanced Budget Requirement

The Authority complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

5.7 2020/21 MRP Statement

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 08 (SI 08/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

NB This does not preclude other prudent methods.

MRP in 2020/21: Options 1 and 2 may be used only for supported expenditure. Methods of making prudent provision for self-financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).

The MRP Statement will be submitted to Council before the start of the 2020/21 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to Council at that time.

The Council will calculate MRP by the following methods –

Historic MRP (re pre 2007/08 borrowing). This will be calculated by dividing the balance at 31/3/07 (calculated in accordance with regulations) by 50 for an annual charge that charges over a finite period rather than a 4% reducing balance. Broadly in line with option 3.

MRP in respect of prudential borrowing, government supported allocations since 2007/08 and PFI will be charged over the life of the asset on an annuity basis (option 3 in the regulations).

MRP for borrowing in respect of NuPlace is set at £0 due the expectation that the value will appreciate over time and that the houses could all eventually be sold in which case the Council would apply the capital receipts arising to reduce the Capital Financing Requirement until the original principal borrowed had been fully repaid.

Along the same lines as NuPlace, MRP for borrowing in respect of Investment Properties will be calculated as 20% of the value of the annuity MRP to reflect that although there will normally be capital appreciation, a downturn in the economy could result in reductions in value of commercial/industrial investment properties.

Also MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability which is broadly in line with the life of the asset.

Capital expenditure incurred during 2020/21 will not be subject to a MRP charge until 2021/22.

5.8 Monitoring and Reporting on the Treasury Outturn and Prudential Indicators

The Director: Finance & Human Resources will report to the Audit Committee on treasury management activity / performance and Performance Indicators as follows -

- Half yearly against the strategy approved for the year. The authority will produce an outturn report on its treasury activity no later than 31st July after the financial year end and an update report alongside the Treasury Strategy in the last quarter of the financial year, and
- Audit Committee will be responsible of the scrutiny of treasury management activity and practices rather than the Budget & Finance Scrutiny Committee.

6. OTHER ITEMS

6.1 Training

CIPFA's Code of Practice requires the responsible officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Reviewing and addressing training needs: The authority regularly reviews the training needs of its staff involved with treasury management and ensures that staff are appropriately trained.

6.2 Investment Consultants / Treasury Advisors

The Council uses Arlingclose as its external treasury management advisers.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times.

Reviewing and addressing training needs: The authority regularly reviews the training needs of its staff involved with treasury management and ensures that staff are appropriately trained.

7. BACKGROUND PAPERS

CIPFA Code of Practice for Treasury Management in Local Authorities
Temporary Borrowing Records
PWLB records

Investment records
Draft Treasury Strategy provided by Arlingclose
Local Government Act 2003
CLG Guidance on Local Authority Investments
Audit Commission – Risk and Return

Report prepared by

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TREASURY MANAGEMENT POLICY STATEMENT

1. INTRODUCTION AND BACKGROUND

1.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.

1.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

1.3 The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

1.4 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to Director: Finance & Human Resources, who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

1.5 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. POLICIES AND OBJECTIVES OF TREASURY MANAGEMENT ACTIVITIES

2.1 The Council defines its treasury management activities as:

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

This 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 organisation, and any financial instruments entered into to manage these risks.

This 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 value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2.2 The Council’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt. The Council will look to minimise borrowing through the use of maturing investments to fund capital expenditure rather than reinvestment.

2.3 The Council’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations. Generally as investments mature they will not be reinvested but be used to minimise borrowing.

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio £m	%	31/03/20 Estimate £m	31/03/21 Estimate £m	31/03/22 Estimate £m	31/03/23 Estimate £m	31/03/24 Estimate £m
External Borrowing:							
Fixed Rate – PWLB	177.9	56.6	174.8	194.7	232.1	258.3	282.8
Fixed Rate – LOBO	25.0	8.0	25.0	25.0	25.0	25.0	25.0
Fixed Rate – Market	15.0	4.8	15.0	15.0	15.0	15.0	15.0
Variable Rate – PWLB	0	0.0	0	0	0	0	0
Variable Rate – Market	45.0	14.3	85.2	95	95	95	95
Total External Borrowing	**262.9**	**83.6**	**300.0**	**329.7**	**367.1**	**393.3**	**417.8**
IFRS Long Term Liabilities:							
PFI	51.5	16.4	51.5	50.3	51.2	48.3	45.1
Finance Leases	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Gross External Debt	**314.4**	**100.0**	**351.5**	**380.0**	**418.3**	**441.6**	**462.9**
Investments:							
Managed in-house	0	0.0	0	0	0	0	0
Short-term monies (Deposits / monies on call / MMFs)	23.1	100.0	20.0	20.0	20.0	20.0	20.0
Long-term investments (maturities over 12 months)	0	0.0	0	0	0	0	0
Total Investments	**23.1**	**100.0**	**20.0**	**20.0**	**20.0**	**20.0**	**20.0**
(Net Borrowing Position) / Net Investment Position	**-291.3**		**-331.5**	**-360.0**	**-398.3**	**-421.6**	**-442.9**

Prudential Indicators 2019/20 to 2023/24

1 Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross debt and the Capital Financing Requirement:

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt 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 increases to the capital financing requirement for the current and next two financial years.

The Director: Finance & Human Resources reports that the authority had no difficulty meeting this requirement in 2018/19, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure:

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

	19/20 Approved £m	19/20 Revised £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m
Total	**77.458**	**53.165**	**83.854**	**40.096**	**32.807**	**24.500**

3.2 Capital expenditure will be financed or funded as follows:

	19/20 Approved £m	19/20 Revised £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m
Capital receipts	6.490	3.342	12.492	1.980	6.550	0.000
Government Grants	26.879	17.295	28.801	0.000	0.000	0.000
Revenue / External contributions	9.698	5.144	12.963	0.689	0.050	0.000
Total Financing	43.067	25.781	54.256	2.669	6.600	0.000
Prudential Borrowing	34.391	27.384	29.598	37.427	26.207	24.500

	19/20 Approved £m	19/20 Revised £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m
Total Funding	34.391	27.384	29.598	37.427	26.207	24.500
Total Financing and Funding	**77.458**	**53.165**	**83.854**	**40.096**	**32.807**	**24.500**

4. Ratio of Financing Costs to Net Revenue Stream:

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

4.2 The ratio is based on costs net of investment income.

	19/20 Approved %	19/20 Revised %	20/21 Estimate %	21/22 Estimate %	22/23 Estimate %	23/24 Estimate %
Total	**7.89**	**5.69**	**7.44**	**8.38**	**9.25**	**9.29**

5. Capital Financing Requirement:

5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

	19/20 Approved £m	19/20 Revised £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m
Total CFR	**482.033**	**469.215**	**496.686**	**534.136**	**556.667**	**577.514**

6. Actual External Debt:

6.1 This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/19	**£m**
Borrowing	266.924
Other Long-term Liabilities	53.864
Total	**320.788**

7. Authorised Limit and Operational Boundary for External Debt:

7.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

7.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

	19/20 Approved £m	**19/20 Revised £m**	**20/21 Estimate £m**	**21/22 Estimate £m**	**22/23 Estimate £m**	**23/24 Estimate £m**
Borrowing	440	440	450	450	480	500
Other Long term Liabilities	63	64	64	64	64	54
Total	**503**	**504**	**514**	**514**	**544**	**554**

7.5 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

7.6 The Director: Finance & Human Resources has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Audit Committee.

	19/20 Approved £m	**19/20 Revised £m**	**20/21 Estimate £m**	**21/22 Estimate £m**	**22/23 Estimate £m**	**23/24 Estimate £m**
Borrowing	420	420	430	430	460	480
Other Long-term Liabilities	59	60	60	60	60	50

Total	479	480	490	490	520	530

8. Gross Debt and the Capital Finance Requirement

8.1 The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need. If these figures exceed CFR (which they don't) they would indicate we are borrowing in advance of need.

Gross and Net Debt	19/20 Estimated £m	20/21 Authorised £m	21/22 Authorised £m	22/23 Authorised £m	23/24 Authorised £m
Outstanding Borrowing (at nominal value)	298.938	328.536	365.963	392.170	416.670
Other Long-term Liabilities (at nominal value)	51.545	50.337	51.186	48.300	45.128
Gross Debt	350.483	378.873	417.149	440.470	461.798

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure:

9.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments / total debt net of total investments)

9.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	Existing level (or Benchmark level) at 31/03/19 %	19/20 Approved %	19/20 Revised %	20/21 Estimate %	21/22 Estimate %	22/23 Estimate %	23/24 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	70	70	70	70	70	70	70
Local Indicator – Upper limit for net variable rate exposure*.	70	70	70	70	70	70	70

*Net principal re gross variable rate borrowing and investments divided by gross borrowing plus investments

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's treasury management strategy.

10. Maturity Structure of Fixed Rate borrowing:

10.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

10.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level 31.12.19 %	Lower Limit for 20/21 %	Upper Limit for 20/21 %
under 12 months	17	0	70
12 months and within 24 months	5	0	30
24 months and within 5 years	8	0	50
5 years and within 10 years	12	0	75
10 years and within 20 years	14	0	75
20 years and within 30 years	1	0	75
30 years and within 40 years	11	0	100
40 years and within 50 years	19	0	100
50 years and above	13	0	100

11. Credit Risk:

11.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

11.3 The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments would be assigned a score based on their perceived risk.

	Target
Portfolio average credit score	6 or lower, which is equivalent to a credit rating of 'A' or higher

11.4 The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

12. Upper Limit for total principal sums invested over 1 year:

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

	19/20 Approved %	19/20 Revised %	20/21 Estimate %	21/22 Estimate %	22/23 Estimate %	23/24 Estimate %
	95	95	95	95	95	95

Arlingclose Economic & Interest Rate Forecast January 2020

Underlying assumptions:

- The global economy has entered a period of weaker growth in response to political issues. The UK economy continues to experience slower growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations are low.

- Some improvement in global economic data and a more positive outlook for US/China trade negotiations has prompted worst case economic scenarios to be paired back.

- The new Conservative UK government will progress with achieving Brexit on 31st January 2020. The more stable political environment will prompt a partial return in business and household confidence in the short term, but the subsequent limited Brexit transition period, which the government is seeking to enforce, will create additional economic uncertainty.

- UK growth stalled in Q4. Inflation is running below target at 1.5%. The inflationary consequence of the relatively tight labour market have yet to manifest, while the slower global growth should reduce the prospect of externally driven pressure, although escalating geopolitical turmoil could continue to push up oil prices..

- The first few months of 2020 will indicate whether the economy benefits from restored confidence. The government will undertake substantial fiscal easing in 2020/21, which should help support growth in the event of a downturn in private sector activity.

- The weak outlook for the UK economy and current low inflation have placed pressure on the MPC to loosen monetary policy. Two MPC members voted for an immediate cut in the last two MPC meetings of 2019. The evolution of the economic data and political moves over the next few months will inform policy, but upside risks to Bank Rate are very limited.

- Central bank actions and escalating geopolitical risks will produce volatility in financial markets, including bond markets.

Forecast:

- We have maintained our Bank Rate forecast at 0.75% for the foreseeable future. Substantial risks to this forecast remain, arising primarily form the government's policy around Brexit and the transitionary period.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields remain low due to the soft UK and global economic outlooks. US monetary policy and the UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month money market rate													
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
1yr money market rate													
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	0.30	0.50	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
5yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	0.50	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
Downside risk	0.35	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
10yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	1.10
Downside risk	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50
20yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.40
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50
50yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.40
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Recommended Sovereign and Counterparty List (Section 8)

- ***Group Limits*** *- For institutions within a banking group, the authority executes a limit at the highest of any of the single banks within that group.*
- ***Sovereign Limit*** *– The Council will only invest a maximum of £15m of the portfolio with non UK sovereigns***.**

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limit %/£m**	**Maximum Group Limit (if applicable) %/£m**	**Council Holding At 31/12/19 £m**
Term Deposits / CDs / Call Accounts	UK	Santander UK Plc (Banco Santander Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Bank of Scotland (Lloyds Banking Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Lloyds (Lloyds Banking Group)	15	15	5.7
Term Deposits / CDs / Call Accounts	UK	Barclays Bank Plc	15	15	0
Term Deposits / CDs / Call Accounts	UK	HSBC Bank Plc	15	15	0
Term Deposits / CDs / Call Accounts	UK	Nationwide Building Society	15	15	0
Term Deposits / CDs / Call Accounts	UK	NatWest (RBS Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Royal Bank of Scotland (RBS Group)	15	15	0
Term Deposits / CDs / Call Accounts	UK	Standard Chartered Bank	15	15	0
Term Deposits / CDs / Call Accounts	UK	Close Brothers Limited	15	15	0
Term Deposits / CDs / Call Accounts	UK	Goldman Sachs International Bank	15	15	0

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/19 £m
Term Deposits / CDs / Call Accounts	UK	Leeds Building Society	15	15	0
Term Deposits / CDs / Call Accounts	Australia	Australia and NZ Banking Group	15	15	0
Term Deposits / CDs / Call Accounts	Australia	Commonwealth Bank of Australia	15	15	0
Term Deposits / CDs / Call Accounts	Australia	National Australia Bank Ltd (National Australia Bank Group)	15	15	0
Term Deposits / CDs / Call Accounts	Australia	Westpac Banking Corp	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Montreal	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Bank of Nova Scotia	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Canadian Imperial Bank of Commerce	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Royal Bank of Canada	15	15	0
Term Deposits / CDs / Call Accounts	Canada	Toronto-Dominion Bank	15	15	0
Term Deposits / CDs / Call Accounts	Finland	Nordea Bank Finland	15	15	0
Term Deposits / CDs / Call Accounts	Finland	Pohjola Bank	15	15	0
Term Deposits / CDs / Call Accounts	Germany	Deutche Bank AG	15	15	0
Term Deposits / CDs / Call Accounts	Germany	Landesbank Hessen – Thuringen (Helaba)	15	15	0

Instrument	Country/ Domicile	Counterparty	Maximum Counterparty Limit %/£m	Maximum Group Limit (if applicable) %/£m	Council Holding At 31/12/19 £m
Term Deposits / CDs / Call Accounts	Netherlands	ING Bank NV	15	15	0
Term Deposits / CDs / Call Accounts	Netherlands	Rabobank	15	15	0
Term Deposits / CDs / Call Accounts	Netherlands	Bank Nederlandse Gemeenten	15	15	0
Term Deposits / CDs / Call Accounts	Singapore	DBS Bank Ltd	15	15	0
Term Deposits / CDs / Call Accounts	Singapore	Oversea-Chinese Banking Corporation (OCBC)	15	15	0
Term Deposits / CDs / Call Accounts	Singapore	United Overseas bank (UOB)	15	15	0
Term Deposits / CDs / Call Accounts	Sweden	Svenska Handelsbanken	15	15	0
Term Deposits / CDs / Call Accounts	Switzerland	Credit Suisse	15	15	0
Term Deposits / CDs / Call Accounts	US	JP Morgan Chase Bank	15	15	0

***Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened. The counterparty list was correct as at 31 December 2019*

Summary of Treasury Investments

Total risk per counterparty as at 31 December 2019

	Credit Rating	Total £000
Fixed Deposits		
Lloyds	UK A+	6,139
Svenska Handelsbanken	UK AA	6,000
Debt Management Office	UK Government	6,002
Money Market Funds	AAAm	4,980
Total cash deposits		**23,121**

Sovereign Analysis:

Lloyds Bank	100% UK
Svenska Handelsbanken	100% UK
DMO	100% UK
MMFs	7% UK / 93% NON-UK

Ethical Investment Framework – Telford and Wrekin Council

At the current time the Council's treasury activity consists principally of making short-dated loans to the UK Government (through the Debt Management Agency Deposit Facility) and to banks and building societies which adheres to the S-L-Y principles of (Security, Liquidity and Yield, in that order).

The preservation of capital is the Council's principal and overriding priority. The banks and building societies on the Council's lending list are selected only if the institutions and the sovereign meet a minimum credit criteria. In accordance with its social and corporate governance responsibilities, the Council seeks to support institutions which additionally have an ethical and responsible approach to environmental and social issues including employment and global trade. These "ethical" criteria and their basis are described below.

1. Environmental and Social Standards

Equator Principles
The Equator Principles (EPs) are a voluntary set of guidelines based on the environmental and social standards practiced by the International Finance Committee when evaluating financing projects. Financial institutions that adopt the Principles agree to use a screening process aiming to ensure that environmental and social assessments help inform decisions to finance development projects. This allows signatories to engage proactively with their stakeholders on environmental and social policy issues.

The EPs are a screening framework for determining, assessing and managing environmental and social risk in project finance transactions for major infrastructure and industrial projects. The EPs are adopted voluntarily by financial institutions and are applied where total project capital costs exceed US$10 million. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. They are based on the International Finance Corporation's performance standards on social and environmental sustainability and on the World Bank Group Environmental Health and Safety Guidelines.

Financial institutions which are signatories to the EPs commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs.

The following banks relating to institutions on the Council's lending list have adopted the Equator Principles:

- Barclays plc (parent of Barclays Bank)
- HSBC Holding plc (parent of HSBC plc)
- Lloyds Banking Group (parent of Bank of Scotland plc and Lloyds Bank plc)
- Royal Bank of Scotland
- Standard Chartered plc
- Banco Santander (parent of Santander UK plc).
- Svenska Handelsbanken AB (parent of Handelsbanken UK)

http://www.equator-principles.com/index.php/members-reporting

2. Human Rights, Labour and Environment

The **UN Global Compact** is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Corporations which sign up to the UN Global Compact are encouraged to themselves embrace and in turn, support and enact, within their sphere of influence, a set of core values which are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The following banks relating to institutions on the Council's lending list are participants/stakeholders of the UN Global Compact:

- HSBC
- Royal Bank of Scotland
- Standard Chartered
- Gruppo Santander (ultimate parent of Santander UK plc).
- Lloyds Banking Group
- Svenska Handelsbanken AB
- Nationwide Building Society
- The Royal Bank of Scotland Group

- Australia and New Zealand Banking Group
- Commenwealth Bank of Australia
- National Australia Bank
- Westpac Banking Corp.
- Nordea Bank AB
- Rabobank Group
- DBS Bank Ltd
- Credit Suisse

http://www.unglobalcompact.org/ParticipantsAndStakeholders/index.html

Limitations to ethical policies:

It should be noted here that the individual institutions which have signed up to the Equator Principles and to the Global Compact screen borrowers before lending for infrastructure and industrial projects.

However, financial institutions also engage daily in money market and interbank lending transactions; the criteria for such lending is based primarily on credit risk assessment (i.e. the assessment of their lending being repaid in full and on time when it is due). Being a signatory to the EPs will not necessarily be a critical feature of such credit assessment and the Council is not in a position to monitor interbank lending. The same applies to an individual financial signing up to the UN Global Compact.

It should also be noted that becoming a signatory of voluntary guidelines (Equator Principle or Global Compact) does not guarantee that that institution's policies and practices are of a better standard than those institutions which are not signatories to the voluntary guidelines.

Activist investment: The Council does not invest directly in shares traded on the markets or in corporate bonds. Not only are such investments inherently higher risk investments, and requires a distinct and separate set of fund management expertise. Under current legislation (SI 2003 No 3146) the purchase of share capital or loan capital of a body corporate is a capital expenditure investment which, on sale or maturity, becomes a capital receipt and is unsuitable for the Council's treasury investments which are primarily the cash management of its operating surpluses and reserves. Corporate bond and equity investments would however be made by the Council's pension fund (run by Shropshire Council.

Other than through its pension fund (which is measured by Shropshire Council), the Council cannot seek to influence decision making at a company by voicing concerns, engaging in a dialogue with management, or lobbying other shareholders for support. Activist investors attempt to purchase sufficient shares or obtain seats on the board with the goal of effecting major change in the company to make the company more valuable financially or socially (for example to change management policies and adopt better governance; optimise shareholder value through acquisitions/divestitures, be more socially responsible etc).

Credit Ratings – A Guide.

Long-term credit ratings and Sovereign Ratings

Fitch Rating' long-term credit ratings are set up along a scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by Standard & Poors (S&P). Moody's also uses a similar scale, but names the categories differently. Like S&P, Fitch also uses intermediate modifiers for each category between AA and CCC (i.e., AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB- etc.).

Investment grade

- **AAA** : the best quality, reliable and stable
- **AA** : good quality, a bit higher risk than AAA
- **A** : economic situation can affect finance
- **BBB** : medium class counterparties, which are satisfactory at the moment

Non-investment grade

- **BB** : more prone to changes in the economy
- **B** : financial situation varies noticeably
- **CCC** : currently vulnerable and dependent on favourable economic conditions to meet its commitments
- **CC** : highly vulnerable, very speculative bonds
- **C** : highly vulnerable, perhaps in bankruptcy or in arrears but still continuing to pay out on obligations
- **D** : has defaulted on obligations and Fitch believes that it will generally default on most or all obligations
- **NR** : not publicly rated

Short-term credit ratings

Fitch's short-term ratings indicate the potential level of default within a 12-month period.

- **F1+** : best quality grade, indicating exceptionally strong capacity of obligor to meet its financial commitment
- **F1** : best quality grade, indicating strong capacity of obligor to meet its financial commitment
- **F2** : good quality grade with satisfactory capacity of obligor to meet its financial commitment
- **F3** : fair quality grade with adequate capacity of obligor to meet its financial commitment but near term adverse conditions could impact the obligor's commitments
- **B** : of speculative nature and obligor has minimal capacity to meet its commitment and vulnerability to short term adverse changes in financial and economic conditions
- **C** : possibility of default is high and the financial commitment of the obligor are dependent upon sustained, favourable business and economic conditions
- **D** : the obligor is in default as it has failed on its financial commitments.

Support Ratings (1 – 5)

The Purpose and Function of Support Ratings
Support Ratings are Fitch Ratings' assessment of a potential supporter's propensity to support a bank and of its ability to support it. Its propensity to support is a judgment made by Fitch Ratings. Its ability to support is set by the potential supporter's own Issuer Default Ratings, both in foreign currency and, where appropriate, in local currency. Support Ratings do not assess the intrinsic credit quality of a bank. Rather they communicate the agency's judgment on whether the bank would receive support should this become necessary. These ratings are exclusively the expression of Fitch Ratings' opinion even though the principles underlying them may have been discussed with the relevant supervisory authorities and/or owners.

Timeliness and Effectiveness Requirements
Fitch Ratings' Support Rating definitions are predicated on the assumption that any necessary "support" is provided on a timely basis. The definitions are also predicated on the assumption that any necessary support will be sufficiently sustained so that the bank being supported is able to continue meeting its financial commitments until the crisis is over.

Obligations and Financial Instruments Covered
In terms of these definitions, unless otherwise specified, "support" is deemed to be in terms of foreign currency. It is assumed that typically the following obligations will be supported: senior debt (secured and unsecured), including insured and uninsured deposits (retail, wholesale and interbank); obligations arising from derivatives transactions and from legally enforceable guarantees and indemnities, letters of credit, and acceptances; trade receivables and obligations arising from court judgments.

Likewise, the agency does not assume that the following capital instruments will be supported when sovereign support is involved: preference/preferred shares or stock; hybrid capital (tier 1 and upper tier 2), including reserve capital instruments (RCIs) and variations upon RCIs; and common/ordinary equity capital. It is also assumed that there will be no support for any moral obligation on securitizations. The sovereign support status of subordinated debt is difficult to categorize in advance; it is assessed on a case by case basis, distinguishing among different jurisdictions.

Definitions:

1: A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.

2: A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.

3: A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.

4: A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.

5: A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

GLOSSARY

Term	Meaning
Affordable Borrowing Limit	The amount the authority would normally borrow at any point of time in the year. This boundary might be exceeded temporarily but only in exceptional circumstances. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion in interest reduces and the proportion of principal repayment increases ove time.
Authorised Borrowing Limit	The maximum amount the authority can borrow at any point of time in the year. This limit should never be exceeded. The limit is set by Full Council at the beginning of March and is a prudential indicator.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of the taxpayer.
Call account	A deposit account that can be called back, normally on instant access.
Capital Financing Requirement CFR)	This represents the underlying need for the authority to borrow and represents the assets of the authority less the long term capital liabilities.
Credit Default Swaps (CDS)	CDS are bought by investors to insure against defaults (i.e. the counterparty not being able to repay). The higher the cost/premium then the higher the risk – CDS therefore given a market view of the credit worthiness of an organisation.
Credit Ratings	Rating on the ability of an organisation to meet its obligations; ratings are assigned by independent, specialist companies, such as Fitch and Moody's using market intelligence they gather.
Credit Risk	The risk that the debtor will default on their obligations
Counterparty	The organisation that you are conducting your business with.
Debt Management Account Deposit Facility	Provided by the Debt Management Office, users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of a sovereign triple-A credit rating.
Derivative Instruments	A security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the

	underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. For example, a stock option is a derivative because it derives its value from the value of a stock. An interest rate swap is a derivative because it derives its value from one or more interest rate indices.
Discounts	These relate to Public Works Loans Board loans. If rates have increased since the borrowing was undertaken then part of the benefit that PWLB will achieve from being able to loan out at that higher rate are passed back to an authority if they repay the loan early.
Fund Managers	Independent investment managers who work to a specific mandate and invest funds on behalf of the Council
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Inflation	The rise in prices of goods and services over a period of time.
Interest Rate Risk	The risk that the value of an investment will change due to changes to the interest rate.
Internal Borrowing	This is where the amount of an authority's borrowing is less than its CFR or underlying need to borrow and represents the use of internal balances rather than borrowing from the market.
LIBID	London inter-bank bid rate. Interest rate at which prime banks will **borrow** money in the London inter-bank market.
LIBOR	London inter-bank offer rate. Interest rate at which prime banks will **lend** money in the London inter-bank market. Fixed every day by the British Bankers Association to five decimal places.
Liquidity Risk	The risk of not being able to trade an investment quickly to release cash.
LOBO	Lender's Option Borrower's Option – a long term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower thenhas the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially.
Minimum Revenue Provision (MRP)	This is the amount charged against the Income and Expenditure Account for the year in relation to the repayment of debt on borrowing in order to fund capital expenditure.

Money Market Fund (MMF)	Mutual funds that invest in short term debt instruments. They offer a higher level of security than banks and interest rates are generally higher.
Obligor	An individual or company that owes debt to another individual or company (the creditor), as a result of borrowing or issuing bonds.
Premia	This is the penalty applied to the early redemption of PWLB loans where rates have fallen since the loan was undertaken.
Prudential Code	A professional code of practice which provides regulatory framework to local authorities on capital expenditure, investments and borrowing activities.
Prudential Indicators	A set of indicators developed within the Prudential Code which define thresholds for investment and borrowing within a local authority.
PWLB	Public Works Loans Board – a Government agency providing long and short term loans to local authorities. Interest rates are generally lower than the private sector and slightly higher than the rates at which the Government themselves may borrow.
Quantitative Easing	This is where the government buy back their own gilt issuance to effectively pump money into the financial markets of the economy.
Re-scheduling	This relates to repaying existing borrowing early and replacing it with borrowing for a different period usually, but not necessarily, at lower rates
Return	The gain from holding an investment over a given period
Security	An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government or other organisation which offers evidence of debt or equity.
Sovereign Exposure	Risk of exposure to one particular country.
Supranational Bonds	These are bonds (similar to gilts) issued by multi government development organisations and are supported by all of the governments who form part of the organisation. E.g. European Investment Bank and are usually very secure.
Treasury Management Code (TM Code)	CIPFA's Code of Practice for Treasury Management in the Public Services and Cross-Sectoral Guidance Notes, to which local authorities are required by law to have regard.

Grant Thornton

External Audit Plan

Year ending 31 March 2020

Telford & Wrekin Council
January 2020

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Introduction & headlines

DRAFT

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Telford & Wrekin Council (‘the Council’) for those charged with governance.

Respective responsibilities

The National Audit Office (‘the NAO’) has issued a document entitled Code of Audit Practice (‘the Code’). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out *in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Telford & Wrekin Council. We draw your attention to both of these documents on the* PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Council and group’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Group Accounts	The Council is required to prepare group financial statements that consolidate the financial information of it’s housing company NuPlace Limited We will consider the consolidation process and whether the group accounts include all necessary disclosures.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls – Under ISA 240, there is a presumed risk of management override of controls present in all entities; • Valuation of property, plant and equipment – The Council’s revaluation of its assets in line with its rolling plan may lead to a material misstatement; • Valuation of the pension fund net liability – The estimate of the valuation of the pension fund’s net liability may be materially misstated We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £7.6m (PY £7.5m) for the group and £7.5m for the Authority, which equates to 1.61% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. Clearly trivial has been set at £375,000 (PY £375,000). A specific materiality of £100,000 has been set for senior officer remuneration.
Value for Money arrangements	We are currently undertaking our Value for Money risk assessment and will report to you in our upcoming progress report any areas that require significant consideration. The key risk criteria fall into three main categories as follows; informed decision making, working with partners and other third parties and sustainable resource deployment. Further detail on this work is provided at page 13 of this report.
Audit logistics	Our interim visit will take place in February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be verbally discussed with the committee (PY: £96,182) during the presentation of the report.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Telford & Wrekin a challenging savings target of £6.1m was required to achieve a balanced budget in 19/20. As at the time of writing, the most recent financial information available (October 2019) suggests that the Council will achieve its spending targets. Some centrally held contingency reserves will be required to do so, however it is expected around £2.2m of this will remain at year end.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Implementation of IFRS 16 - Leases

The public sector is required to adopt this new standard with effect from 1 April 2020. In summary, from this date the Council will no longer be able to distinguish between operating and finance leases within its financial statements. Therefore, the finance team will need to design and implement sufficient controls to ensure that all leases are identified and recognised appropriately going forward.

The CIPFA Code requires the Council to disclose the expected impact of IFRS16 as a note to its 19/20 financial statements. Therefore, the required controls and processes to identify all leases and appropriate treatment will need to be identified and put in place during the 19/20 close down process.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of group and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Assistant Director, Finance & Human Resources and is subject to PSAA agreement.

- Our proposed response is outlined in detail in Section 5; Other risks identified.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
Telford & Wrekin Authority	Yes		• See pages 6 to 9	Full scope UK statutory audit performed by Grant Thornton UK LLP
NuPlace Limited	No		No significant risks identified at the group level.	Analytical procedures performed at the group level.

Key changes within the group:

- No significant changes during 2019/20

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	**Group and Authority**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Telford & Wrekin Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Telford & Wrekin Council.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	**Group and Authority**	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Group and Authority**	The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the value involved (£315 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions. We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	**Group and Authority**	The Council revalues its land and buildings on a three-yearly basis. To ensure the carrying value of the remaining properties not revalued in year in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£465 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Council's asset register

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	**Group and Authority**	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

6. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Council under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

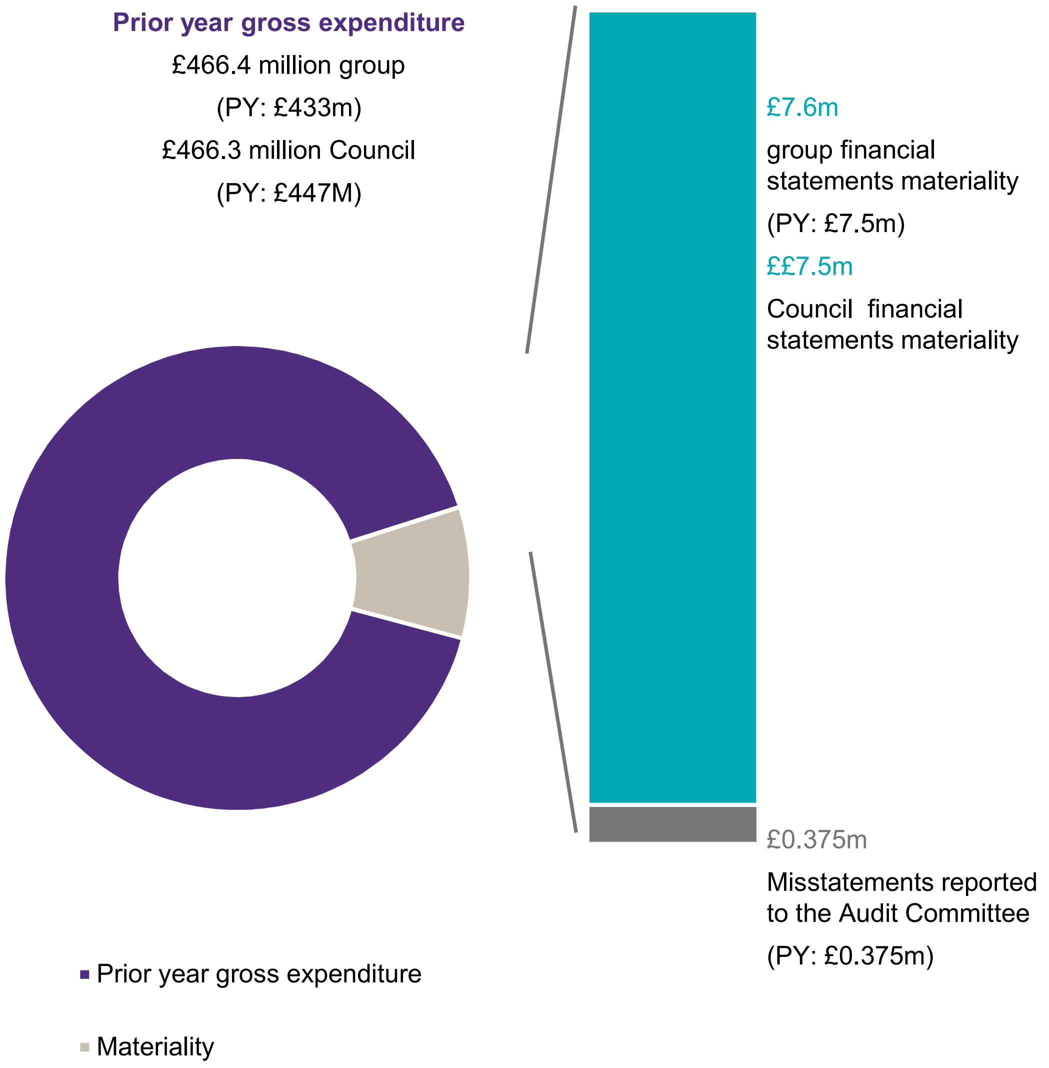
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £7.6m (PY £7.5m) for the group and £7.5m for the Council, which equates to 1.6% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100,000 for disclosures of senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £375,000

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

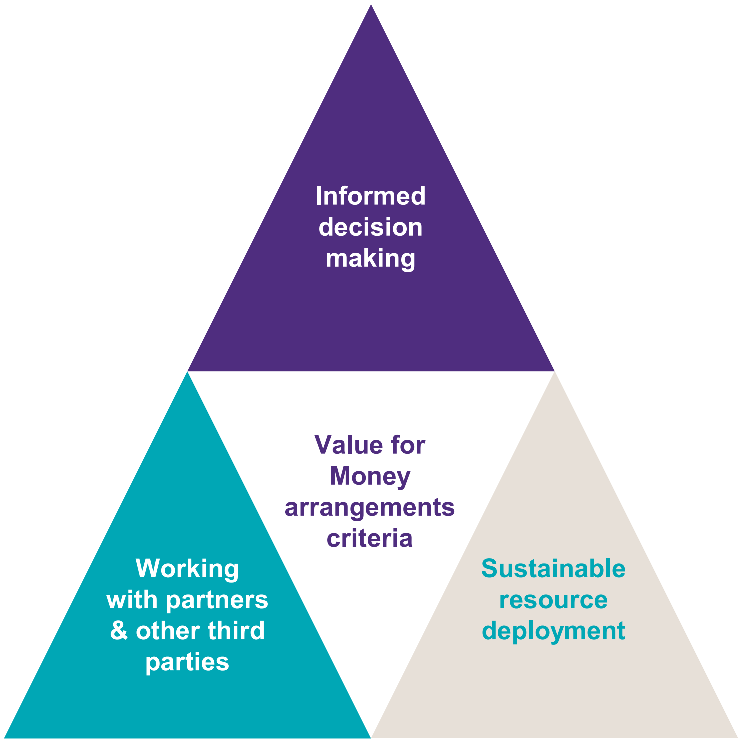
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

We are currently undertaking our initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we are considering:

- knowledge gained on the Authority from our initial planning procedures.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We will report to the subsequent May Audit Committee on the results of our VfM risk assessment and progress of our fieldwork in this area.

Any risks requiring significant audit consideration will be communicated to you in a separate VfM plan.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

9. Audit logistics & team

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Richard Percival, Engagement Lead

Richard will be the main point of contact for the Chair, s151 Officer and Committee members. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Richard will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.

David Rowley, Audit Manager

David will work with the Assistant Director: Finance & HR (CFO) and senior finance team ensuring audit work is delivered and any accounting issues are addressed on a timely basis. She will attend Audit Committee with Richard and supervise Siobhan in leading the onsite team. David will undertake reviews of the team's work and draft clear, concise and understandable reports as well as completing the work for the value for money conclusion.

Siobhan Barnard, Audit Incharge

Siobhan will be the day to day contact for the audit, organising our visits and liaising with Council staff. He will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Assistant Director, Finance & Human Resources and is subject to PSAA agreement.

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	Actual Fee 2018/19	Proposed fee 2019/20
Council Audit	£99,182	TBC
Total audit fees (excluding VAT)	**£99,182**	**TBC**

Assumptions:
In setting the above fees, we have assumed that the Authority will:
- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Certification of Teachers' Pension Return	4,800 (estimate TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,800 in comparison to the total fee for the audit of £96k and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Return	9,500 (estimate TBC)	Self-Interest (because this is a recurring fee)	As above.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.
The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.ie/about/transparency-report/

Appendices

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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Grant Thornton
An instinct for growth™

Informing the audit risk assessment for Telford and Wrekin Council 2019/20

Richard Percival
Director
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E Richard.d.percival@uk.gt.com

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Telford and Wrekin Council's external auditors and Telford and Wrekin Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Telford and Wrekin Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	Areas that we will focus on which could have a significant impact on the financial statements for 2019/20: (i) Valuation of fixed assets – following the 18/19 audit, work is in progress to move away from the 5 yearly valuation cycle with a significantly higher proportion of assets due to be valued in 19/20. Indexation will be used to evidence that the risk of mis-statement is not material. (ii) Any unforeseen legal rulings which have a financial impact on local authorities, such as the McCloud judgement which had a significant impact on the Pension Fund valuation in 2018/19 (iii) Adults & Childrens Social Care - the overall outturn position will be impacted by any additional pressures in Adults and Children's Services in the remainder of the financial year.
2. Have you considered the appropriateness of the accounting policies adopted by Telford and Wrekin Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, we consider the accounting policies appropriate, with the exception of PPE where a change is planned as described below. Property, Plant & Equipment – valuation interval to be changed – currently 5 yearly intervals. The intention is to value around 70% (of NBV) in 2019/20 to minimise the risk of material mis-statement.
3. Is there any use of financial instruments, including derivatives?	Financial instruments are carried in the balance sheet – Note 21 to the 18/19 Statement of Accounts lists the various categories, which are expected to continue to apply in 2019/20
4. Is Are you aware of any significant transaction outside the normal course of business?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Nothing material.
8. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Not that we are aware of.
9. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Financial advice was obtained during 2019/20 from: LG Futures Ltd – funding and technical advice PWC – taxation advice in relation to Nuplace Arlingclose Ltd – treasury management advisors

General Enquiries of Management

Question	Management response
10. Other than in house solicitors, can you provide details of those solicitors utilised by Telford and Wrekin Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council instructs a number of external solicitors on a wide range of different matters. Most of these are for discrete pieces of work which do not involve litigation against or for the Council. See below for more information on these:- NP Law – Compulsory Purchase Order case. This is an ongoing case on which NP Law have been instructed since 2018. Browne Jacobson – property, commercial and contract matters. Ongoing basis. Ward Hadaway – school academies work. Sharpe Pritchard – ongoing contracts work in relation to key high-value contracts. Freeths – property and commercial work – ongoing. Weightmans – childcare out of hours service and Adult Social Care. Gowling WLG – single status – ongoing. Anthony Collins – commercial work – ongoing Womble Bond Dickinson – commercial work ongoing. **NB.** Despite what has been said at the outset, Weightmans are our out of hours childcare advice providers and, if circumstances dictate, will bring emergency proceedings in Court to protect a child pending the return of in-house solicitors on the next working day. This may include litigation on the part of the Council but, typically, in relation to interim proceedings such as an EPO. Those matters where solicitors have been instructed in litigation are as follows:- Veale Wasborough Vizards – one instruction in relation to negotiated departure of officer. BLM – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims. Weightmans – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims.

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Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Telford and Wrekin Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Telford and Wrekin Council's management.

Fraud risk assessment

Question	Management response
1. Have Telford and Wrekin Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	The risk of material misstatement in the financial statements due to fraud is low because: •Arrangements are in place to prevent and detect fraud which includes the work undertaken by Internal Audit, The Investigation Team, Council Tax and Benefits Teams. •The Internal Audit plan covers the key systems which feed into the Statement of Accounts and audits are undertaken on a risk-based approach. •The Chief Executive, Executive Directors, Directors and Service Delivery Mangers complete and sign assurance statements on an annual basis confirming that the governance framework has been operating within their areas of responsibility. •There is an Anti-Fraud and Corruption Policy in place which is monitored and reviewed. Periodic reports are provided to Senior Management Team and cascaded to teams.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	The Investigation Team have a fraud risk register highlighting services most at risk. The Council has identified that Social Care is a key are most at risk to fraud. However, in terms of volume, risks are more prevalent in Revenues and Benefits.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Telford and Wrekin Council as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	In terms of internal fraud against the council, two matters are currently under investigation. These cases are for relatively low financial amounts, e.g. less than £10k. External to the Council, there have been a number of allegations received regarding fraud by members of the public. These are largely related to Revenues matters. The Investigation Team investigates these matters. Matters investigated are discussed with relevant management and messages/publicity are provided both internally and externally.

Fraud risk assessment

Question	Management response
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Telford and Wrekin Council where fraud is more likely to occur?	See question 2 above. Fraud risks have been identified relating to Social Care and in particular Direct Payments. The Investigation Team continue to work with this service in the prevention, detection and investigation of fraud in this area. There are no locations within Telford & Wrekin where fraud is more likely to occur.
5. What processes do Telford and Wrekin Council have in place to identify and respond to risks of fraud?	Processes in place to identify and respond to fraud: •Internal Audit work plan. •Internal Audit along with the Investigations Team undertake proactive fraud work based on a fraud risk register. •Fraud and corruption activities are undertaken by Trading Standards. •Anti-Fraud & Corruption Policy. •Whistleblowing and fraud reporting procedures are in place which allow staff and members of the public to report concerns relating to fraud and error to the Investigation Team via a variety channels. Frauds highlighted either from the National Anti Fraud Network (NAFN) or the West Midlands Fraud Group are communicated to appropriate stakeholders as soon as they are received.

Fraud risk assessment

Question	Management response
6. How would you assess the overall control environment for Telford and Wrekin Council, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Assurance is provided to the Audit Committee through: •Quarterly internal audit reports are presented to the Committee providing an update on the work of internal audit with particular focus on Amber and Red reports. •Executive Directors/Directors/Service Delivery Managers attend, on request, to provide additional information where requested. •External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts. •An Anti-Fraud Report is presented at the end of each financial year. •The Strategic Risk Register is presented to Audit Committee. •Finance & Legal comments in all reports; business case approval for major investments . Management is not aware of any areas where there is potential for override of control or inappropriate influence over the financial reporting process. Reconciliations are undertaken regularly and there is appropriate separation of duties in place with review/challenge by Senior Finance Officers.
7. Are there any areas where there is potential for misreporting?	No particular areas have been identified where there is a potential for misreporting.

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Fraud risk assessment

Question	Management response
8. How do Telford and Wrekin Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	Training –Fraud module included for all new starters. Core behaviours for all employees. Induction of new employees. Whistleblowing Policy. Publicity on fraud matters that have been taken to court. Anti-Fraud & Corruption Policy. The Whistleblowing Policy encourages staff to report any concerns regarding fraud and irregularity through a variety of channels. The Council's Core behaviours encourage staff to report any fraudulent/otherwise unacceptable behaviour. The authority receives a constant flow of allegations, most notably relating to Revenues related fraud by the general public. Referrals have also been received relating to Adult Social Care and a number of internal matters.

Fraud risk assessment

Question	Management response
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Council Tax Support, Single Person Discount and Council Tax liability are areas where fraud is common. The Investigation Team undertake considerable work in this area. There are strong reporting channels where staff and members of the public report their concerns. The Revenues Service undertake an annual Single Person Discount review exercise by using credit data obtained from a third party, and they also take part in the National Fraud Initiative's single person discount review. Direct Payment and Social Care is a growing area of fraud. Significant work has been undertaken by the Investigation Team to increase awareness of fraud in this area and encourage staff to report their concerns.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	We are not aware of any related party relationships or transactions that could give rise to fraud. Related party transactions have to be disclosed by elected Members and senior officers. All members and officers have to disclose relevant interests in the register of interests.

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The Audit Committee's terms of reference include a number of measures concerning internal control and fraud matters. In the main these include: •Receiving regular updates on the work of internal audit which would include fraud risks •Receiving an annual report on anti-fraud and corruption •Approving the Councils Anti-Fraud & Corruption Policy and the Whistleblowing Policy
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No specific whistle blower reports have been made since April 2019.
13. Have any reports been made under the Bribery Act?	No specific Bribery Act referrals have been made since April 2019.

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Telford and Wrekin Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Telford and Wrekin Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	The Council has a robust Governance Framework in place. The Council has a Monitoring Officer and Section 151 Officer who provide assurance both supported by adequately staffed and trained teams of professional officers. Council/Cabinet reports include a Legal Comment which is completed and signed off by a senior officer in Legal Services. Internal Audit Work.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	As above. The Monitoring Officer ensures lawfulness and fairness of decision making. The Monitoring Officer will report to Full Council if he considers that any proposal, decision or omission would give rise to unlawfulness. Other Statutory Officers of the authority also provide assurance in relation to their specific function.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	No –the position will be reviewed again at the 31 March each year as part of the annual accounts process.

Impact of laws and regulations

Question	Management response
4. What arrangements does Telford and Wrekin Council have in place to identify, evaluate and account for litigation or claims?	Legal and Insurance work together to identify and evaluate any potential litigation or claims against the Council. Potential liabilities are included in the Statement of Accounts.
5. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None
6. Is there any actual or potential litigation or claims that would affect the financial statements?	It is considered that anything in excess of £50,000 would be reportable. The Council has a number of claims which are dealt with by its insurers. However, the financial liability associated with these claims is limited to the Council's insurance excess. In the current insurance year, that excess is £50,000 per claim. For claims relating to previous years, that excess is £20,000. In 2018/19, the Council disclosed a claim with a potential value of £1million. The Council made an offer to settle this claim at £20,000 (the equivalent of the Council's insurance excess at that time). No response was received to that offer and the file has been closed although the limitation period for this case has not yet expired and so, potentially, the claim could be resurrected by the Claimant.

Going Concern

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Telford and Wrekin Council? What was the outcome of that assessment?	Under the current local government structure and statutory provisions, authorities cannot be created or dissolved without statutory prescription, therefore the going concern basis of accounting will apply. In addition to this, the Council has a robust service and financial planning strategy, adequate reserves and contingencies, access to Public Works Loans Board borrowing, and a strong track record of delivering savings and a balanced budget for over 10 years, which will ensure that it does continue to operate into the foreseeable future.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Telford and Wrekin Council's Business Plan and the financial information provided to Telford and Wrekin Council throughout the year?	Yes –financial assumptions in the Statement of Accounts, revenue budget, capital programme, capital and investment strategies, treasury management strategy and Council plan are all consistent.

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	Following a query raised during the 18/19 audit relating to control accounts, the Council has agreed to review debtor and creditor balances during 2019/20.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No

Going concern considerations

Question	Management response
6. Does Telford and Wrekin Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes although given staffing reductions to meet savings targets, there are some single points of failure which are addressed through workforce planning processes as far as possible. The recruitment process, including job descriptions and person specifications are designed to ensure the appropriate skills and experience are sought. Restructuring/service transformation have a focus on ensuring skills and experience to deliver services are in place. The Council is active in terms of workforce planning, which aligns with service planning and delivery of service objectives. There is a comprehensive corporate learning programme in place for managers and other employees as well as specific training relevant to specific roles. There is a strong focus on organisational development, including a Leadership programme. The Council will engage external professionals where specific skills are required that are not available in-house, or agency workers will be engaged when necessary to fill essential roles on a short-term basis. A Use of Consultants Business Case has to be approved to ensure appropriate governance in place.

Going concern considerations

Question	Management response
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	There is a robust Service & Financial Planning process and Strategy in place. Regular financial monitoring takes place with regular updates being presented to Senior Management Team and Cabinet; cost improvement plans are in place for areas of significant pressure. Overall spend is within budget and the Council has a long track record of strong financial management being under budget for the past 11 years and will have delivered ongoing savings totalling £123m by the end of 2019/20 in accordance with the budgets approved for each year.
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None known
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None known

Going concern considerations

Question	Management response
9. Are arrangements in place to report the going concern assessment to the Audit Committee ? How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	Yes -through the Statement of Accounts The Audit Committee receives both the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final SOA officers provide an overview/training session highlighting key matters in the accounts and again providing opportunity for queries. Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority. The Council has a long track record of sound financial management having slightly underspent its budget for more than 10 consecutive years despite having to deliver £123m of ongoing budget savings.

Related Parties

Matters in relation to Related Parties

Telford & Wrekin are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Telford and Wrekin Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does Telford and Wrekin Council have in place to identify, account for and disclose related party transactions and relationships ?	Register of Interests for Members and Officers. Completion of annual declaration by Senior Officers and Members as part of Statement of Accounts process. Governance Statement.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Telford and Wrekin Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)	No
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes –see Appendix A below.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment valuations	Full valuation involving an inspection is carried out every 3 years on a rolling programme for operational properties, where at least 70% of the value of all properties will be completed on an annual basis. An impairment and valuation review is carried out as a desk value for properties not valued in year. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list price adjusted for asset condition. Historical cost is used for infrastructure assets and community assets. All assets are valued at 01.04.2019.	Internal Valuer used	Use Estates & Investments Service (RICS Registered Valuers) for the property element of PPE valuations.	Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result.	No (although revaluation cycle for PPE has reduced from 5 years to 3 years)

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	The following useful lives have been used in the calculation of depreciation: Other Land and Buildings –5 to 60 years Vehicles, Plant, Furniture & Equipment –3 to 25 years Infrastructure –25 to 40 years	Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.	Use Estates & Investment Service (RICS Registered valuer) for buildings valuations. Other assets considered by Estates & Investment Service Delivery Manager and Group Accountant Corporate and Health & Well-Being Finance	The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately when they meet the componentisation policy.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis.	Consistent application of depreciation method across all assets.	No	The asset is not depreciated until it is available for use and each significant part of PPE is depreciated separately. Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register.	No
Investment Property valuations	Investment properties are valued annually at Fair Value. An impairment and valuation review is carried out as a desk value for properties not valued in year. All assets are valued at 01.04.2019	Internal Valuer used	Use Estates & Investments Service (RICS Registered Valuers) for the property element of Investment Property valuations.	Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets.	Impairment reviews at year end. Internal Valuer used	Use Property Services (RICS Registered valuer) for buildings valuations.	Valuations are made in-line with RICS guidance.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Overhead allocation	Central support costs are apportioned to services based on an agreed criteria as detailed in the CEC Allocation spreadsheet.	All support service costs centres are allocated according to the agreed CEC Allocation spreadsheet.	No	Apportionment bases are reviewed annually.	No
Measurement of Financial Instruments	The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts).	Take advice from finance professionals	External Treasury advisors & PWLB	Take advice from finance professionals and external Treasury advisors.	No

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year the Council becomes aware of the obligation.	No.	Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Revenues provide the aged debt listing and Finance calculate the provision.	No.	Consistent proportion used across aged debt as per the Code.	No.
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems and question service managers to identify where goods have been received but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial	The Section 151 Officer is notified by relevant managers.	This would be considered on individual circumstances.	This would be considered on individual circumstance.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Liability	The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (Shropshire Council) engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. Additional information will be submitted to the Actuary should the need arise e.g. McCloud judgements etc.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Finance Lease Liability	The operator's financial model is used as the basis for calculating the liability.	The operator's financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis.	No.	The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	No.

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The Annual Audit Letter for the Borough of Telford & Wrekin Council

Year ended 31 March 2019

21 January 2020

Contents

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Slide 2

EJM1 I've put myself and Siobhan in here as it relates to last year. But feel free to change to whoever you want......
Emily J Mayne, 06/01/2020

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the Borough of Telford & Wrekin Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 23 July 2019 and revised on 1 October 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £7,500,000, which is 1.6% of the group's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 21 November 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 21 November 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim was finalised on 28 November 2019.
Certificate	We certified that we have completed the audit of the financial statements of the Borough of Telford & Wrekin Council in accordance with the requirements of the Code of Audit Practice on 21 November 2019.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
21 January 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's group financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £7,500,000, which is 1.6**%** of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £7,400,000, which is 1.6**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for and senior officer remuneration at £100,000 – as this is a sensitive item over which stakeholders will expect the Council to take particular care.

We set a lower threshold of £300,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there was little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Telford & Wrekin Council, meant that all forms of fraud were seen as unacceptable	Therefore we do not consider this to be a significant risk for the Borough of Telford & Wrekin Council.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	Our testing did not identify any issues in relation to management over-ride of controls.

Audit of the Financial Statements

Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of the pension fund net liability The Council's pension fund net liability represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the value involved (£264 million in the Council's balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions. We have therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances from the auditor of Shropshire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements The Council's accounting policy on the valuation of the net pension fund liability is shown in note 1g (Employee Benefits) and related disclosures are included in notes 11, 12 and 13.	At the time the accounts were prepared there was significant uncertainty about whether the Government would have leave to appeal to the Supreme Court following the Court of Appeal's decision in the McCloud case concerning age discrimination in Judges and Firefighters' pension schemes. There were significant developments in this national issue during the course of our audit. In late June the Government was refused leave to appeal, which meant that the impact on local authorities pension liabilities became more certain. The Council commissioned an updated actuary report to consider the impact of the McCloud court ruling on pensions liabilities. As a result the net pension liabilities increased by £9.2 million. This has resulted in changes to the Council's primary financial statements, as well as a number of the notes to the financial statements. We tested these back to the actuarial report. There was no impact on the Council's useable reserves. We concluded that there was a low risk of material estimation uncertainty within the pension fund net liability disclosed within the financial statements.

Audit of the Financial Statements

Significant Audit Risks – continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council re-values its land and buildings on a five-yearly basis. To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£472 million) and the sensitivity of this estimate to changes in key assumptions. We have therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Council's asset register The Council's accounting policies on land and buildings PPE valuations are shown in notes 1t (Property, Plant and Equipment), 1u (Depreciation) and 1v (Changes to Revenue in Respect of Property, Plant and Equipment) to the financial statements and related disclosures are included in note 15.	We noted that £218.1 million (87%) of Other Land and Buildings were not revalued in 2018/19. Although consistent with Code requirements we asked management to assess whether these 'assets not revalued' could present a material misstatement within the financial statements by assessing market movements and using their Valuers to provide estimates of their current value. Management in consultation with the valuer re-assessed assets not revalued. Following this re-assessment we concluded that there was a low risk of material estimation uncertainty in the carrying value of assets not revalued.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the group's financial statements on 21 November 2019.

Preparation of the financial statements
The Council presented us with draft financial statements in accordance with the national deadline. During our audit some queries relating to control accounts were highlighted, mainly due to problems disaggregating prior year balances.in the Council's financial ledger. This made it difficult for the Council to provide full breakdowns of balances, resulting in difficulty for the audit team to identify samples from the population.

In obtaining these population breakdowns we identified historic balances which the Council agreed to remove as it overstated both the asset (debtor) and the liability (creditor). There are also non-material balances relating to VAT which the Council has agreed to investigate during 2019/20.

We also found that the inclusion of a deferred capital receipts reserve in relation to the Council's investment in NuPlace Limited did not comply with Code requirements. This required a material amendment to both the 2018/19 financial statements and a prior period adjustment of the 2017/18 comparatives.

Issues arising from the audit of the financial statements
We established and maintained a good working relationship with the finance team who responded promptly to our queries and challenges.

We reported the key issues from our audit to the group's Audit Committee on 23 July 2019. We issued a revised Audit Findings Report on 1 October 2019. Following a briefing to the Chair of Audit Committee on 21 November 2019 we issued our audit opinion.

Annual Governance Statement and Narrative Report
We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 21 November 2019 .

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of the Borough of Telford and Wrekin Council in accordance with the requirements of the Code of Audit Practice on 21 November 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out overleaf. In particular:

Financial resilience over the medium to long term – The Council has responded well to the financial challenges since 2010, managing future financial pressures and taking measured actions to maintain its financial sustainability. This has been delivered along with investment in core statutory services such as children's services and adult social care. The Council, as with all Local Government bodies, is facing considerable uncertainty over its future funding and is considering various financial scenarios over the coming years. The need to make savings will continue as demand for statutory services continues to grow. The Council will need to deliver these savings to maintain financial balance in the medium term.

In summary, we concluded that the Council has effective plans in place to deliver its budget in 2019/20. There are sufficient reserves to temporarily cover shortfalls in savings or income shortfalls in 2019/20 and 2020/21. In 2018/19 a further £1.7 million was set aside to support the medium-term service giving a total of £21.3 million in the Budget Strategy Reserve. This is available to fund in-year budget shortfalls pending the delivery of ongoing budget savings or to fund upfront costs that will deliver ongoing revenue savings as part of a robust medium term service and financial planning strategy.

As part of the budget for 2019/20, the Council set a savings target of £6.1 million. It also forecast that around £25 million of further savings are needed over the three years (2019/20 – 2021/22) in addition to the £117 million already delivered to the end of 2018/19.

If Members continue to make appropriate and measured decisions, particularly in relation to service delivery and commercial activities, the Council should be well placed to develop further opportunities to deliver its priorities. An early priority for the new Council Administration is to identify key areas for new investment and the significant additional savings needed over the next three years. The Council needs to continue to be adaptive and agile, whilst managing the risk of service cuts if there are further reductions in its funding.

Delivery of core statutory services, particularly Adult Social Care and Children's Safeguarding and Family Support Services – The Council provides a number of statutory and non-statutory services. It also works in partnership with other organisations to deliver a range of services to the wider area. Set against a backdrop of austerity and significant financial savings delivered across all service areas, the Council continues to deliver a broad range of services. Key services are assessed by regulators and we have considered their reports as well as Council internal reporting and governance arrangements when reaching our conclusion.

In summary, the Council has arrangements to work closely with partners and regulators to ensure that any weaknesses identified are address and reported to Full Council. This includes partnership working across a number of public sector and voluntary bodies. The Council's Scrutiny Committees play a key role in ensuring appropriate governance and reporting arrangements are in place for partnership working.

The Council commissioned independent Child Sexual Exploration inquiry which agreed its terms of reference with the Council's Cabinet on 11 July 2019. This decision has created a significant focus for Council Officers and Members. The Council has taken a proactive approach in progressing a local inquiry following the lack of information on timescales for the national inquiry.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial resilience over the medium to long term The Service and Financial Planning Strategy 2019/20 – 2021/22 identifies a potential funding gap of £31 million by 2021/22 driven predominantly by cuts in government funding and increased costs in delivering statutory services. This projection is in addition to the £117.5 million already delivered since 2019/20. The Council is committed to investing further in Adult Social Care and Children's Safeguarding and Family Support Services whilst also delivering £6.064 million of savings. The budget includes the use of £2.961 million of reserves to cushion the impact of the reducing Government funding and allow the level of investment required in statutory services. The Council's approach to Service and Financial Planning is underpinned and informed by a Co-operative Council ethos, working together with the community and partners to collectively deliver the best outcomes with the combined resources in the local area.	**2018/19** The Council's revenue position for 2018/19 delivered a net underspend of £0.275 million. Within this there were significant pressures in Children's Services (£3.062 million overspend) and some pressures also in Commercial Services (£0.436 million overspend). These overspends were offset by savings elsewhere, the majority of which came from Finance and Human Resources (£3.060 million), a VAT refund (£1.730 million) and additional funding (£0.455 million). The Council also managed to increase the General Fund working balance by £0.275 million and transfer £3.915 million into earmarked reserves to support future funding pressures. **2019/20** The Council set a budget for 2019/20 with gross revenue expenditure of £398.5 million. The budget model includes many variables and will be regularly updated as further information becomes available. The Council has a savings target of £6.1 million for 2019/20 to enable it to break even with no planned use of the Budget Strategy Reserve to support financial delivery. **Reserves** Reserves as at 31 March 2019 remained at a healthy level. The General Fund balance moved from £4.807 million at 1 April 2018 to £5.082 million at 31 March 2019. The Council has continued to provide earmarked reserves where budget pressures are known, investing £4.046 million in Children's Safeguarding and Family Support, £0.842 million for Adult Social Care services and £0.33 million to maintain existing subsidised bus routes. **Capital** The capital programme totals £70.18 million, with projected spend at 92.25% of the budget allocation. The 2019/20 capital programme relies on £4.782 million of capital receipts as part of its funding. Asset sales over the next five years totals £25.73 million and due to the timescales involved receipts are continually reviewed and any changes reflected in future budget projections. There are a number of new allocations and some slippage but overall at Quarter 1 the programme is projected to be on target.	The Financial Management Report presented to Cabinet on 11 July 2019 noted that the Council is on course to deliver its planned outturn position. Current projections indicate that £3.6 million less of the central contingency will be needed than was planned. Although this is positive, there are emerging financial pressures that need to be managed. Adult Social Care is currently projected to be £0.5 million over budget and Children's Safeguarding and Family Support £1.6 million over budget. Action is being taken in both service areas to mitigate these projected overspends which currently are largely offset by a projected over-achievement of £2m within treasury management budgets. We reviewed savings plans and are satisfied that the assumptions made by the Council are reasonable. We also reviewed the key assumptions within the 2019/20 budget and found them to be reasonable.

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial resilience over the medium to long term The Service and Financial Planning Strategy 2019/20 – 2021/22 identifies a potential funding gap of £31 million by 2021/22 driven predominantly by cuts in government funding and increased costs in delivering statutory services. This projection is in addition to the £117.5 million already delivered since 2019/10. The Council is committed to investing further in Adult Social Care and Children's Safeguarding and Family Support Services whilst also delivering £6.064 million of savings. The budget includes the use of £2.961 million of reserves to cushion the impact of the reducing Government funding and allow the level of investment required in statutory services. The Council's approach to Service and Financial Planning is underpinned and informed by a Co-operative Council ethos, working together with the community and partners to collectively deliver the best outcomes with the combined resources in the local area.	<u>**Looking ahead**</u> There is continuing significant uncertainty over future local government funding at a national level. The changes proposed by the Government to the local government finance system are due to come in to effect in 2020/21, but it is not clear what form these will take. This uncertainty is compounded by the potential impact of BREXIT, the continuing growth in demand for statutory services, particularly Children's Services and Adult Social Care, as well as the likelihood that more schools will move to Academy status. A four-year programme to invest in, protect and care for the Borough was approved by Cabinet in May 2019. This identifies the Council's strategic focus to 2023. The Council has adopted a financial strategy of: • solving problems and promoting social responsibility to reduce demand for services • challenging and changing the way things are done • reducing dependency on Government grants. • being a modern organisation that seeks to always get the basics right. It focuses on creating efficiencies to reduce expenditure, seeking greater partnership working and developing a more commercial approach where possible. The total income from commercial ventures in 2018/19 was £19.4 million, supporting front line services. The financial gap forecast by the Council by 2021/22 is £24.9 million. The Council has already made financial savings of £117 million since 2009/10 and continues to deliver services which are good quality and low in cost, so the financial challenge is significant. Many services provided are statutory, e.g. Education, Safeguarding Children and Adult Social Care (representing 57% of the Council's budget) and many reserves are ring-fenced, further reducing the services and budgets from the overall expenditure base which can provide saving opportunities. Further budget reductions are likely to have significant service impacts impacting service users and the wider community and will need to be carefully managed.	The Council's financial stability going forward is highly dependent on the factors set out in our findings. The Council needs to monitor decisions from the Government with regard to funding and respond accordingly. As well as responding to any Government funding decisions it also needs to ensure that it makes appropriate decisions with regard to Council Tax and ensures that its own income generation schemes and savings plans deliver.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and audit related services.

Reports issued

Report	Date issued
Audit Plan	30 May 2019
Audit Findings Report	23 July and 1 October 2019
Annual Audit Letter	28 January 2020

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	£90,182	£99,182	£117,119

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £90,182 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee variation £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Total		£9,000

A. Reports issued and fees (continued)

Fees for non-audit services

Service	Fees £
Audit related services	
- Housing Benefit Subsidy claim	9,500
- Teachers Pension Agency claim	4,800

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and group. The table summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the Council and group's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE: 28 JANUARY 2020

INTERNAL AUDIT UPDATE REPORT & INTERNAL AUDIT CHARTER

REPORT OF THE AUDIT & GOVERNANCE TEAM LEADER

1 Purpose

To update members on the progress made against the 2019/20 Internal Audit Plan and to provide information on the recent work of Internal Audit.

The report also includes an update on the Internal Audit Charter.

2 Recommendations

2.1 Members of the Audit Committee to note the information contained in this report in respect to Internal Audit work undertaken between 7 September 2019 and 3 January 2020.

2.2 Members of the Audit Committee approve the revised Internal Audit Charter.

3 Progress on Completion of the Annual Audit Plan & Changes made to the Plan

3.1 Audit Committee members approved the 19/20 Internal Audit Plan at the May committee meeting, Appendix 1 of this report shows the current progress made against the plan. There were originally 69 audits on the annual plan of which we have agreed to remove or defer 11, 13 have been completed and 11 in progress/near completion.

Between the period 7/9/2019 – 3/1/2020 the Principal Auditor attended service areas management meetings to discuss current and planned audits. Following these meetings the following changes were made to the annual audit plan:

Service Area	Audit	Reason
Business Development & Employment	ESF Skills funding agreement	Remove as no added value
Business Development & Employment	Reduction of Youth Unemployment	Remove as no added value
Commercial Services	Homelessness Reduction Act	Defer until 20-21 audit plan due to restructure and scrutiny review
Health & Well-being	Quality Standards – Libraries	Remove as no added value. Include as part of wider corporate audit in 20-21 looking at Customer Service
Health & Well-being	SLA Libraries	Remove, work already completed by service area
Finance & HR	Print & Postage Contract	Remove as currently out to tender
Adult Social Care	Quality Assurance framework	Defer until 20-21 as service area currently implementing the framework
Adult Social Care / Child Protection & Family	Direct Payments	Defer until 20-21 to ensure new process are embedded.

Support/ Customer & Neighbourhood Services		
Neighbourhood & Enforcement Services	Licensing fees for houses of multiple occupation	Removed as no added value.

4 Summary

4.1 This report provides information on the work of Internal Audit from 7 September 2019 to 3 January 2020 and provides an update on the progress of previous audit reports issued.

4.2 The key focus for the team during this period was the completion of the audit plan.

4.3 The information included in this progress report will feed into and inform our overall opinion in our Internal Audit Annual Report issued at year-end. All audit reports issued during the year are given an overall audit opinion based on the following criteria:

Level of Assurance/Audit Opinion & Definition	
Good (Green) There is a sound system of control designed to address relevant risks with controls being consistently applied.	**Reasonable (Yellow)** There is a sound system of control but there is evidence of non-compliance with some of the controls.
Limited (Amber) Whilst there is a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.	**Poor (Red)** The system of control is weak and there is evidence of non-compliance with the controls that do exist.

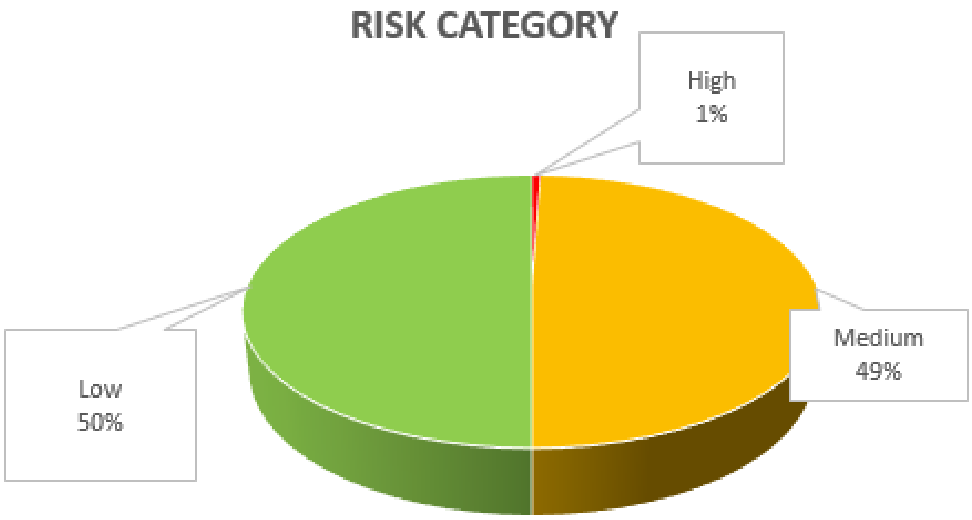
4.4 To determine the overall grading of the Internal Audit report each recommendation is risk rated (high, medium or low). The recommendation risk rating is based on the following criteria:

High risk = A fundamental weakness which presents material risk to the system objectives and requires immediate attention by management.

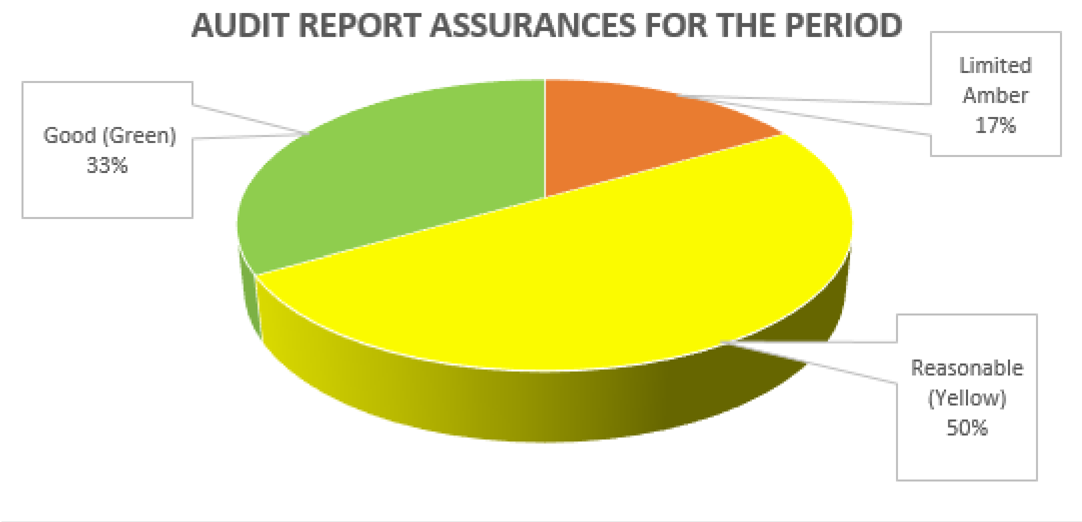
Medium risk = A recommendation to address a control weakness where there are some controls in place but there are issues with parts of the control that could have a significant impact.

Low risk = A recommendation aimed at improving the existing control environment or improving efficiency, these are normally best practice recommendations.

4.5 The chart below shows the number of high, medium and low risk recommendations made for the reports issued during this period.



4.6 The level of assurance (based on table 4.3 above) for audit work undertaken in this period and for the corresponding status at the audit follow up stage is detailed below.



4.7 The information in the above pie charts is broken down in the summary table below. Please note audits in grey text will not be followed up due to the associated audit opinion and level of risk.

AUDIT REPORTS ISSUED BETWEEN 7/9/2019 – 3/1/2020 AND CURRENT STATUS					
Area	**Date of Report**	**Original Audit Grade**	**Follow up undertaken**	**Revised Grade**	**Comments**
Holy Trinity	21/10/2019	Amber	17/1/2020	Yellow	
Muxton Primary School	04/12/2019	Amber	Due March 2020		
Randlay Primary	10/09/2019	Reasonable	Due March 2020		
Review of Contracts	19/09/2019	Reasonable	Due March 2020		
Advertising on Council Assets	27/11/2019	Reasonable	Due May 2020		
Donnington Wood Junior School	29/11/2019	Reasonable	Due May 2020		
Wrockwardine Wood Junior	17/12/2019	Reasonable	Due June 2020		
Mobile Device Management	20/12/2019	Reasonable	Due June 2020		
Capital Block funding grant	25/09/2019	Green	n/a		
EHCP 20 week process	04/10/2019	Green	n/a		
Bus Subsidy Grant	23/10/2019	Green	n/a		
Life ready work ready	25/11/2019	Green	n/a		

4.8 Detailed below is the status of any reports previously issued and reported to Audit Committee. Members should note that once reports have reached a green status and have been reported to members they are excluded from future Audit Committee reports.

PREVIOUSLY ISSUED REPORTS & CURRENT STATUS					
Area	**Date of Report**	**Original Audit Grade**	**Previous status**	**Current Grade**	**Current status / Comments**
My Options YP services – Operational	20/2/19	Red	1st follow up undertaken May 2019.	Yellow	2nd follow up in progress
My Options Young Peoples Services - Income	21/9/18	Amber	2nd follow up undertaken August 2019. Remained Yellow	Yellow	3rd follow up to be undertaken Feb 2020
Queenswood Primary School	17/10/18	Yellow	1st follow up undertaken May 2019	Green	Follow up undertaken and changed to green grading. No further follow up required
ICT Back Up & Storage	1/3/19	Yellow	Follow up to be undertaken September 2019	Green	Follow up undertaken and grading changed to green therefore no further follow up required
ICT Anti –Virus	1/3/19	Yellow	Follow up to be undertaken September 2019	Yellow	1st follow up undertaken, grading not changed therefore 2nd follow up planned for April 2020
General Data Protection Regulation (GDPR)	17/5/19	Yellow	Follow up to be undertaken November 2019	Green	Follow up undertaken and changed to green grading. No further follow up required
3rd party access wired & wireless network	30/4/19	Yellow	Follow up to be undertaken October 2019	n/a	October follow up not undertaken as recommendations were not due to be implemented until January 2020. Follow up now in progress.
Single sign on	23/4/19	Yellow	Follow up to be undertaken October 2019	n/a	October follow up not undertaken as recommendations were not due to be implemented until January 2020. Follow up now in progress

New Social Care System - Liquidlogic	24/6/19	Yellow	Follow up to be undertaken December 2019	n/a	In Progress
Newport pool	15/8/19	Amber	Follow up due Jan 2020	n/a	Follow up in progress
Syrian Refugee	6/8/19	Yellow	Follow up due Feb 2020	n/a	n/a
Horsehay Golf Centre	23/7/19	Yellow	Follow up due January 2020	n/a	Follow up in progress

Internal Audit is confident and have been assured by management that controls have and will continue to improve in all areas where recommendations have been made. There are no other issues to bring to the attention of the Committee at this time.

5 Unplanned work

5.1 There has been no unplanned worked between this period.

6 Quality Assurance and Improvement Programme

6.1 Internal Audit maintains a Quality Assurance and Improvement Programme that complies with the Public Sector Internal Audit Standards (PSIAS) alongside the normal quality review process applied to all audit assignments. The Audit & Governance Team Leader undertakes an independent monthly check of 1 or 2 (number dependent on number of completed audits that month) completed audit files to ensure they comply with:

- Requirements of the PSIAS
- Rules of the Code of Ethics
- Agreed Internal Audit process and procedures
- Approved Internal Audit Charter

Only minor Internal Audit procedural issues have been found from these checks and these had been fed back to the Internal Auditors to aid continuous improvement in the service.

7 Internal Audit Adding Value

7.1 The Internal Audit function adds value to the Councils services in numerous ways. During this period advice and guidance was given with regard to school imprests and also setting up new process and procedures for volunteers handling cash. As part of the ContrOCC audit additional advice and guidance has been provided including the development of process maps.

8 Internal Audit Charter

8.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)[1] and the Council.

8.2 The terms of reference of the Audit Committee require the committee to approve the Internal Audit Charter on an annual basis. The charter has been reviewed by the Audit & Governance Team Leader and changes made to reflect the requirements of the PSIAS. See Appendix 2 for a copy of the revised charter.

9 OTHER CONSIDERATIONS

AREA	COMMENTS
Equal Opportunities	All members of the Audit Team have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.
Environmental Impact	All members of the Audit Team are environmentally aware and if any issues were identified they would be notified to the appropriate manager.
Legal Implications	The Accounts and Audit Regulations 2015 (Part 2, paragraph 5) state that the Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements. In the event that an audit reveals a legal issue or concern this is referred to the Council's Legal Services Team and/or the Council's Monitoring Officer for further advice and assistance.
Links with Corporate Priorities	All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities.
Risks and Opportunities	All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.
Financial Implications	Where Audit findings result in changes to service delivery or controls etc the financial consequences are managed as part of the implementation of such changes. Therefore, there are no financial implications of accepting the recommendations of this report.
Ward Implications	The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.

Previous minutes:

1 October 2019
30 May 2019
29 January 2019
2 October 2018

[1] PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.

24 July 2918
29 May 2018
30 January 2018

Background Papers:

Annual Audit Plan 2019/20 and Charter
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and updated January 2017
CIPFA Local Government Application Note – April 2013
Accounts and Audit Regulations – 2015

Report by: Tracey Drummond Principal Auditor. Telephone 383105
Rob Montgomery, Audit & Governance Team Leader. Telephone 383103

Appendix 2

Internal Audit Charter – 1st April 2020 to 31st March 2021

1. Introduction

1.1 This charter defines for the Council and the community internal audit activity's purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)[2] and the Council.

1.2 This charter will be approved by the Audit Committee, after consultation with senior management[3] and will be reviewed annually.

2. Internal Audit Purpose and Responsibilities

2.1 Internal Audit Purpose

2.1.1 The Audit & Governance Team is led by the Audit & Governance Team Leader under the direct management of the Governance & Legal Service Delivery Manager. The team supports the Co-operative Council in the delivery of services to the community to help improve their quality of life and the promotion of Telford & Wrekin as a place of partnership, enterprise and innovation. The team supports the whole Council to deliver economic, efficient and effective services[4] and achieve the Council's programme to ***"Protect, Care and Invest to Create a Better Borough".***

2.2 Internal Audit Objectives

2.2.1 To review the effectiveness of the governance, risk management and control processes of the Council to aid improvement, provide a level of assurance and an opinion on them to the Council.

2.2.2 To provide a respected, cost effective, objective and quality internal audit service including the provision of advice and guidance to assist our customers to meet their objectives and improve their services, including the rationalisation of controls, where appropriate.

2.2.3 To deliver value adding internal audit activity whilst meeting the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics (especially objectivity and integrity) and the Core Principles for the Professional Practice of Internal Auditing (see ANNEX I).

2.2.4 To work with the external auditor and other assurance bodies to provide the most effective internal audit service.

2.2.5 To value and continuously develop the team.

2.3 Internal Audit Responsibilities

2.3.1 To undertake the statutory Section 151 audit for the Chief Financial Officer (CFO), in line with the Accounts and Audit Regulations 2015.

[2] PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practice by CIPFA the Internal Audit standard setters for Local Government.
[3] Senior management is the Senior Management Team comprising the following officers - Managing Director, Directors and Assistant Directors.
[4] By providing advice and guidance on the management of risks, controls and governance processes in service delivery and by supporting service reviews, restructures and reducing bureaucracy

2.3.2 To deliver the Council's risk based annual audit plan taking into account the Accounts and Audit Regulations 2015, the management of risk, senior management consultations, internal and external intelligence, comments from the Audit Committee and any requirements of the External Auditor. The plan is reviewed and amended, if required. Any significant changes are reported to senior management and the Audit Committee.

2.3.3 To ensure that there are sufficient resources to deliver the statutory requirements and plan above and to report any potential concerns to the CFO, MO and Audit Committee.

2.3.4 To operate as an independent, objective assurance function designed to add value and improve the effectiveness of the governance, risk management and control processes of the Council. The independent assurance work may include financial, performance, compliance, system security and information governance assignments.

2.3.5 Internal Audit does not undertake any individual consultancy assignments.

2.3.6 To ensure audit assignments are delivered to measure the effectiveness of risk management at a local level.

2.3.7 To appropriately manage any potential conflicts of interest in the delivery of internal audit activities and non-audit activities and to periodically rotate the annual audit work between staff.

2.3.8 To provide clear, objective and concise internal audit reports to support management in implementing recommendations to improve services and risk management, control and governance processes.

2.3.9 To provide responsive, challenging and informative advice and support on risk management, controls and governance to management.

2.3.10 To report to the Audit Committee[5] as defined in their terms of reference.

2.3.11 To develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity.

2.3.12 To arrange at least once every 5 years an external assessment of internal audit by an appropriate person[6] from outside the Council. The timing, form of the assessment and the results will be agreed with and reported to the Audit Committee.

2.3.13 To investigate and/or support the investigation of cases of suspected financial irregularity, fraud or corruption, except council tax support fraud investigations, in accordance with agreed procedures.

2.1.14 To provide appropriate assurance to relevant parties external to the Council. Currently Internal Audit complete the Annual Internal Audit Report for a number of Parish Councils they have contracted with.

2.4 Internal Audit Authority

2.4.1 The Audit & Governance Team Leader is the Council's Chief Audit Executive as defined in the PSIAS.

2.4.2 The Audit & Governance Team Leader is line managed by the Council's Deputy Monitoring Officer but has unfettered access to the Managing Director, the CFO and all senior managers within the Council.

[5] The Audit Committee is the Board as defined in the Public Sector Internal Audit Standards
[6] Qualified, independent assessor or assessment team

2.4.3 The Audit & Governance Team Leader has responsibility for non-audit services including Information Governance, Insurance Services and the Corporate Investigations Team. The Audit & Governance Team Leader will communicate any further changes to their scope of responsibility in terms of non-audit functions to the Audit Committee prior to commencement of any such functions. In order to avoid/manage any potential conflicts in respect to the audit of the Information Governance and Insurance functions (and any other future additional functions) the external contractor personnel are used to undertake this work and in addition to standard quality review the results and responses are overseen by the CFO in addition to the Deputy Monitoring/Monitoring Officer.

2.4.4 The Audit & Governance Team Leader in conjunction with the Governance & Legal Service Delivery Manager reports to the Audit Committee but also has unfettered access to the Chair of the Audit Committee, the Leader as Cabinet lead for Governance, other Cabinet Executives and the External Auditor.

2.4.5 In order for Internal Audit officers to be independent and objective whilst undertaking Internal Audit activity they have the authority to:

- enter at all reasonable times any Council premises or land;
- have access to all Council and partner records[7], documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Monitoring Officer or Audit & Governance Team Leader;
- have access to records belonging to third parties such as contractors or partners when required;
- require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party; and
- require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.

2.4.6 If at any time it is determined that the independence and/or objectivity of Internal Audit is impaired, the Chief Audit Executive will report this immediately to the Senior Management Team and Audit Committee.

2.5 How the Audit & Governance Team Leader will form and evidence his opinion on the control environment to support the Annual Governance Statement.

2.5.1 The Audit & Governance Team Leader prepares an annual audit plan. Internal Audit planning is informed and influenced by the Council's vision, priorities, "Being the Change" and values, the strategic risk register, the requirements of the External Auditor, previous Internal Audit work, external networking intelligence, discussions with the CFO and consultations with the Council's service area management teams and senior management.

2.5.2 The audit plan outlines the work assignments to be carried out, the resources allocated and the Council priority/ priorities and "Being the Change" aims they contributes to. The plan is flexible in order to reflect the changing needs and priorities of the organisation. Work is carried out by the audit team in accordance with the Standards using a risk based audit methodology and each Internal Audit report provides an opinion on the area reviewed.

2.6 How Internal Audits work will identify and address significant local and national issues and risks

[7] Records include business e-mail and internet records

2.6.1 The Audit & Governance Team Leader has quarterly meetings with the Managing Director and CFO. Senior audit staff meet with Assistant Directors and their management teams as required to identify any local and national issues and risks, changes in the service area, and any new areas that require input from Internal Audit.

2.6.2 Employees within Internal Audit have access to the West Midlands Internal Audit Groups (including Fraud, Contract and Education sub-groups) and other CPD/networking events through Chartered Institute of Public Finance Accountants and the Chartered Institute of Internal Auditors. These support continued professional development and help to identify any issues that may affect the delivery of internal audit services.

2.7 Internal Audit Resources

2.7.1 For 2018/19 the Internal Audit team has a resource of 3.98 full time equivalent (fte) employed staff plus at least 50% of the Audit & Governance Team Leader. In addition there is an external contract[8] which will deliver around 50 days of specialist IT or general audit work.

2.7.2 The budget for Internal Audit[9] is approved by the Council as part of the annual service and financial planning strategy following consideration by senior management, Scrutiny and the Cabinet.

2.8 Internal Audit and the Audit Committee

2.8.1 Internal Audit will report to the Audit Committee on the following:

a) Approval of the Internal Audit Charter;
b) Approval of the risk based Internal Audit Plan;
c) Update reports on Internal Audit activity and performance against the plan;
d) An annual report containing an opinion to inform the Annual Governance Statement; and
e) Any concerns in respect to Internal Audit resources and the level of assurance that can be provided.

2.8.2 The Audit Committee will be part of the approval process for appointing the Councils Chief Audit Executive.

2.8.3 The Chair of the Audit Committee and the Managing Director will feed into the Annual Personal Performance & Development process for the Chief Audit Executive

[8] This has been procured through a framework agreement with Staffordshire County Council, Shropshire Council and Worcestershire County Council for the provision of general and specialist IT audit work.
[9] Including the remuneration of the Audit & IG Manager.

Public Sector Internal Audit Standards

MISSION OF INTERNAL AUDITING: To enhance and protect organisational value by providing value added, risk-based and objective assurance, advice and insight.

The definition of Internal Auditing within the Standards is:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Code of Ethics - Summary

Internal auditors in UK public sector organisations must conform to the Code of Ethics within the Standards. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

There are 4 principles in the code of ethics:

1) Integrity – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2) Objectivity – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
3) Confidentiality – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4) Competency – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

All public sector officials including internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.[10]

Internal Auditing Professional Practices Framework

Core Principles for the Professional Practice of Internal Auditing

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement

Council's values: – Ownership – Openness & Honesty – Involvement – Fairness & Respect

[10] Information can be found at www.public-standards.gov.uk

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AGS ACTION PLAN FOR 2018/19 FOR IMPLEMENTATION DURING 2019/20 – REVIEW OF RECOMMENDATIONS

No	Finding	Action	Lead Officer	Current status as at December 2019
1.	Ongoing savings proposals and continued strategic management of organisational changes in respect to 'Being the change' *Follow on from 2017/18 AGS action plan*	Continued strategic management of organisational change in respect to "Being the Change part 3", continued reduced budgets, revised structures and commercial/ business approach which links to the continued development and implementation of revised governance framework. Further consultations on future savings.	Managing Director (Now Chief Exec) SMT	The budget for 2019//20 requires £6m of savings to be delivered. The regular Financial Management reports to Cabinet show that the Council is on track to end the year within budget. The budget for 2020/21 will require some additional savings to be identified which are set out on the service and financial planning report considered at Cabinet on 2 January 2020 and currently subject to consultation Future plans will be discussed when the new Chief Executive is in post
2.	All internal audits consist of an ethics questionnaire that is sent to a sample of specified staff to demonstrate their understanding of key corporate policies and whether staff feel supported. Results of these questionnaires demonstrates that some staff do not have regular 1:2:1 supervision or team briefs. Responses have also highlighted a lack of understanding of key policies such as the Gifts & Hospitality Policy. These findings have	New APPD framework to be adhered to across the Council. Staff to be regularly reminded about key corporate policies. A reminder to be given to managers in respect to regular team briefs / team meetings where corporate messages and priorities can be shared.	SMT/SDM Organisational Delivery & Development Manager	The new APPD framework has been launched and implemented across the organisation and guidance can be found on the intranet. The expectation is that all employees will have a review at least every 12 months. Feedback and lessons learnt from the new process was gathered from all managers during Summer 2019 and was used to update the paperwork for 2019/20-21. An annual reminder has been sent to the organisation to undertake APPDs

No	Finding	Action	Lead Officer	Current status as at December 2019
	been shared when discussing individual audit reports with relevant SDM's & ADs and taken to SMT as part of reporting corporate recommendations.			for 2019/20-21 through our internal communications mechanisms. APPD briefing sessions have been advertised throughout Autumn/Winter with some additional 'how to get the best out of your APPD' being held early in 2020. APPD Lite pilot paperwork continues in relevant service areas with initial feedback being gathered from early pilots. Key organisational issues are communicated through managers meetings from SMT, Leadership Forums (3 times per year), Communications Champions meetings (quarterly), Latest News (daily on the intranet), Staff News (weekly summary) and The Word (every six weeks). Managers are expected to brief from these meetings on a regular basis and employees are expected to engage with these messages when they are sent. 'Essential Learning' introduced and is a group of nine courses all permanent employees must complete every two years. They are essential to ensure that employees are aware of, and comply with, the legislation and policies. This includes:

No	Finding	Action	Lead Officer	Current status as at December 2019
				Adult Safeguarding Child Protection – An introduction Child Sexual Exploitation (CSE) Awareness Code of Conduct Cyber Security Equality Awareness Fire Safety Awareness Health and Safety Introduction Information Governance: The Basics
3.	The results of the annual governance certification process highlighted that service areas are having difficulty recruiting. This, in addition to reductions in staffing, is creating single points of failure. However Service Delivery Managers are aware of these issues and where possible are putting measures in place to try and mitigate this. *Follow on from 2017/18 AGS action plan*	Embedding of the workforce development plans, succession planning to avoid single points of failure. Continue to update the management competencies, skills and associated training to meet revised organisational requirements. Identify the reasons why we are having difficulty recruiting and how we can retain staff.	Managing Director (Now Chief Exec) & AD Finance & Human Resources Organisational Delivery & Development Manager	A comprehensive review of the recruitment process and policy was undertaken. Findings and actions were reported to SMT in July 2019. Actions included • An updated recruitment policy and checklist • Updated Jobs Page on Council's internet page with targeted sections on Children's & Adults Services • Advertising pilot targeted support difficult to recruit areas • WM Jobs system streamlined after Lean Review • Pilot of Employee Referral Scheme in My Options • Training in Recruitment and Selection reviewed • New starters improved joining processes to enable quicker and

No	Finding	Action	Lead Officer	Current status as at December 2019
				more effective induction to the Council Service Areas undertake workforce planning on an annual basis and aims to identify areas where skills gaps may be an issue, based on service area priorities for the coming year, and identify solutions. Workforce planning continues into 2020 which will consider any HR specific issues that services want to address in addition to any skills gaps e.g. recruitment and retention.
4.	The results of the annual governance certification process has highlighted the need for further development of modern slavery awareness throughout the procurement process. Officers are following corporate guidance on modern slavery but as with all new initiatives further work is required to fully embed modern slavery checks throughout the whole procurement process.	Procurement Team Leader or SDM will talk at all AD teams meetings to raise the profile and explain the approach for training awareness and the links to each and every service team - to be complete by August 19.	Commissioning Procurement & Brokerage SDM.	Meetings have been booked for Commissioning, Procurement & Brokerage SDM to attend managers meetings to update them on modern slavery
5.	The annual governance certification process highlighted that service areas are aware that they are storing old and out of date records and they need to review the documents they are	There should be a review of all records/information stored and secure disposals made where appropriate.	SMT & SDMs	The IG Team are currently working on a retention policy refresh. Once completed this will be communicated to all staff.

No	Finding	Action	Lead Officer	Current status as at December 2019
	storing both in operational buildings and the storage unit at Stafford Park. This is to comply with the Data Protection Act 2018.			
6.	The results of the annual governance certification process has highlighted that service areas have experienced data breaches and potential near misses in respect to personal data. Where data breaches have been experienced, these have been reported to the Information Governance Team and managers have changed processes and procedures, where possible, based on lessons learned to prevent similar breaches occurring.	Ensure all staff are aware of the Corporate Information Security Breach Procedure. Ensure staff have completed the IG training on OLLIE. Lessons learnt in respect to breaches are communicated appropriately.	SIRO/SMT & SDM's	The Corporate Information Security Breach Procedure is currently under review. This will include devising a new online form for reporting data breaches. A shortcut to this form will be on all officers' computers. Appropriate publicity will be given to the new policy to ensure all staff are aware. IG periodically receive a report from the Organisational Development & Delivery Team of new starters who have not completed IG training as required by the induction checklist. The DPO then follows this up with individual managers. All data breaches reported to the IG team require a form completing which mandatorily asks for lessons learnt to be documented.
7.	The annual governance certification process demonstrated that service areas are aware that their intranet and web pages are not up to date but they are in the process of updating them.	Service areas should ensure that their intranet and webpages contain relevant and up to date information.	AD Customer & Neighbourhood Services	2072 content pages on Corporate Web site for Editors to author 127 nominated Editors across the council Quarterly network sessions held – 46 representatives have attended during 2019 Upgrade to website now enables 'last updated' date to appear on all

No	Finding	Action	Lead Officer	Current status as at December 2019
	Follow on from 2017/18 AGS action plan			pages effective from 6th November 2019 and Web services will undertake annual reports to share with Editors to support them know when and what to review Focussed work ongoing with School Performance and Development and Housing services to review content **<u>Actions for January 2020</u>** AD and SDM will be reminded of who their nominated Editors are and will be asked to confirm that this is correct for 2020 AD and SDM will be advised of the quarterly network session dates and will share attendance during 2019 (we can add more if attendance increases) AD and SDM will be reminded to have web as standing team item as it is the front door to their service
8.	Staff should still be aware of investigating any commercial opportunities. *Follow on from 2017/18 AGS action plan*	Continue to develop and implement appropriate governance arrangements to support commercial projects.	Managing Director (Now Chief Exec) & SMT	This is ongoing, the Authority are continue to look at income generation and commercial projects.