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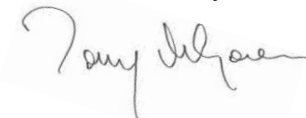
25 November, 2019

Dear Councillor,

**AUDIT & GOVERNANCE COMMITTEE
4:00PM, TUESDAY 3 DECEMBER 2019
DATTELN ROOM, CIVIC CENTRE, CANNOCK**

You are invited to attend this meeting for consideration of the matters itemised in the following Agenda.

Yours sincerely,



**T. McGovern
Managing Director**

To: Councillors

Witton, P.T. (Chairman)
Cartwright, Mrs. S.M. (Vice-Chairman)
Crabtree, S.K. Johnson, J.P.
Fisher, P.A. Stretton, Mrs. P.Z.
Jones, Mrs. V.

A G E N D A

PART 1

1. Apologies

2. Declarations of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

To declare any personal, pecuniary or disclosable pecuniary interests in accordance with the Code of Conduct and any possible contraventions under Section 106 of the Local Government Finance Act 1992.

3. Minutes

To approve the Minutes of the meeting held on 29 July, 2019 (enclosed).

4. Internal Audit – Quarter 1 and 2 Report 2019/20

Report of the Chief Internal Auditor and Risk Manager (Item 4.1 – 4.13).

5. Strategic Risk Register

Report of the Head of Governance and Corporate Services (Item 5.1 – 5.19).

6. Annual Governance Statement – Progress Report

Report of the Head of Governance and Corporate Services (Item 6.1 – 6.9).

7. Treasury Management – Mid-Year Report 2019/20

Report of the Head of Finance (Item 7.1 – 7.17).

8. Cannock Chase District Council Annual Audit Letter 2018/19

Report of the External Auditors (Item 8.1 – 8.14).

9. Audit Progress Report and Sector Update

Report of the External Auditors (Item 9.1 – 9.14).

CANNOCK CHASE COUNCIL
MINUTES OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE
HELD ON MONDAY 29 JULY, 2019 AT 4:00 P.M.
IN THE CIVIC CENTRE, BEECROFT ROAD, CANNOCK
PART 1

PRESENT:
Councillors

Crabtree, S.K. Jones, Mrs. V.
Fisher, P.A. Stretton, Mrs. P.Z.

Also present:

- Jim McLarnon, Audit Manager, Grant Thornton (External Auditors)

8. Appointment of Chairman

Councillor Mrs. P.Z. Stretton was appointed Chairman for the meeting.

9. Apologies

Apologies for absence were received from Councillors P.T. Witton (Chairman), Mrs. S.M. Cartwright (Vice-Chairman) and J.P. Johnson.

10. Declaration of Interests of Members in Contracts and Other Matters and Restriction on Voting by Members

No Declarations of Interests were made in addition to those already confirmed by Members in the Register of Members' Interests.

11. Minutes

RESOLVED:

That the Minutes of the meeting held on 25 June 2019 be approved as a correct record and signed.

12. The Audit Findings for Cannock Chase District Council 2018-19

Consideration was given to the Report of the External Auditors (Item 4.1 – 4.25 of the Official Minutes of the Council).

The External Auditor thanked the Officers in the Finance team for the prompt delivery of the 2018/19 statement of accounts.

Members were then taken through the following key sections of the report:

| <u>Report Section</u> | <u>External Auditor's conclusions/comments</u> |
|--|--|
| <u>Headlines</u> | |
| Financial Statements | All work had now been substantially completed. There was one adjustment to the financial statements of £2.021m related to the Council's net pension liability. |
| Value for Money arrangements | It was anticipated that an 'unqualified' value for money conclusion would be issued to the Council. |
| Statutory duties | It had not been necessary to use any of the additional statutory duties or powers available as part of the audit work. |
| Materiality | The Council's materiality threshold for 2018/19 was circa £1.3m. The calculations remained the same as detailed in the audit plan. |
| <u>Significant Findings – Audit Risks</u> | |
| Revenue Cycle – Fraudulent transactions | Considered low risk of material misstatement due to fraud in revenue. |
| Management override of controls | No issues identified in this area during the audit. |
| Valuation of land and buildings | No issues identified in this area during the audit. Consideration was given to how management obtained assurance that assets not revalued in 2018/19 were not materially misstated. Based on the information provided, it was accepted that the estimated values provided were below the materiality threshold and not material to the Council's accounts. |
| Valuation of pension fund net liability | There was one issue identified which related to the accounting for the impact of the McCloud Court of Appeal Judgement. |
| <u>Significant Findings – Other Issues</u> | |
| Impact of McCloud Judgement | The audit procedures have confirmed the relevant adjustments to the financial statements in regard to the LGPS. |

| <u>Significant Findings – Key Judgements and Estimates</u> | |
|--|---|
| Provisions for NNDR Appeals | Confirmed the adequacy of disclosure of estimate in the financial statements. |
| Land and Buildings – Council Housing | Audit work had been concluded. |
| Land and Buildings – Other | Audit work had been concluded. |
| Net Pension Liability | Audit work had been concluded. |
| <u>Value for Money</u> | |
| Our Work | Audit work focussed on the significant risks identified to the Council’s arrangements in relation to financial sustainability. The main considerations were outturn in the period to planned budget, ability to set a balanced budget for the 2019/20 financial period and plans for future and how they would be incorporated into the MTFP. |
| Financial Sustainability | The Council had adequate arrangements in place to deliver on financial plans as demonstrated by the month 12 outturn, and an appropriate level of oversight was provided to ensure monitoring and reporting were fit for purpose. In addition, the Council had robust arrangement in place to formulate a prudent and measured MTFP which was reflective of the current environment and information available. Whilst it was believed that management had sufficient measures in place to forecast reasonably, the future models of funding in Local Government were uncertain and these were prevalent in the financial plans prepared by management. The authority faced significant challenge in the medium term and therefore this risk would continue to be monitored closely going forward. |

In response to a number of questions raised by a Member, the External Auditor provided information in respect of the materiality calculations levels set out at Item 4.4. He also commented on the Value for Money three sub criteria set out at Item 4.15 and indicated that the Council had adequate arrangements in place.

RESOLVED:

That the Report of the External Auditors be noted.

13. External Audit of the Statement of Accounts 2018-19

Consideration was given to the Report of the Head of Finance (Item 5.1 – 5.8 of the Official Minutes of the Council).

RESOLVED:

- (A) That the contents of the report be noted, with reference to the separate reports included on the agenda on 'The Audit Findings for Cannock Chase District Council' and 'Statement of Accounts 2018/19'.
- (B) That the Management Representation letter, as included at Appendix 1 of the Report, be approved and signed by the Chairman (in the Chair) on behalf of the Committee.

14. Statement of Accounts 2018-19

Consideration was given to the Report of the Head of Finance (Item 6.1 – 6.5 plus separate booklet of the Official Minutes of the Council).

The Chief Accountant gave an overview of key sections contained within the Accounts, which included:

- Comprehensive Income and Expenditure Account
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Housing Revenue Account Income and Expenditure
- Collection Fund

The Chief Accountant clarified the information contained within the Net Cost of Services General Fund graph contained on page 10 of the Accounts and indicated that the 10.2% apportioned to the Leader of the Council was based on the portfolio that he held.

In response to a question raised by a Member regarding the Collection Fund Income and Expenditure Account, the Chief Accountant explained the calculations in respect of Council Tax Income and Non-Domestic Rates.

RESOLVED:

That the audited Statement of Accounts for 2018/19 be approved.

15. Annual Treasury Management Report 2018-19

Consideration was given to the Report of the Head of Finance (Item 7.1 – 7.11 of the Official Minutes of the Council).

The Head of Finance advised that the report set out the Council's outturn position of treasury management activity during 2018/19.

In response to a question raised by a Member concerning over/(under) borrowing identified within Item No. 7.3 – Treasury Position as at 31 March, 2019 Table at 5.12, the Head of Finance explained the Council's position and indicated that the Council did not need to borrow to support revenue expenditure. He then provided further information in respect of borrowing the interest rate risks.

RESOLVED:

That:

- (A) The annual treasury management report for 2018/19 be noted.
- (B) The actual 2018/19 prudential and treasury indicators as set out in Appendix 1 and 2 of the Report be approved.

16. Cannock Chase District Council Audit Fee Letter 2019-20

Consideration was given to the Letter of the External Auditors (Item 8.1 – 8.3 of the Official Minutes of the Council).

The Committee received the Letter of the External Auditors which was noted.

The meeting closed at 4:45 p.m.

CHAIRMAN

| | |
|-------------------------|--|
| Report of: | Chief Internal Auditor & Risk Manager |
| Contact Officer: | Stephen Baddeley |
| Telephone No: | 01543 464 415 |
| Report Track: | Audit & Gov Cttee: 03/12/19 |

AUDIT & GOVERNANCE COMMITTEE
3 DECEMBER 2019
INTERNAL AUDIT - QUARTER 1 & 2 REPORT FOR 2019-20

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information the Internal Audit Quarter 1 & 2 Report for 2019-20.

2 Recommendations

- 2.1 That the Committee notes the contents of the Internal Audit Report for Quarter 2 of 2019-20
- 2.2 That the Committee approves the IT Audit Plan set out in Appendix 5.

3 Key Issues and Reasons for Recommendation

- 3.1 At the end of the quarter nine audits had been completed at least to draft report stage and a further six audits were in progress. One Limited had been issued in the quarter.

4 Relationship to Corporate Priorities

- 4.1 The system of internal control is a key element of the Council's corporate governance arrangements which cuts across all corporate priorities.

5 Report Detail

- 5.1 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention

of the committee any relevant areas where significant weaknesses have not been addressed by managers.

- 5.2 Appendix 1 shows the performance of the section which whilst below target at the end of quarter is not of significant concern due to the amount of work-in-progress. When this is taken into account there are no major concerns in relation to the completion of the audit plan by the end of the year
- 5.3 The table below gives a summary of the level of assurance for each of the audits completed in the quarter. More detailed information on each of the reports issued is contained in Appendix 2.

| Number of Audits | Assurance | Definition |
|-------------------------|--------------------------|--|
| 2 | Substantial ✓ | All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management. |
| 5 | Partial ▲ | One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan. |
| 1 | Limited ! | One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan. |
| 0 | No Assurance ✘ | One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan. |
| 1 | N/A | One piece of work was issued where it was not appropriate to issue an Assurance due to the narrow scope of the work – this was in relation to Pension Testing on behalf of Staffordshire County Council. |

- 5.4 Appendix 3 lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.
- 5.5 Appendix 4 contains the details of the follow-up audits issued in the quarter. Three follow-up reports have been issued in Quarter 2 some progress had been made in relation to all 2 areas but not sufficient for a revised assurance to be issued a further two areas were able to be reclassified as Substantial Assurance.
- 5.6 Appendix 5 contains the proposed IT Audit Plan for 2019-20 which has been agreed following an IT Audit Needs Assessment exercise carried out by the Council's IT Audit Contractor.

| |
|-----------------------|
| 6 Implications |
|-----------------------|

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1: Audit Performance

Appendix 2: Audits Completed in Quarter 1

Appendix 3: Audits In progress

Appendix 4: Audit Follow-ups completed in the Quarter

Appendix 5: IT Audit Plan for 2019-20

Background Papers


- Audit Plan File
- Audit Time Recording System
- Internal Audit Reports

Audit Performance

Breakdown of the Planned Delivery of the Audit Plan by Quarter




| Target Completion | Quarter % | No of Audits for Quarter | Cumulative % | Cumulative Total Number of Audits |
|-------------------|-----------|--------------------------|--------------|-----------------------------------|
| Quarter 1 | 11 | 3 | 11 | 3 |
| Quarter 2 | 23 | 6 | 35 | 9 |
| Quarter 3 | 23 | 6 | 65 | 15 |
| Quarter 4 | 42 | 11 | 100 | 26 |



Cumulative Performance Information at the end of the Quarter




| | Planned Audits | Actual Audits | | | |
|-------------------|--|---------------|----------------|------------------|---|
| | | Complete | % Of Completed | Work In Progress | % WIP & Complete |
| Audit Plan | 9 | 9 | 100 | 6 | 166% |
| Commentary | We are currently on track to complete the Audit Plan by the end of the year. | | | |  |

ITEM NO. 4.

Audits Completed in Quarters 1 & 2

| Audit | Head of Service | Status | Number of High/Medium Recommendations | Assurance | Comments & Key Issues |
|--|----------------------------------|--------|---------------------------------------|--|--|
| Housing Application (Northgate) | Housing/Technology★ | Draft | 3 | Limited  | <p>The Limited Assurance is due to</p> <ul style="list-style-type: none"> the lack of a post-implementation review means that the Council is not clear if the project has been successfully completed and the software is delivering its anticipated benefits. at the time of the audit there was a lack of a robust upgrade and patch-management process and that the software in use was 2 versions behind the latest release meaning security and other issues had not been resolved the external contractor who manages the upgrades/patches for the system had an inappropriately high level of access to the system potentially putting personal data at risk of loss or unauthorised disclosure. |
| Housing Benefits Overpayment Team | Finance | Final | 1 | Partial  | The partial assurance is due to the lack of a current, comprehensive Debt Write-off procedure. |
| Countryside Management & Rangers Service | Environment & Healthy Lifestyles | Draft | 3 | Partial  | <p>The Partial Assurance is due to the following issues -</p> <ul style="list-style-type: none"> The draft fire risk assessment for Hednesford Hills needs to be finalised and include consultation with the Fire Service There was a lack of appropriate records for damage to equipment/vehicles and lack of evidence of regular servicing of tools/equipment. Volunteer agreements could not be found for all volunteers. |

| Audit | Head of Service | Status | Number of High/Medium Recommendations | Assurance | Comments & Key Issues |
|----------------|-----------------|--------|---------------------------------------|--|--|
| Mobile Devices | Technology★ | Final | 6 | Partial  | The Partial Assurance is due to the following issues - <ul style="list-style-type: none"> • There was a lack of control over the disposal of physical media holding confidential data including infrequent destruction and a lack of inventory of the items held awaiting destruction. The Council also had not verified the contractor’s security certifications to ensure they had independent accreditation. • IT Policies on Mobile Devices need to be updated to reflect changes in usage including agile and responses need to be obtained from all users as currently only 21% of employees had acknowledged they would comply with the IT Policies. • There was a lack of reconciliation by IT of mobile devices held by departments against the inventory to ensure items had not been lost or misplaced. • Password complexity in line with the IT Security Policy had not been enforced on the network and exchange server. |
| IT Strategy | Technology★ | Final | 2 | Partial  | The Partial Assurance is due to a need for improved engagement with Leadership Team in the understanding of the business needs of the Council when determining the IT Strategy. In addition greater oversight and monitoring of progress of actions to deliver the Strategy is required. The Strategy itself is in need of review to reflect changes in working practices such as the introduction of Agile working at Stafford BC and a move to use cloud based solutions such as Office365. |

| Audit | Head of Service | Status | Number of High/Medium Recommendations | Assurance | Comments & Key Issues |
|--|---------------------|--------|---------------------------------------|--|---|
| IT Project Management | Technology★ | Final | 6 | Partial  | <p>The Partial Assurance is due to:</p> <ul style="list-style-type: none"> • Failure to ensure all business cases for IT projects have appropriate approval to ensure the projects are appropriately scoped/defined, have clear anticipated objectives to deliver and align with business needs. • Appropriate testing is not always carried out to ensure the projects have effectively delivered the agreed outcomes. • Appropriate project oversight is not always established for the projects which may mean delays and other issues are not identified or addressed effectively. |
| Town Centre Management & Development | Economic Prosperity | Final | 0 | Substantial  | |
| Economic Development & Tourism (Exclude the LEP) | Economic Prosperity | Final | 0 | Substantial  | |
| Pensions Assurance for the County | HR★ | Final | 0 | N/A | |

★ Services led by Stafford Borough Council as part of Shared Services

ITEM NO. 4.







Audits in Progress





| Audit | Head of Service |
|--|------------------------------------|
| Safeguarding Children & Vulnerable Adults | Housing & Partnerships |
| Housing Social Alarms Arrangements | Housing & Partnerships |
| Private Sector Housing Grants | Environment & Healthy Lifestyles |
| Management of Parks & Open Spaces | Environment & Healthy Lifestyles |
| Payroll | Human Resources★ |
| Payment Card Industry Data Security Standard | Financial Management / Technology★ |





★ Services led by Stafford Borough Council as part of Shared Services

ITEM NO. 4.

Audit Follow-ups Completed in Quarters 1 & 2

| Audit | Head of Service | Original Assurance | High/Medium Risk Recommendations | | | | Revised Assurance | Comments & Key Outstanding Recommendations |
|--|----------------------------------|--|----------------------------------|-------------|-----------------|-------|--|--|
| | | | Implemented | In Progress | Not Implemented | Total | | |
| Miscellaneous Engineering Functions | Environment & Healthy Lifestyles | Partial  | 0 | 2 | 0 | 2 | Partial  | <ul style="list-style-type: none"> Work on developing the “Cannock Chase App” to allow electronic recording of inspections has stalled following the IT member of staff working on this leaving the Council. |
| Stores Function | Housing & Partnerships | Partial  | 0 | 4 | 0 | 4 | Partial  | <ul style="list-style-type: none"> Methods for controlling the issue of stock to teams outside of Housing Maintenance still need to be reviewed to ensure appropriate authorisation has been obtained for the items Documented procedures still need to be finalised and issued Market testing of suppliers still needs to be carried out, this has currently stalled pending the review & rationalisation of the Depot site. All write-offs/disposal of obsolete/damaged stock still need to be carried out in accordance with Financial Regulations. |
| Homelessness Provisions & Housing Options Team | Housing & Partnerships | Partial  | 1 | 1 | 0 | 2 | Partial  | <ul style="list-style-type: none"> There is still a need to fully document processes and issue new Policies & Procedures following the introduction of new legislation. |

| Audit | Head of Service | Original Assurance | High/Medium Risk Recommendations | | | | Revised Assurance | Comments & Key Outstanding Recommendations |
|------------------------|----------------------------------|--|----------------------------------|-------------|-----------------|-------|--|---|
| | | | Implemented | In Progress | Not Implemented | Total | | |
| Street Cleansing | Environment & Healthy Lifestyles | Partial  | 3 | 4 | 1 | 8 | Partial  | <ul style="list-style-type: none"> • Work remains to document the sections procedures, especially around supervision and general routines • Work on an updated specification for the service is to be looked at as part of the business case to merge both Street Cleansing and Parks and Open Spaces under one team as following the completion of the Environmental Services review • A quote has been received for routing software which is now with the Head of Service for review • A Fleet Users group has been set up with the aim of standardising drivers guidance and reporting across the Council |
| Lease Holder Recharges | Housing & Partnerships | Partial  | 0 | 5 | 1 | 6 | Partial  | <ul style="list-style-type: none"> • Some work has been carried out on producing procedure notes on how recharges are calculated • Work has not been progressed to record all Leaseholder information on Northgate due to issues loading the data. • Work has not progressed to consider if admin costs should be recovered from Leaseholders as part of the fee. • Streamlining of the billing |

| Audit | Head of Service | Original Assurance | High/Medium Risk Recommendations | | | | Revised Assurance | Comments & Key Outstanding Recommendations |
|-----------------------------------|---------------------------------|--|----------------------------------|-------------|-----------------|-------|--|--|
| | | | Implemented | In Progress | Not Implemented | Total | | |
| Public Relations & Communications | Governance & Corporate Services | Partial  | 0 | 2 | 0 | 2 | Substantial  | |
| Insurance | Governance & Corporate Services | Partial  | 2 | 0 | 0 | 2 | Substantial  | |

★ Services led by Stafford Borough Council as part of Shared Services

ITEM NO. 4.

IT Audit Plan

Following an IT Needs assessment carried out by the Council's IT Audit Contractor it has been agreed that the following audits would be included in the IT Audit Plan for 2019-20. The IT Needs Assessment was carried out in consultation with the Head of Technology.

| Audit | Description | Number of Days |
|---|--|-----------------------|
| IT Disaster Recovery and Back up management | The purpose of the review is to provide assurance over the design and viability of the IT Disaster recovery planning arrangements, processes and underlying controls. This should be developed and owned by the IT Department. | 12 |
| IT Capacity Management & Resilience | To provide assurance that Service availability, efficient management of resources, and optimisation of system performance through prediction of future performance and capacity requirements are maintained. | 14 |
| Critical Information Systems not supported by IT/Corporate Department | To identify the Councils' critical information systems to provide assurance over the risks associated with systems not managed Corporately. | 14 |

| | |
|--------------------------|--|
| Report of: | Head of Governance and Corporate Services |
| Contact Officer: | Stephen Baddeley |
| Telephone No: | 01543 464546 |
| Portfolio Leader: | Corporate Improvement |
| Key Decision: | No |
| Report Track: | Cabinet: 13/11/19 Audit & Gov Cttee: 03/12/19 |

**AUDIT & GOVERNANCE COMMITTEE
3 DECEMBER 2019
STRATEGIC RISK REGISTER**

1 Purpose of Report

- 1.1 To set out details of the Council's Strategic Risk Register as at 30 September 2019 and Risk Management arrangements for managing the Strategic Risks facing the Council.

2 Recommendations

- 2.1 That the Committee note the progress made in the identification and management of the strategic risks.

3 Key Issues and Reasons for Recommendation

- 3.1 All strategic risks and associated action plans have been reviewed and the Council's risk profile is summarised in the table below:

| Risk Colour | Number of Risks at 1 April 2019 | Number of Risks at 30th September 2019 |
|--------------------|--|--|
| Red | 1 | 1 |
| Amber | 4 | 4 |
| Green | 0 | 0 |
| TOTAL | 5 | 5 |

4 Relationship to Corporate Priorities

- 4.1 This report supports the Council's Corporate Priorities as follows:
- (i) Risk management is a systematic process by which key business risks / opportunities are identified, prioritised and controlled so as to contribute towards the achievement of the Council's aims and objectives.
 - (ii) The strategic risks set out in the Appendices have been categorised against the Council's priorities.

5 Report Detail

- 5.1 The Accounts & Audit Regulations 2015 state that:
 "A relevant body must ensure that it has a sound system of internal control which:-
- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk."
- 5.2 Risk can be defined as uncertainty of outcome (whether positive opportunity or negative threat). Risk is ever present and some amount of risk-taking is inevitable if the council is to achieve its objectives. The aim of risk management is to ensure that the council makes cost-effective use of a risk process that has a series of well-defined steps to support better decision making through good understanding of risks and their likely impact.

Management of Strategic Risks / Opportunities

- 5.3 Central to the risk management process is the identification, prioritisation and management of strategic risks / opportunities. Strategic risks / opportunities have been identified and prioritised, action plans are in place for their effective management and delivery of the action plans is monitored. A summary of the Council's strategic risk register as at 30 September 2019 is attached at **Appendix 1**.




The risk summary illustrates the risks / opportunities using the "traffic light" method i.e.

| | |
|-------|---|
| RED | risk score 12 and above (action plan required to reduce risk and/or regular monitoring) |
| AMBER | risk score 5 to 10 (action plan required to reduce risk) |
| GREEN | risk score below 5 (risk tolerable, no action plan required) |

- 5.4 The number of strategic risks has remained at 5.

- 5.5 All risks have controls in place and these controls have seen a reduction from the Gross Risk to a net risk score. The net risk scores for all risks with the exception of Risk 16 remain as last reported to the committee. Management have an ongoing programme of actions to manage the risks and all risks have seen some progress in delivering these action plans however the progress in implementing the actions since April 2019 has not led to a revision of the net risk score for all risks apart from Risk 16.
- 5.6 A progress update for those actions due up to the end of September 2019 is included in the full strategic risk register attached at **Appendix 2**.
- 5.7 Additional information for red and amber risks can be found in the Strategic Risk Register (**Appendix 2**) in the form of an ‘Overall Progress Summary’ this is accompanied by a symbol to indicate whether progress is on target or otherwise.

The table below outlines the overall progress made in reducing risks since 1 April 2019:

| Progress Indicator | Current position |
|--|-------------------------|
|  No progress made in reducing the risk | 0 Risks |
|  Some progress made in managing the risk | 3 Risks |
|  Risk on target to be reduced | 2 Risks |

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

The Risk Management implications are included within the body of the report and appendices.

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1 – Summary of Strategic Risks 2019

Appendix 2 – Strategic Risk Register 2019

Previous Consideration

None

Background Papers

File of papers kept in the Chief Internal Auditor & Risk Manager's office.

SUMMARY OF STRATEGIC RISKS AS AT 30/09/2019

| Risk No | Potential Risks | Risk Owner | Date Added to Register | Score at April 2019 | Score at Sept 2019 | Direction of Travel over period reported |
|--------------------|--|---|------------------------|---------------------|--------------------|--|
| Red Risks | | | | | | |
| 18 | Vulnerability of Cannock Chase Council's financial stability as a result of public expenditure reductions and changes to the Government's funding regime | Head of Finance | April 2014 | 12 | 12 | ↔ |
| Amber Risks | | | | | | |
| 16 | Impact of Welfare Benefit Reform | Heads of Finance and Housing & Partnerships | April 2013 | 9 | 6 | ↓ |
| 19 | The organisation does not have sufficient Management / Officer capacity to deliver its corporate priorities and statutory duties | Managing Director | April 2015 | 9 | 9 | ↔ |
| 23 | Failure to repel or recover from Cyber-attack including targeted ransomware, malware and Distributed Denial of Service (DDoS) attacks | Head of Technology | April 2017 | 9 | 9 | ↔ |
| 25 | There is a reduction in investor confidence in the District | Head of Economic Prosperity | April 2018 | 9 | 9 | ↔ |

Key to Direction of Travel

↓ Risk has decreased ↔ Risk level unchanged ↑ Risk has increased


Deleted Risks

| Risk No | Potential Risks | Risk Owner | Date Added to Register | Score at April 2019 | Score at Sept 2019 | Direction of Travel over period reported |
|----------------|------------------------|-------------------|-------------------------------|----------------------------|---------------------------|---|
| | Nil | | | | | |

Cannock Chase District Council – Strategic Risk Register

| | | | |
|--|---|-------------------------------|-----------------------------|
| Ref No: 16 | Risk: Impact of Welfare Benefit Reform (e.g. Introduction of Universal Credit) | | |
| Risk Owner: Head of Finance / Head of Housing & Partnerships | | Portfolio: Health & Wellbeing | |
| <p>Consequences Of Risk:</p> <ul style="list-style-type: none"> • Increased demand for services (additional workload, pressure on service delivery, additional resourcing etc); • Increase in arrears on Council Tax; • Increase in Rent Arrears; • Negative impact on ability to perform “Compliance” functions and adverse effect on income. | | | |
| Links To Priority Delivery Plan: Community Wellbeing | | | |
| Gross Risk Score (i.e. without controls) | Likelihood: 4 | Impact: 3 | Total Score: 12 RED |
| <p>Controls in Place</p> <ul style="list-style-type: none"> • Manage the Council’s housing stock; • Monitoring impact of localisation of Council Tax Support; • Liaison with DWP on implementation timetable for Universal Credits; • Budget support available for affected residents to better manage their budgets set up. • Discretionary Housing Payment policy | | | |
| Residual/Net Risk Score (i.e. with controls) | Likelihood: 2 | Impact: 3 | Total Score: 6 AMBER |
| Provisional Assessment of Risk – does the residual risk score need to be reduced | | YES | |

| Actions Planned | Timescale / Person Responsible | Progress/Comments |
|---|---|---|
| Improved communications from DWP enable us to identify UC claimants. Wherever possible, LCTR claims are processed on the basis of information provided by UC. | Ongoing | Claims process to be simplified in the review of LCTR schemes |
| Monitor impact of Benefit Reform to identify areas of concern | Quarterly, Local Taxation & Benefits Manager | An on-going monitoring routine is in place. |
| Identifying number of additional people falling into arrears with Council Tax payments and/or not claiming Council Tax Reduction. | Quarterly, Local Taxation & Benefits Manager | This forms part of the overall monitoring and any considerable difference would generate a review of the local scheme. |
| Review LCTR Scheme with a view to streamlining the application, assessment and award processes | Completion of review by February 2020, new scheme to be implemented (if approved) 1 April 2020 31 March 2020 | Cabinet approval to undertake consultation granted 8 August 2019 |
| A corporate Universal Credit Response Group has been established which includes relevant departments and the DWP | Monthly Meetings Head of Housing & Partnerships/ Head of Finance | Monthly meetings are in progress but it is too early to determine the impact yet. Full Service introduced 23 November 2018. |

| | |
|--|---|
| <p>Overall Progress Summary:</p> <p>As Universal Credit becomes more common, so we gain more confidence and iron out issues associated with it. The impacts of existing reforms continue to be monitored.</p> <p>The emphasis on housing arrears has been shifted to look more holistically at pursuing rent recovery in line with the roll out of Universal Credit and impact of welfare reforms.</p> <p>The Tenancy sustainment service is now embedded in housing.</p> | <p style="text-align: center;">Green</p>  |
|--|---|

| | | | |
|---|---|-----------------------|------------------------------|
| Ref No: 18 | Risk: Vulnerability of Cannock Chase Council’s financial stability as a result of public expenditure reductions and changes to the Government’s funding regime | | |
| Risk Owner: Head of Finance | | Portfolio: The Leader | |
| Consequences Of Risk: <ul style="list-style-type: none"> • Council size becomes too small to sustain a viable organisation; • Unable to provide desired levels of service | | | |
| Links To Priority Delivery Plan: N/A | | | |
| Gross Risk Score (i.e. without controls) | Likelihood: 4 | Impact: 5 | Total Score: 20 – RED |
| Controls in Place <ul style="list-style-type: none"> • Medium term financial plan in place • Annual Financial Plan and Medium Term Financial Strategy in place • The Revenue Budget is balanced for 2019-20 but requires support from balances • Reliance on New Homes Bonus is reduced on an annual basis. • Corporate Budget Monitoring • Evaluation of consultation on changes to government funding regimes | | | |
| Residual/Net Risk Score (i.e. with controls) | Likelihood: 4 | Impact: 3 | Total Score: 12 - RED |
| Provisional Assessment of Risk – does the residual risk score need to be reduced | | YES* | |

| Actions Planned | Timescale/ Person Responsible | Progress/Comments |
|---|---|--|
| Responding to Government proposed legislation in relation to key funding regimes | On-going, Head of Finance | <p>Work streams of MHCLG/LGA and CIPFA in relation to 75% Business Rates Schemes and pilot areas to be monitored</p> <p>Detailed responses submitted in relation to self - sufficient local government, 75% business rates retention and fair funding review as more technical detail becomes available</p> <p>Responses submitted in relation to:</p> <p>Business rates - dealing with the financial risks of appeals (June 2018)</p> <p>Local Government Finance Settlement 2019/20 : Technical Consultation (September 2018)</p> <p>Relative Needs and Resources (February 2019)</p> <p>Business Rates Reform (February 2019)</p> |
| Determine impact of Government proposals for key funding regime | On-going as information becomes available, Head of Finance | In Progress |
| Production and refresh of medium term financial plan | On-going | 2019-20 MTFP completed with 2020-21 refreshed following one year spending review and to be submitted to Cabinet in November |
| Mill Green DOV Development Project Board Established | On-going | In Progress |
| Refresh Budget Strategy to ensure external funding sources maximised and efficient and effective use of all resources | On-going | Report to Cabinet/Council anticipated November 2019 |

| Actions Planned | Timescale/ Person Responsible | Progress/Comments |
|---|----------------------------------|--|
| Council looking to maximise all funding opportunities for economic growth, transport, infrastructure, additional jobs and better skills for residents | Head of Economic Prosperity | <p>Council has secured £500k from GBSLEP towards the cost of establishing a new Engineering Academy in Cannock; this funding is being matched by £500k from CCDC and £500k from SSLEP.</p> <p>Council has secured a grant of £900,000 to contribute towards the costs of remediation and decontamination on half of the Council owned Hawks Green Depot site to prepare it for residential development subject to planning consent.</p> <p>The Council has commenced an allocations process for 2020-21 for Community Infrastructure Levy funding. 5 bids for projects on the Council's CIL Regulation 123 list have been submitted and the outcome of the allocations process will be reported to Cabinet & Council as part of annual Budget setting.</p> |
| Implement a rolling programme of service reviews to ensure that resources are aligned to corporate priorities and are operating as efficiently as they can be | Q3 / Head of Governance | A model for service reviews and a timetable has been developed and rolled out across to managers. |
| Refresh Budget Strategy to identify alternative scenarios in relation to external funding sources | Q3 / Head of Finance | Refreshed Financial Plan reported to Cabinet/Council Feb 2019 |

Overall Progress Summary:


The Council continues to progress the areas within its direct control with potential balanced budgets set through to 2021/22, with a planned use of reserves only required in 2020/21. The key risks ,and greatest level of uncertainty, relates to the fundamental changes to Government Funding that were anticipated to take place in 2020/21 (implementation of 75% Business Rates Retention; Fair Funding and Business Rates Reset) whereas ongoing uncertainty exists in relation to the longevity of the New Homes Bonus grant scheme.

The 2019 one year spending review of the Government has delayed the implementation of such reforms to 2021/22 and although clarity now exists in relation to 2020/21 details of future funding levels are unlikely to become clear before the Autumn of 2020 and hence Budget strategies need to be developed reflecting the various scenarios and efficiency savings implemented as soon as practically possible.




| | | | |
|--|--|-----------------------|-----------------------------|
| Ref No: 19 | Risk: The organisation does not have sufficient Management / Officer capacity to deliver its corporate priorities (e.g. Corporate Plan & PDP's) and statutory duties. | | |
| Risk Owner: Managing Director | | Portfolio: The Leader | |
| Consequences Of Risk: <ul style="list-style-type: none"> The Council's priorities are not fully delivered with impact on residents / the public. | | | |
| Links To Priority Delivery Plan: N/A | | | |
| Gross Risk Score (i.e. without controls) | Likelihood: 4 | Impact: 3 | Total Score: 12 RED |
| Controls in Place <ul style="list-style-type: none"> Scoping of management capacity for delivery of PDP's by Heads of Service (Assessments of Management Capacity) Management capacity issues are monitored by Leadership Team; Adherence to Sickness Management Policy | | | |
| Residual Risk/Net Score (i.e. with controls) | Likelihood: 3 | Impact: 3 | Total Score: 9 AMBER |
| Provisional Assessment of Risk – does the residual risk score need to be reduced | | YES* | |

| Actions Planned | Timescale / Person Responsible | Progress/Comments |
|---|--|--|
| Ensuring that all priorities in the PDP's are resourced appropriately | Ongoing All Heads of Service | The majority of PDP priorities are on target but there are a number of Amber 'not on target' areas in part due to management capacity. |
| Where necessary, considering whether resources from other parts of the Council can be transferred for a period. | Ongoing Managing Director / Leadership Team | PDP Priorities not on target are being reviewed by Leadership Team and resource implications are being re-considered. |
| Leadership Team maintaining an overview of performance through "managing the business" performance indicators | Ongoing Managing Director / Leadership Team | Quarterly Performance Indicator reports agreed for 2019-20 |
| Requests for additional projects may be refused or deferred until subsequent year(s) | Ongoing Managing Director | Requests for additional projects continue to be monitored. Where a project is considered to be a project and cannot be accommodated within existing resources it is either deferred to a future year or funding requested for additional capacity. |
| The Property Services Manager post will be re-established | Managing Director / | Completed The Corporate Asset Manager post has been recruited to with an internal applicant taking up post on 28 th October 2019. |

| | |
|---|---|
| <p>Overall Progress Summary:</p> <p>The Councils management capacity will be monitored closely and action has already been taken by not accepting new project requests in year in order to protect capacity to deliver the agreed PDP priorities. In some instances additional funding has been approved to bring in additional capacity eg to support the work on climate change arising from the Council motion.</p> <p>Performance in delivering the PDP priorities and actions fell from 83% in 2017-18 to 72% in 2018-19. Progress in delivering the PDPs for 2019-20 is being closely monitored and action taken where targets are slipping.</p> | AMBER |
| |  |

| | | | |
|--|--|-----------|------------------------------|
| Ref No: 23 | Risk: Failure to Repel or Recover from Cyber-attack including targeted ransomware, malware and Distributed Denial of Service (DDoS) attacks | | |
| Risk Owner: Head of Technology | Portfolio: Corporate Improvement | | |
| <p>Consequences Of Risk:</p> <ul style="list-style-type: none"> • Data, Systems and Applications inaccessible • Inability to deliver Council services • Cybercrime/ Fraud/ Ransom demands/ Financial harm • Reputational damage locally and nationally • Data Loss & breach of Data Protection Act (DPA) • Financial Loss | | | |
| Links To Priority Delivery Plan - Corporate | | | |
| Gross Risk Score (i.e. without controls) | Likelihood: 4 | Impact: 5 | Total Score: 20 - RED |
| <p>Key Controls in Place:</p> <ul style="list-style-type: none"> • Information Risk Management Regime – Assess the risks to our information assets, effective governance structure, LT engagement with cyber risk, produce supporting information management policies. • Secure configuration – Corporate policies and processes to develop secure baseline builds • Network Security – Protection and secured perimeter of external security threats and untrusted networks • Managing user privileges – All users of ICT systems provided with privileges suitable for their role • User education and awareness – Security policies that describe acceptable and secure use of ICT assets • Incident management – Incident response and disaster recovery capabilities that address the full range of incidents that can occur • Malware prevention – Produce policies that directly address the business processes (such as email, web browsing, removable media and personally owned devices) • Monitoring – Established monitoring taking into account previous security incidents and attacks. Annual IT Health Check and penetration testing conducted • Removable media controls – Produce removable media policies that control the use of removable media for the import and export of information • Home and mobile working – Assess the risks to all types of mobile working including remote working and develop appropriate security policies | | | |
| Residual/Net Risk Score (i.e. with controls in place) | Likelihood: 3 | Impact: 3 | Total Score 9 -AMBER |
| Provisional Assessment of Risk - does the residual risk score need to be reduced | | YES* | |

| Actions Planned | Timescale / Person Responsible | Progress/Comments |
|--|---------------------------------|--|
| Information Risk Management- Continuous review and work on our information risk management regime | Ongoing/ Head of Technology | Policies under review to improve information risk management |
| Monitoring – External and Internal checks. Threat and vulnerability assessment and remediation including Annual IT Health Check by CLAS approved consultant with remedial work carried out | Ongoing/ Head of Technology | Annual Healthcheck completed in March 2019. |
| Application Security Assessment and Remediation action taken | Annually/ Head of Technology | The healthcheck will produce an action plan to feed into this. |
| Threat intelligence, Vulnerability management, Operational management, via internal and external monitoring. | Completed | Webfilter system is now part of the new firewalls. |
| Exploring options to improve security for sharing information with external partners | Ongoing/ Head of Technology | System procured to share data files. |

| | |
|---|--|
| <p>Overall Progress Summary:</p> <p>Work has been completed and actions are in progress. However, the environment means that new risks and challenges are always developing and attacks are becoming more sophisticated.</p> | Green |
| |  |

| | | | |
|---|--|--|------------------------|
| Ref No: 25 | Risk: There is a reduction in investor confidence in the District | | |
| Risk Owner: Head of Economic Prosperity | | Portfolio: Economic Development & Planning | |
| <p>Consequences Of Risk:</p> <ul style="list-style-type: none"> • Business Growth in the District reduces • Employment Opportunities decline • NNDR / Council Tax Income does not grow • Schemes in the District get abandoned or stall | | | |
| Links To Priority Delivery Plan: Promoting Prosperity | | | |
| Gross Risk Score (i.e. without controls) | Likelihood: 4 | Impact:5 | Total Score: 20 |
| <p>Controls in Place</p> <ul style="list-style-type: none"> • The Local Plan Review to identify future development opportunities • Proactive work with GBSLEP / West Midlands Combined Authority • Business Relationships work/promoting the District via the Economic Development function • Production of an Economic Prosperity Strategy | | | |
| Residual Risk/Net Score (i.e. with controls) | Likelihood: 3 | Impact: 3 | Total Score: 9 |
| Provisional Assessment of Risk – does the residual risk score need to be reduced | | YES | |

| Actions Planned | Timescale / Person Responsible | Progress/Comments |
|--|--|---|
| Economic Prosperity Strategy to be developed | December 2019 / Head of Economic Prosperity | Draft Economic Prosperity strategy has now been produced and has been sent out to key stakeholders and internally for consultation. On-track to be presented to December Cabinet for formal approval. |

| Actions Planned | Timescale / Person Responsible | Progress/Comments |
|---|--|---|
| Continue to dedicate resources to the GBSLEP/Combined Authority | Ongoing / Head of Economic Prosperity | The Council continues to actively participate in the GBSLEP and Combined Authority. The Government has instigated a LEP review and is proposing the removal of overlapping geographies which could have potential implications for the Council. The outcome of the LEP review is not yet known. |
| Revised Local Plan to be produced and delivered | Plan to be adopted by July 2022 / Head of Economic Prosperity | Local Plan Review underway; outcome of the Issues and options consultation was presented to Cabinet in October 2019. Next stage of the Local Plan Review will be Preferred Option stage which will go out to consultation in July/August 2020. Revised Local Development Scheme to be presented to Council on 6 th November 2019. |
| Re-establishment of a Further Education offer in the District (Retail Skills Academy / Engineering Academy) | March 2019 / Head of Economic Prosperity | FE re-established in Cannock for the 2018/19 academic year with Construction / Electrical / Health and Social Care & range of evening and part time courses. £1m grant funding from CCDC and SSLEP secured and invested in new equipment to establish the Cannock Chase Engineering Academy with a further bid for £500k from GBSLEP in progress. Over 700 people have used the new Cannock Chase Skills and Innovation Hub in 2018/19 to date. Delivery of courses from the Retail Skills Academy has now commenced with Walsall College the provider. |

Overall Progress Summary:

The Council continues to work pro-actively with a variety of partners to deliver its economic prosperity agenda. The development of a new Economic Prosperity Strategy will further set out how the Council is working to support the local economy, this will complement the Council's new Corporate Plan and the creation of a District Investment Fund.

These priorities and investments will support the attraction of new investment to the District and ensure that the economy can grow and remain resilient. Maximising benefits from new investment made especially linked to the McArthurGlen designer outlet Cannock is of growing importance.




Amber



In accordance with the Risk Management Strategy, the green risks below are deemed to be tolerable (with existing controls in place) and will be monitored but require no further action at this time.

| GREEN RISKS | | | |
|-------------|------------|-------|--------|
| Risk No: | Risk Owner | Risk: | Score: |
| | NONE | | |

KEY TO PROGRESS SYMBOLS

| Progress Indicator | |
|---|---|
|  | No progress made in reducing the risk |
|  | Some progress made in managing the risk |
|  | Risk on target to be reduced |

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| Report of: | Head of Governance and Corporate Services |
| Contact Officer: | Judith Aupers |
| Telephone No: | 01543 464 411 |
| Report Track: | Audit & Gov Cttee: 03/12/19 |

**AUDIT & GOVERNANCE COMMITTEE
3 DECEMBER 2019
ANNUAL GOVERNANCE STATEMENT – PROGRESS REPORT**

1 Purpose of Report

- 1.1 To present to the Audit & Governance Committee for information progress in addressing the significant governance issues identified in the Annual Governance Statement for 2018-19.

2 Recommendations

- 2.1 That the Committee notes the contents of the progress report on the Annual Governance Statement for 2018-19.

3 Key Issues and Reasons for Recommendation

- 3.1 Not all of the actions are yet due for completion, however a summary of the progress made against each of the significant governance issues as at 30 September 2019 is given at Appendix 1.
- 3.2 For the 9 significant governance issues identified in the AGS progress can be summarised as follows:
- 4 - Significant progress is being made to deliver the action or has been completed (status shown as green tick Appendix 1);
 - 3 - Some progress is being made to deliver the action (status shown as amber triangle on Appendix 1);
 - 2 - No action has yet been taken (status shown as red cross on Appendix 1).

4 Relationship to Corporate Priorities

4.1 This report supports the delivery of all of the Council's Corporate Priorities.

5 Report Detail

5.1 The Council has a statutory responsibility to undertake an annual review of the effectiveness of its governance arrangements, which includes the system of internal control and to publish an "annual governance statement" with the annual accounts.

5.2 In reviewing the effectiveness of the governance arrangements, the Council has to identify any 'significant governance issues' and what action will be taken to address these. There is no single definition as to what constitutes a 'significant governance issue' and judgement has to be exercised. Factors used in making such judgements include:-

- the issue has seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another service area;
- the issue has led to a material impact on the accounts;
- the Chief Internal Auditor has reported on it as significant, for this purpose, in the Internal Audit Annual Report;
- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the Council;
- the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

5.3 The Annual Governance Statement (AGS) for 2018-19 was approved by the Audit & Governance Committee on 25 June 2019.

5.4 It was agreed that the Audit & Governance Committee would receive monitoring reports on progress in addressing the significant governance issues identified in the AGS, and this is the half-yearly progress report.

5.5 Details of the progress made against each of the significant governance issues as at 30 September 2019 is given at Appendix 1 and overall performance is summarised in the table at 3.2.

5.6 Progress at the mid-year stage is as expected with work in progress or completed on 7 of the 9 issues. There are however 2 issues where there has been no progress yet and the work has been rescheduled to the new year.

6 Implications

6.1 Financial

None

6.2 Legal

None

6.3 Human Resources

None

6.4 Section 17 (Crime Prevention)

None

6.5 Human Rights Act

None

6.6 Data Protection

None

6.7 Risk Management

None

6.8 Equality & Diversity

None

6.9 Best Value

None

7 Appendices to the Report

Appendix 1: Significant Governance Issues – Progress Report as at 30 September 2019

Background Papers




File available in the Head of Governance & Corporate Services' Office


ITEM NO. 6.




APPENDIX 1


**PROGRESS REPORT AS AT 30 SEPTEMBER 2019
ON THE SIGNIFICANT GOVERNANCE ISSUES
FROM THE ANNUAL GOVERNANCE STATEMENT FOR 2018-19**


Key to Status Indicators:



| STATUS | DESCRIPTION |
|---|--|
|  | The action is making significant progress towards completion or has been completed |
|  | The action is making some progress towards being completed |
|  | Work has not commenced on the action |


| No. | Issue & Action | Timescale & Lead Officer | Progress / Comments | Status |
|----------|---|---|--|---|
| 1 | Employees' Code of Conduct The review of the Employees' Code of Conduct has been completed. The revised Code needs to be approved by Leadership Team and Council. Once approved, all employees will need to be made aware of the new Code of Conduct. | September 2019 Head of Human Resources, Head of Law & Administration and Head of Governance & Corporate Services | Progress on this has been delayed due to other work taking priority. The Code will be submitted to Leadership Team in Q4. |  |

| No. | Issue & Action | Timescale & Lead Officer | Progress / Comments | Status |
|-----|--|--|---|---|
| 2 | <p>Information Governance</p> <p>(a) An Information Governance Framework needs to be developed to complement the existing policy documents.</p> <p>(b) The revision of the Retention of Documents Schedule needs to be completed and employees made aware of it.</p> | <p>January 2020</p> <p>October 2019 Head of Governance & Corporate Services</p> | <p>A framework has been drafted and is being consulted upon prior to going to Leadership Team.</p> <p>The Retention of Documents Schedule is being reviewed as part of the data audit</p> | <p></p> <p></p> |
| 3 | <p>Contracts Register</p> <p>Management of Contracts in particular ensuring adequate timeframe for re-letting of major contracts e.g. housing/leisure. Develop and maintain departmental contracts registers and procurement plans to support the timely planning for the procurement of contracts in future.</p> | <p>January 2020</p> <p>Head of Governance & Corporate Services and Leadership Team</p> | <p>Progress on this has been delayed due to other work taking priority.</p> <p>Work will commence in 2020.</p> | <p></p> |

| No. | Issue & Action | Timescale & Lead Officer | Progress / Comments | Status |
|-----|--|---|--|---|
| 4 | <p>Financial Stability</p> <p>The Approved Budget and Plan currently provides an ongoing balanced budget. This is based upon the current Local government Finance Regime, however fundamental changes to Government Funding, details still to be determined, are set to take place in 2020/21 which combined with the ongoing uncertainty in relation to the longevity of the New Homes Bonus grant scheme creates a key strategic risk for the financial stability of this and all other councils. Actions planned include:</p> <ul style="list-style-type: none"> • Robust Medium Term financial strategy to continue to take a pro-active approach to mitigate the effects of further financial reductions. • Increase level of reserves to manage potential risks. • Undertake a range of service reviews to identify savings and growth options. • Continue careful management of all Council's budgets and assets to maximise their impact. | <p>Ongoing</p> <p>Managing Director and Head of Finance</p> | <p>Although the changes to the Local Government Finance Regime have been delayed until 2021-22 work the actions planned continue to be progressed.</p> <p>Monitoring of the design of the new system is undertaken on an ongoing basis, responses to consultations actioned as appropriate and Financial Plan submitted to Cabinet in November</p> |  |

| No. | Issue & Action | Timescale & Lead Officer | Progress / Comments | Status |
|-----|--|--------------------------------------|---|---|
| 5 | <p>Management capacity and delivery of the Council's corporate priorities and statutory duties</p> <p>In order to ensure that there is adequate management and officer capacity to deliver the Council's priorities in the period 2019 – 2023, it is planned to:</p> <ul style="list-style-type: none"> • Ensure that all priorities in the Priority Delivery Plans are resourced appropriately. • Ensure that health and safety compliance across all services is maintained as a priority. • Through a programme of service reviews, realign resources with corporate priorities where necessary. • Leadership Team to maintain an overview of the performance of the organisation through 'managing the business' indicators to identify any capacity issues earlier and take appropriate remedial actions. • Additional projects / requests many need to be refused or deferred until following financial year. • Succession planning to anticipate retirements especially at senior manager level. • Identification of additional resources for project management/back filling | <p>Ongoing Managing Director</p> | <p>The Council's management capacity is being monitored closely and action has already been taken by not accepting new project requests in year in order to protect capacity to deliver the agreed PDP priorities. In some instances additional funding has been approved to bring in additional capacity eg to support the work on climate change arising from the Council motion.</p> <p>The majority of PDP priorities are on target but there are a number of Amber 'not on target' areas in part due to management capacity. PDP Priorities not on target are being reviewed by Leadership Team and resource implications are being re-considered. The Managing the Business Indicators continue to be monitored by Leadership Team and any areas of concern are being acted upon.</p> <p>The service review process has been established and a consultant appointed to support this work.</p> <p>Work has commenced on succession planning.</p> |  |

| No. | Issue & Action | Timescale & Lead Officer | Progress / Comments | Status |
|-----|--|---|--|---|
| 6 | <p>Implications arising from EU Exit</p> <p>There is considerable uncertainty about the effect of Brexit on legislation as it affects the Council.</p> <p>The effects of Brexit on legislation and how it affects the Council will be monitored and appropriate action taken to ensure continuing compliance.</p> | <p>Ongoing</p> <p>All Heads of Service</p> | <p>The situation continues to be monitored and discussed at Leadership Team</p> |  |
| 7 | <p>Effective management of Corporate Assets and compliance</p> <ul style="list-style-type: none"> • Review of resources and capacity (Recruit Corporate Asset Manager and restructure roles in the Property Services Team) • Ensure robust systems in place to secure compliance across full range of building related risk • Review condition surveys for Council owned assets and identify a phased plan for maintenance / investment (linked to development of Asset Strategy / Plan below) • Development of a new Asset Management Strategy / Plan • Regular briefings of Managing Director on progress against compliance agenda. | <p>April 2020</p> <p>(Subject to appointment of Corporate Assets Manager)</p> <p>Head of Economic Prosperity and Corporate Assets Manager</p> | <p>Corporate Asset Manager has been appointed and commenced 28/10/19.</p> <p>Corporate Asset Manager will be tasked with taking forward the review of condition surveys on Council owned properties and developing a new Asset Management Strategy.</p> <p>Compliance issues are being actively managed with replacement to Civic Centre Fire Doors and Compartmentation and refurbishment of the Toilets a key priority.</p> <p>Regular meetings taking place between the Managing Director, Head of Economic Prosperity and Corporate Property team to discuss / review compliance issues.</p> |  |

| No. | Issue & Action | Timescale & Lead Officer | Progress / Comments | Status |
|-----|--|---|--|---|
| 8 | <p>Economic Growth</p> <p>It will be necessary to balance the Council's economic growth aspirations and speculative investment:</p> <ul style="list-style-type: none"> • Need to ensure Business Rates and Council Tax compliance; • Consider alternative funding sources; • Procurement of Cannock town centre development partner; • Management of gap funding; and • Development of an Economic Prosperity Strategy | <p>Ongoing</p> <p>Head of Finance / Head of Economic Prosperity</p> | <p>The Council has a very active economic prosperity agenda and a number of key projects are making good progress. The construction of the McArthurGlen Designer Outlet West Midlands is well underway and the build programme is on track. The Engineering Academy at Cannock Chase College has now formally launched and has received £1.5m of capital funding - £0.5m from the Council, £0.5m from Stoke-on-Trent Staffordshire LEP and £0.5m from Greater Birmingham & Solihull LEP.</p> <p>The Head of Economic Prosperity has led the development of a new Economic Prosperity Strategy and this will be presented to Cabinet for approval in December 2019.</p> <p>The Council has launched a Development Prospectus for Cannock Town Centre and the vision is to reposition the Town Centre as a Leisure and Culture Hub. The prospectus features nine Council owned opportunity sites which are all potentially available for re-development.</p> |  |

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|-------------------------|--|
| Report of: | Head of Finance |
| Contact Officer: | Bob Kean |
| Telephone No: | 01543 464 334 |
| Report Track: | Audit & Gov Cttee: 03/12/19 |

**AUDIT & GOVERNANCE COMMITTEE
3 DECEMBER 2019
TREASURY MANAGEMENT – MID-YEAR REPORT 2019/20**

1 Purpose of Report

- 1.1 To update members on treasury management activity and performance during the first half of the 2019/20 financial year.
- 1.2 To provide an economic update and a background to the latest economic forecasts of interest rates; both detailed in the appendix.

2 Recommendation(s)

- 2.1 To note the report, the treasury activity and the prudential indicators for 2019/20.

3 Key Issues and Reasons for Recommendations

Reasons for Recommendations

- 3.1 To report the treasury management activity and performance during the first half of the 2019/20 financial year.

4 Relationship to Corporate Priorities

- 4.1 Treasury management and investment activity link in with all of the Council's priorities and their spending plans.

5 Report Detail

Background

5.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

This was agreed as part of the approval of the Annual Treasury management strategy for 2018/19.

5.2 Treasury Management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

- 5.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

- 5.4 Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, 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."

Introduction

- 5.5 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Cabinet.
- 5.6 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
- An economic update for the first part of the 2019/20 financial year;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
 - A review of the Council's investment portfolio for 2019/20;
 - A review of the Council's borrowing strategy for 2019/20;
 - A review of any debt rescheduling undertaken during 2019/20;
 - A review of compliance with Treasury and Prudential Limits for 2019/20.

Treasury Management Strategy Statement and Annual Investment Strategy Update

- 5.7 The Treasury Management Strategy Statement, (TMSS), for 2019/20 was approved by this Council on 20/02/2019. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

The Council's Capital Position (Prudential Indicators)

- 5.8 This part of the report is structured to update:
- The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

- 5.9 This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

| Capital Expenditure by Portfolio | 2019/20 Original Estimate £'000 | 2019/20 Revised Estimate £'000 |
|---|--|---|
| Corporate Improvement | | 72 |
| Environment | 576 | 389 |
| Culture and Sport | 1,181 | 1,390 |
| Economic Development | 239 | 522 |

| | | |
|-----------------------------------|---------------|---------------|
| Housing | 842 | 953 |
| Town Centre Regeneration | 219 | 304 |
| Crime & Partnerships | 55 | 55 |
| Non – HRA | 3,112 | 3,685 |
| Non HRA estimated programme spend | 466 | 466 |
| HRA | 7,185 | 7,185 |
| Total | 10,763 | 11,336 |

5.10 The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

| Capital Expenditure | 2019/20 Original Estimate £'000 | 2019/20 Revised Estimate £'000 |
|------------------------------|--|---|
| Total Spend | 10,763 | 11,336 |
| Financed by: | | |
| Capital Receipts | 1,626 | 2,050 |
| Capital Grants/contributions | 1,733 | 1,897 |
| Major Repairs | 3,178 | 3,178 |
| Revenue | 1,204 | 1,189 |
| Total Financing | 7,741 | 8,314 |
| Borrowing Need | 3,022 | 3,022 |

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

5.11 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

5.12 We are on target to achieve the original forecast Capital Financing Requirement.

| | 2019/20 Original Estimate £'000 | 2019/20 Revised Estimate £'000 |
|---------------------------------|--|---|
| Borrowing | 81,605 | 81,605 |
| Other long term liabilities | 675 | 675 |
| Total debt | 82,280 | 82,280 |
| CFR* (year end position) | 95,123 | 95,112 |

Limits to Borrowing Activity

5.13 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

| | 2019/20 Original Estimate £'000 | 2019/20 Revised Estimate £'000 |
|--|--|---|
| Prudential Indicator – Capital Financing Requirement | | |
| CFR – non housing | 9,594 | 9,594 |
| CFR – housing | 85,529 | 85,507 |
| Total CFR | 95,123 | 95,112 |
| | | |
| Net movement in CFR | 1,670 | 1,659 |
| | | |
| Prudential Indicator – the Operational Boundary for external debt | | |
| Operational Boundary | 96,312 | 96,312 |
| | | |
| Borrowing | 81,605 | 81,605 |
| Other long term liabilities | 675 | 675 |
| Headroom | 12,832 | 12,832 |

5.14 The Head of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

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

| Authorised limit for external debt | 2019/20 Original Estimate £'000 | 2019/20 Revised Estimate £'000 |
|---|--|---|
| Authorised Limit | 107,812 | 107,812 |
| | | |
| Borrowing | 81,605 | 81,605 |
| Other long term liabilities | 675 | 675 |
| Headroom | 25,532 | 25,532 |

Investment Portfolio 2019/20

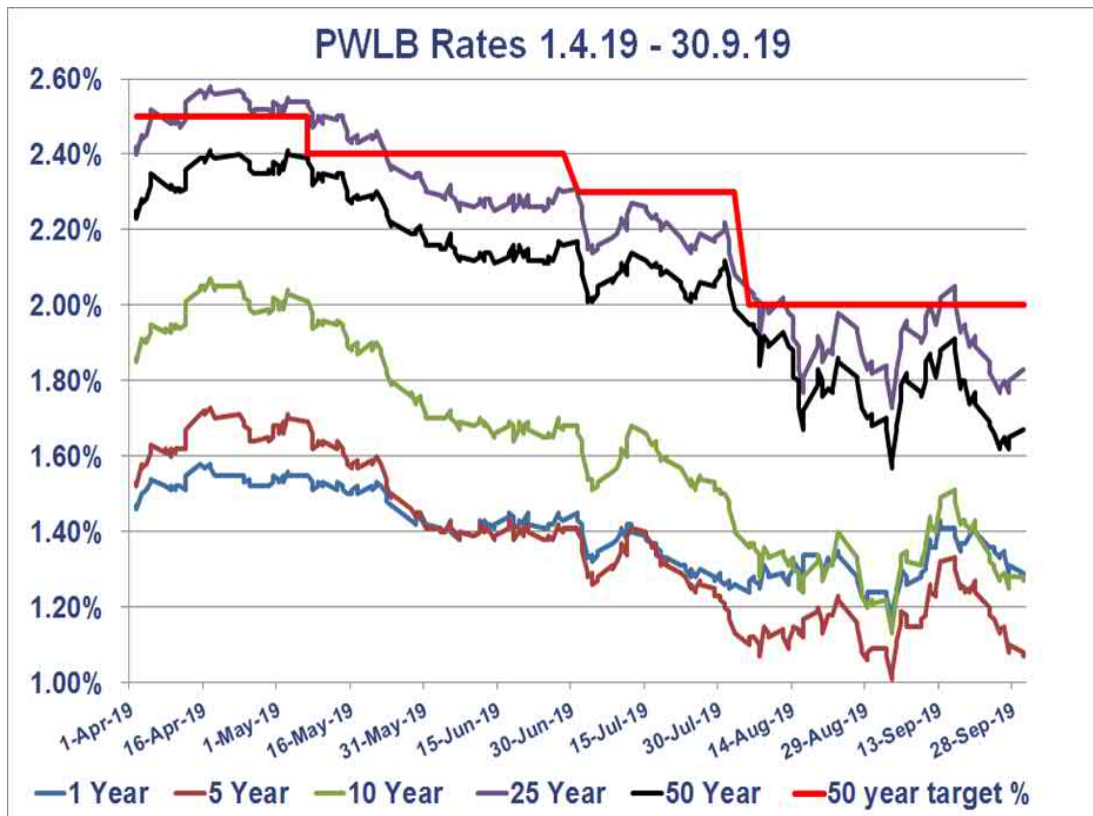
- 5.16 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As shown by forecasts, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 5.17 The Council held £36.2m of investments as at 30 September 2019 (£27m at 31 March 2019) and the investment portfolio yield for the first 6 months of the year is 0.78%.
- 5.18 A full list of investments held as at 30 September 2019 is in the appendix.
- 5.19 The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2019/20.
- 5.20 The Council's budgeted investment return for 2019/20 is £177,000, and performance for the year to September was £80,000 above budget.

Investment Counterparty criteria

- 5.21 The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Borrowing

- 5.22 The Council's capital financing requirement (CFR) for 2019/20 is £95.112m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.
- 5.23 It is anticipated that borrowing will not be undertaken during this financial year.
- 5.24 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. PWLB rates have been on a falling trend during this period and longer rates have almost halved to reach historic lows. The 50 year PWLB target (certainty) rate for new long term borrowing fell from 2.50% to 2.00% during this period.



| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---------|------------|------------|------------|------------|------------|
| Low | 1.17% | 1.01% | 1.13% | 1.73% | 1.57% |
| Date | 03/09/2019 | 03/09/2019 | 03/09/2019 | 03/09/2019 | 03/09/2019 |
| High | 1.58% | 1.73% | 2.07% | 2.58% | 2.41% |
| Date | 15/04/2019 | 17/04/2019 | 17/04/2019 | 17/04/2019 | 17/04/2019 |
| Average | 1.40% | 1.37% | 1.62% | 2.20% | 2.07% |

Debt Rescheduling

5.25 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6 Implications

6.1 Financial

The financial implications have been referred to throughout the report.

6.2 Legal

The legal implications have been referred to throughout the report.

6.3 Human Resources

There are no human resource implications arising from this report.

6.4 Section 17 (Crime Prevention)

There are no implications arising from this report.

6.5 Human Rights Act

There are no identified implications in respect of the Human Rights Act 1998 arising from this report.

6.6 Data Protection

There are no implications arising from this report.

6.7 Risk Management

The risk management implications have been referred to throughout the report.

6.8 Equality & Diversity

There are no identified implications arising from this report.

6.9 Best Value

The strategy ensures that best value is provided to the Council.

7 Appendices to the Report

Appendix 1: Current Investment List at 30 September 2019.

Appendix 2: Economic Update (provided by Link Asset Services as of 30 September 2019)

Appendix 3: Interest Rate Forecast (provided by Link Asset Services as of 30 September 2019)

Current Investment List at 30 September 2019

| Counterparty | Start Date | Maturity | Value (£) | Rate (%) |
|------------------------------------|------------|------------|-------------------|----------|
| Bank of Scotland | 09/04/2019 | 09/10/2019 | 2,000,000 | 1 |
| Bank of Scotland | 08/08/2019 | 19/02/2020 | 1,000,000 | 0.86 |
| Bank of Scotland | 18/09/2019 | 19/02/2020 | 3,000,000 | 0.84 |
| Helaba | 04/07/2019 | 06/01/2020 | 6,000,000 | 0.77 |
| *Deutsche GLS MMF (Reserved Class) | | *MMF | 2,700,000 | 0.67 |
| *Federated Prime Fund Class 3 | | *MMF | 6,000,000 | 0.74 |
| *Aberdeen GBP Liquidity Fund | | *MMF | 6,000,000 | 0.74 |
| *Invesco STIC Global Sterling | | *MMF | 6,000,000 | 0.71 |
| **Santander UK | | **Call180 | 3,500,000 | 1 |
| | | | 36,200,000 | |

*MMF - Money Market Fund (instant access)

**Call 180 day notice account

ITEM NO. 7.

Economics Update

UK. This first half year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing, (first week in October), the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves.

If the UK does soon achieve a deal on Brexit agreed with the EU, including some additional clarification wording on the Irish border backstop, then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate when there is very little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in government departments and services annual expenditure budgets and expenditure on infrastructure projects, to boost the economy.

The first half of 2019/20 has seen UK **economic growth** fall as Brexit uncertainty took a toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that the prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

As for **inflation** itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

With regard to the **labour market**, despite the contraction in quarterly GDP growth of -0.2%q/q, (+1.3% y/y), in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff.

It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 2.1%. As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020.

In the **political arena**, if there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9% y/y. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, (annualised rate), to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Fed finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth.

It also ended its programme of quantitative tightening in August, (reducing its holdings of treasuries etc). It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

EUROZONE. Growth has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% q/q (+1.2% y/y) in quarter 1 and then fell to +0.2% q/q (+1.0% y/y) in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% y/y in June with car production down 10% y/y. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars.

The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term.

Consequently, it announced a third round of TLTROs; this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting on 12 September, it cut its deposit rate further into negative territory, from -0.4% to -0.5%, and announced a resumption of quantitative easing purchases of debt. It also increased the maturity of the third round of TLTROs from two to three years. However, it is doubtful whether this loosening of monetary policy will have much impact on growth and unsurprisingly, the ECB stated that governments will need to help stimulate growth by fiscal policy.

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

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

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

WORLD GROWTH. The trade war between the US and China is a major concern to financial markets and is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019.

If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

Interest Rate Forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

| Link Asset Services Interest Rate View | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 |
| Bank Rate View | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.25 |
| 3 Month LIBID | 0.70 | 0.70 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 |
| 6 Month LIBID | 0.80 | 0.80 | 0.80 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 | 1.20 | 1.30 | 1.40 |
| 12 Month LIBID | 1.00 | 1.00 | 1.00 | 1.00 | 1.10 | 1.20 | 1.30 | 1.30 | 1.40 | 1.50 | 1.60 |
| 5yr PWLB Rate | 1.20 | 1.30 | 1.50 | 1.60 | 1.70 | 1.70 | 1.80 | 1.90 | 2.00 | 2.00 | 2.10 |
| 10yr PWLB Rate | 1.50 | 1.60 | 1.80 | 1.90 | 2.00 | 2.00 | 2.10 | 2.20 | 2.30 | 2.30 | 2.40 |
| 25yr PWLB Rate | 2.10 | 2.30 | 2.40 | 2.50 | 2.60 | 2.70 | 2.70 | 2.80 | 2.90 | 3.00 | 3.00 |
| 50yr PWLB Rate | 2.00 | 2.20 | 2.30 | 2.40 | 2.50 | 2.60 | 2.60 | 2.70 | 2.80 | 2.90 | 2.90 |

The above forecasts have been based on an assumption that there is some sort of muddle through to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth".

Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.

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

inversion of bond yields in the US whereby ten year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

What we have seen during the last half year is a near halving of longer term PWLB rates to completely unprecedented historic low levels. There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but due to a correlation between US treasuries and UK gilts, which at various times has been strong but at other times weaker, in the UK. However, forecasting the timing of this and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt fuelled boom which now makes it harder for economies to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.
- The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be

much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

Downside risks to current forecasts for UK gilt yields and PwLB rates currently include:

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

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

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



The Annual Audit Letter for Cannock Chase District Council

Year ended 31 March 2019
13 August 2019



Contents



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cannock Chase District Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council 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 and Governance Committee as those charged with governance in our Audit Findings Report on 29 July 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'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'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 Council's financial statements to be £1,250,000, which is approximately 2% of the Council's gross revenue expenditure. |
| Financial Statements opinion | We gave an unqualified opinion on the Council's financial statements on 30 July 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 30 July 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, and certify the Housing Capital Receipts grant. Our work on these claims is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit and Governance Committee separately. |
| Certificate | We certified that we have completed the audit of the financial statements of Cannock Chase District Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019. |

Executive Summary (continued)

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

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
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's 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 Council's financial statements to be £1,250,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £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 £62,500, above which we reported errors to the Audit and Governance 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, annual governance statement and Annual Report 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 Council'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 (continued)

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 |
|--|---|--|
| <p>Management override of controls</p> <p>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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Authority.</p> | <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined 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 considered their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. | <p>Our audit work has not identified any issues in respect of management override of controls.</p> |

Audit of the Financial Statements (continued)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|--|--|
| <p>Valuation of land and buildings The Authority re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p> | <p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested, on a sample basis, revaluations made during the year to ensure they have are consistent with the valuer's report and have been input correctly into the Authority's asset register evaluated the assumption made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end | <p>Our audit work has not identified any issues regarding the valuation of property, plant and equipment included within the financial statements.</p> <p>As part of our audit work we also considered how management obtained assurance that assets not revalued in 2018/19 were not materially misstated. The potential estimation uncertainty for assets not revalued was identified by management as up to £383,000. We reviewed the basis for this estimation and concluded that it was reasonable.</p> |

Audit of the Financial Statements (continued)

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|--|---|--|
| <p>Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority'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.</p> | <p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority 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; and • obtained assurances from the auditor of Staffordshire 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. | <p>Our audit identified one issue in relation to accounting for the impact of the McCloud judgement concerning age discrimination. Our view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.</p> <p>The Council had included a contingent liability in its draft statement in relation to the McCloud ruling. During the course of our audit the Government was refused leave to appeal to the Supreme Court.</p> <p>The Council requested a revised IAS 19 report from its actuary to estimate the potential impact of the McCloud ruling, this also considered actual investment returns for the period. The actuary's estimate was that this would result in an overall increase of £2.0m to the net defined liability at 31 March 2019.</p> <p>Management amended the financial statements to reflect the actuarial review of the impact.</p> |

Audit of the Financial Statements (continued)

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Governance Committee on 29 July 2019.

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 and alongside 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 confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Cannock Chase District Council in accordance with the requirements of the Code of Audit Practice on 30 July 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.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

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 (continued)

Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|--|--|
| <p>Delivery of financial plans and sustainability</p> <p>The Council have a good track record of delivering in year budgets and targets, however this remains a significant risk in 2018/19 against the backdrop of a challenging Local Government landscape.</p> <p>In particular, the uncertainty in regard to the future of Government funding and retention of business rates, as well as reliance on the successful delivery of Mill Green have led us to identify this as a significant risk area for the authority.</p> | <p>In arriving at our conclusion, our main considerations were:</p> <ul style="list-style-type: none"> • Outturn in the period to planned budget • Ability to set a balanced budget for the 2019/20 financial period; and • Plans for future and how these are incorporated in the MTFP | <p>We are satisfied that the Council has adequate arrangements in place to deliver on financial plans as demonstrated by the month 12 outturn, the appropriate level of oversight is provided to ensure monitoring and reporting is fit for purpose.</p> <p>In addition to this, the Council have robust arrangement in place to formulate a prudent and measured MTFP which is reflective of the current environment and information currently available.</p> <p>While we believe that management has sufficient measures in place to forecast reasonably (a supporting paper is provided as an appendix to the budget on robustness of assumptions), the future models of funding in Local Government are uncertain and these are prevalent in the financial plans prepared by management. The Authority faces significant challenge in the medium term and therefore we will continue to monitor this risk closely going forward.</p> |

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

| Report | Date issued |
|-----------------------|----------------|
| Audit Plan | 26 March 2019 |
| Audit Findings Report | 29 July 2019 |
| Annual Audit Letter | 13 August 2019 |

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £40,124 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. Fee variations are subject to PSAA approval.

Fees

| | Planned £ | Proposed fees £ | 2017/18 fees £ |
|-----------------------------|---------------|-----------------------|-------------------|
| Statutory audit | 40,124 | 44,624 | 52,109 |
| Fees for non-audit services | 15,500 | TBC | 18,483 |
| Total fees | 55,624 | TBC | 70,592 |

| Area | Reason | Fee proposed |
|---|--|--------------|
| 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. | £1,500 |
| Pensions and PPE valuation | The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and PPE valuations needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 and PPE valuations this year. | £3,000 |
| Total | | £4,500 |

A. Reports issued and fees (continued)

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Fees for non-audit services

| Service | Fees £ |
|---|--------|
| Audit related services | |
| - Certification of Housing Capital Receipts Grant | 2,000 |
| - Certification of housing benefits subsidy claim | 13,500 |
| Non-Audit related services | Nil |
| - None | |

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. The table above 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's auditor and have ensured that appropriate safeguards are put in place.

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



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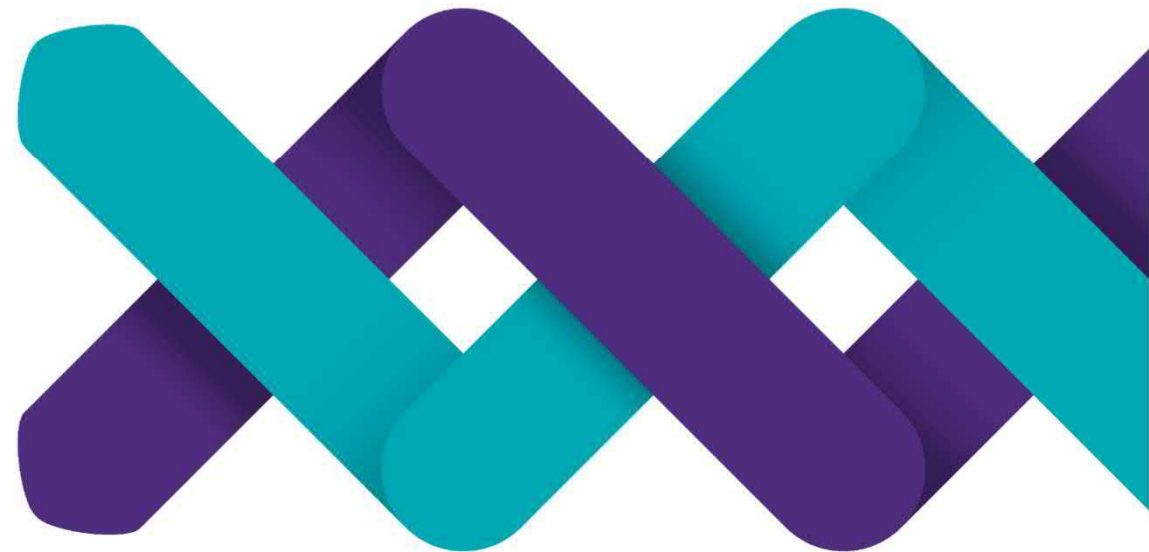
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Audit Progress Report and Sector Update

Cannock Chase District Council
Year ending 31 March 2020

3 December 2019



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Introduction



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This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications

www.grantthornton.co.uk ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at November 2019

Financial Statements Audit

We issued our opinion on your 2018/19 Statement of Accounts on 30 July 2019.

We will begin our planning for the 2019/20 audit in December and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We will begin our interim audit in January 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the statutory accounts publication date of 31 July 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable recourse deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

Progress at October 2019 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 is in progress and will be completed by the 30 November deadline. We will report our findings to the Audit and Governance Committee in our Certification Letter in March 2020.

Meetings

We met with Finance Officers in September as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers will shortly be invited to attend our Financial Reporting Workshop in 2020, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, 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 additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit and Governance Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

| 2018/19 Deliverables | Planned Date | Status |
|---|--------------|-------------|
| <p>Audit Findings Report</p> <p>The Audit Findings Report was reported to the July Audit and Governance Committee.</p> | July 2019 | Complete |
| <p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p> | July 2019 | Complete |
| <p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p> | August 2019 | Complete |
| 2019/20 Deliverables | Planned Date | Status |
| <p>Fee Letter</p> <p>Confirming audit fee for 2019/20.</p> | April 2019 | Complete |
| <p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.</p> | March 2020 | Not yet due |
| <p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p> | March 2020 | Not yet due |
| <p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit and Governance Committee.</p> | July 2020 | Not yet due |
| <p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p> | July 2020 | Not yet due |
| <p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p> | August 2020 | Not yet due |

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Financial confidence



Challenge question:

How confident over its' financial position is your Authority? Has this changed from previous years?

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

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

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

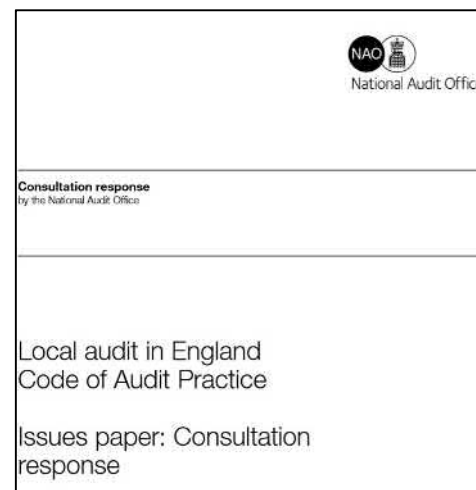
Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

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



Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



Challenge question:

If your Authority is looking at commercial activity, have you considered the LGA report?

MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of October, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October, whatever the circumstances.

He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.



The Secretary of State said:

“From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We’ll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity.”

Brexit preparations



Challenge question:

Who is your Brexit lead and how is your authority supporting Brexit preparations?

Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes “Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities’ commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental.”

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>





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