Leicestershire County Council

Meeting:	**Corporate Governance Committee**
Date/Time:	**Friday, 18 January 2019 at 10.00 am**
Location:	**Guthlaxton Committee Room, County Hall, Glenfield**
Contact:	**Mrs J Twomey (tel: 0116 305 2583)**
Email:	**joanne.twomey@leics.gov.uk**

Membership

Mr. P. Bedford CC (Chairman)

Mr. T. Barkley CC	Mr. J. Kaufman CC
Mr. G. A. Boulter CC	Mr. J. T. Orson JP CC
Mr. J. G. Coxon CC	Mr. T. J. Richardson CC
Mr. T. Gillard CC	Mr. S. D. Sheahan CC

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 24 October 2018.		(Pages 3 - 10)
2.	Question Time.		
3.	Questions asked by members under Standing Order 7(3) and 7(5).		
4.	To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5.	Declarations of interest in respect of items on the agenda.		
6.	Treasury Management Strategy Statement and Annual Investment Plan.		(Pages 11 - 34)

A presentation by Link, the Council's Treasury Management Advisors, will be provided as part of this item.

Leicestershire County Council

Minutes of a meeting of the Corporate Governance Committee held at County Hall, Glenfield on Wednesday, 24 October 2018.

PRESENT

Mr. P. Bedford CC (in the Chair)

Mr. T. Barkley CC	Mr. J. Kaufman CC
Mr. G. A. Boulter CC	Mr. J. T. Orson JP CC
Mr. J. G. Coxon CC	Mr. S. D. Sheahan CC
Mr. D. Jennings CC	Mrs. M. Wright CC

88. Minutes of the previous meeting.

The minutes of the meeting held on 25 July 2018 were taken as read, confirmed and signed.

89. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

90. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

91. Urgent items

There were no urgent items for consideration.

92. Declarations of interest

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

93. Annual Audit Letter 2017/18.

The Committee considered a report of the Director of Corporate Resources which presented the Annual Audit Letter for 2017/18 for approval. A copy of the report, marked 'Agenda Item 6', is field with these minutes.

The Chairman welcomed Mr John Cornett from KPMG, the Council's external auditors for 2017/18, to the meeting.

Mr Cornett confirmed that an unqualified opinion had been issued and that no material or unadjusted misstatements had been identified within the year end accounts. An unqualified value for money conclusion had also been issued and its assessment of arrangements put in place to ensure continued financial resilience had found these to be adequate (the highest grading available).

In response to questions raised, Mr Cornett advised that the delivery of savings identified in the MTFS and the identification of further savings necessary to achieve a balanced budget would be difficult. Changes to the way services were delivered and the need to work in partnership with other organisations would be necessary. He confirmed that, in his view, the Council had been steadfast in making the difficult decisions necessary to deliver savings and to introduce change which put the Authority in a good position compared to other authorities. However, further difficult decisions lay ahead.

Mr Cornett confirmed the important role Members played in challenging any failures to deliver the Council's MTFS and said those authorities currently in financial difficulty had not robustly followed this process.

The Chairman advised that this would be the last meeting attended by Mr Cornett on behalf of KPMG, as the Council's new external auditors, Grant Thornton, would now take over. Members thanked him for the work undertaken by him and his colleagues at KPMG.

RESOLVED:

That the Annual Audit Letter for 2017/18 be approved and distributed to all Members of the Council.

94. <u>Regulation of Investigatory Powers Act 2000 - Annual Report.</u>

The Committee considered a report of the Director of Law and Governance regarding the Authority's use of powers under the Regulation of Investigatory Powers Act 2000 (RIPA) during the period 1 October 2017 to 30 September 2018. The report also outlined recent legislative changes and proposals to conduct a further review of the Council's current Policy Statement relating to RIPA once these had come in to force. A copy of the report, marked 'Agenda Item 7', is filed with these minutes.

In response to questions raised, the Director confirmed that the new national authorisation body to be introduced under the Investigatory Powers Act 2016 would only have judicial oversight of applications to acquire communications data. It was not yet clear whether this would be in place of, or in addition to the role currently provided by Magistrates' courts. The introduction of this new body was necessary, given the complexity and sensitivity of accessing such data and Members were informed that additional scrutiny and safeguards had been added during the Parliamentary considerations of the legislative changes now being made to reflect this.

RESOLVED:

(a) That the report on the Authority's use of the Regulation of Investigatory Powers Act 2000 (RIPA) for the period from 1 October 2017 to 30 September 2018, be noted;

(b) That it be noted that no changes have been required to be made to the County Council's current Policy Statement on the use of RIPA (attached as an appendix to this report) and that this remains fit for purpose;

(c) That the County Council's Policy Statement on the use of RIPA be reviewed and amended once details of the Investigatory Powers Act 2016 have been made clear and the revised Policy brought back to this Committee for consideration and thereafter presented to the Cabinet for approval.

95. Ombudsmen Annual Review and Corporate Complaint Handling 2017/18.

Members considered a joint report of the Chief Executive and the Director of Corporate Resources regarding the outcome of the Local Government and Social Care Ombudsman annual review letter for the Authority for 2017/18 and which provided an update on improvements to the Authority's Complaints procedures and effective complaints handling processes. A copy of the report, marked 'Agenda Item 8', is filed with these minutes.

Arising from discussion, the following points were made:

- The outcome of the report was welcome. Given the number of people that contacted the Authority on a daily basis regarding some very complex matters, the result of the review was very positive, as was the approach of the Authority as a whole to look into and respond to complaints quickly and to seek to learn from these.

- The 'Landmark Cases' detailed in the Ombudsman's review of local government complaints highlighted areas where the Council might also review its own practices so as to avoid similar service failures occurring locally.

RESOLVED:

That the outcome of the Local Government and Social Care Ombudsman annual review letter for the Authority for 2017/18, and the improvements made to the Authority's Complaints procedures, be noted.

96. Clinical Governance Annual Report.

The Committee considered a report of the Director of Public Health regarding the Council's clinical governance processes and monitoring arrangements, key issues dealt with since November 2017, and action taken to respond to the recommendations of an Internal Audit Service review of the Council's overall Clinical Governance Framework which was undertaken in April 2018. A copy of the report, marked 'Agenda Item 9', is filed with these minutes.

In response to questions raised, the following information was provided:

- The high importance recommendations arising from the Internal Audit Service review had been previously reported to the Committee. At the last meeting of the Committee in July, the Head of Internal Audit Service had advised that, following re-testing, the actions identified by the review had been implemented.

- The high importance recommendations had not appeared on the corporate risk register. This was often the case as risks were largely managed departmentally and were only referred up to the corporate register when they were regarded as sufficiently high to warrant this.

- Departmental risk registers were regularly reviewed and risk scores challenged through the Corporate Risk Management Group which included internal audit officers. The Head of Internal Audit Service said that having gone through this process and the recent internal audit re-testing, he was confident that the issues identified in the audit were being sufficiently managed at a departmental level. However, to provide further assurance to members, he undertook to check and confirm this and to advise members accordingly.

- Details regarding individual serious incidents that were considered by the Department in line with the Leicestershire Public Health Serious Incident Protocol were not included in the report. However, these often related to cases of substance misuse or where safeguarding issues had been identified. Robust systems were in place for the reporting, management and monitoring of serious incidents to ensure these were quickly and properly dealt with, and to ensure that lessons learned were captured to prevent them in the future.

RESOLVED:

That the update on clinical governance work and processes, and the actions taken to respond to recommendations arising from the Internal Audit of the Public Health Department's Clinical Governance Framework, be noted.

97. <u>Annual Review and Update of the Contract Procedure Rules.</u>

The Committee considered a joint report of the Director of Corporate Resources and the Director of Law and Governance the purpose of which was report on the operation of the Contract Procedure Rules between 1 July 2017 and 30 June 2018 and to set out proposed changes to those Rules. A copy of the report, marked 'Agenda Item 10', is filed with these minutes.

Arising from discussion, the following points were noted:

- In future reports, a breakdown of the total value of the original contract/s separate from the value of the extension/modification granted would be provided;

- Brexit had been included on the corporate risk register and consideration was being given to how this might affect the Council's procurement processes. It was unlikely that changes would occur immediately, as European Law regarding procurement rules had been enshrined in UK legislation. There would likely be an opportunity to change this legislation after Brexit and this might involve a relaxation in the rules and thresholds that currently apply, but this would take some time to implement;

- Implementation of the recently approved Social Value Policy would enable additional benefits to be sought and secured through the procurement process which would help deliver the Council's wider Strategic Plan objectives. Examples to date included free Wi-Fi and office spaces offered to voluntary sector workers, free advertising for community groups and free management training to help voluntary sector providers;

- The proposed revisions to the Contract Procedure Rules did not cover specific issues such as ‘blacklisting’ and whether or not the Council would contract with an organisation which had been blacklisted. This would be picked up through existing pre-contract due diligence enquiries which sought information to identify whether an organisation was fit to do business with in advance of an award. The Director undertook to provide additional information on the processes followed to provide assurance that the Council was not contracting with organisations which operated ‘blacklisting’;

- The Contract Procedure Rules included provisions that enabled the Council, as far as possible within the national and EU legislative framework, to support local businesses.

RESOLVED:

(a) That the contents of the report on the operation of the Contract Procedure Rules between 1 July 2017 and 30 June 2018 be noted;

(b) That the County Council be recommended to approve the proposed amendments to the Contract Procedure Rules, as set out in Appendix B attached to this report.

98. Supplier Code of Conduct.

The Committee considered a report of the Director of Corporate Resources which detailed work undertaken to develop a Supplier Code of Conduct and which sought approval for its implementation with immediate effect. A copy of the report, marked ‘Agenda Item 11’, is filed with these minutes.

Members welcomed the implementation of the new Code but requested that an internal audit service review be undertaken to ensure this was being fully implemented and that the outcome of that review be reported to this Committee.

RESOLVED:

(a) That the work undertaken to develop the Supplier Code of Conduct attached as an appendix to the report be noted and its implementation with immediate effect be supported;

(b) That the Head of the Internal Audit Service be requested to undertake, at an appropriate time, a review of the operation and implementation of the new Code and that the outcome of that review be reported to the Committee.

99. Risk Management Report.

The Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an overview of key risks faced by the Authority and the measures being taken to address them. The report also provided an update on the operation of the Corporate Risk Management Group, the outcome of the Risk Management Maturity Health Check carried out by RMP and counter fraud initiatives. A copy of the report, marked ‘Agenda Item 12’, is filed with these minutes.

Arising from discussion, the following points were noted:

- Since writing the report, Risk Management Partners (RMP) had completed the risk management maturity health check but the draft report had only been received the previous day. Time was needed to undertake a detailed look at the report and a further update would be provided at the next meeting of the Committee. In summary, however, the report appeared to be positive, though some improvements had been proposed.

- The risk of Council partners getting into financial difficulties was recorded on the Corporate Risk Register given the wider impact this could have on the Authority. Schools were a particular area of concern as local authorities played no part in the financial running of academies, but retained a statutory duty to ensure all children living in their area received an education.

A member raised concerns about Environment Risk 9.2 (i.e. that if there was a major incident which resulted in unplanned site closure (e.g. a fire) then the Council might be unable to hold or dispose of waste) and how, given the impending closure of a number of sites and alternative provision not having been secured, the risk could be regarded as likely to reduce over the next 12 months. Members requested that further information be provided to give assurance that this risk was being appropriately measured and managed.

RESOVLED:

(a) That the current status of the strategic risks facing the County Council be approved;

(b) That the updates now provided on the operation of the Corporate Risk Management Group, the outcome of the Risk Management Maturity Health Check and counter fraud initiative, be noted;

(c) That further information be provided at the next meeting of the Committee regarding the actions being taken to address Environment Risk 9.2 (i.e. if there was a major incident which resulted in unplanned site closure (e.g. a fire) then the Council might be unable to hold or dispose of waste);

(d) That, at the next meeting of the Committee, instead of a presentation on a specific risk area, an update be provided on the outcome of the Risk Management Maturity Health Check undertaken by Risk Management Partners.

100. Property and Occupants Risk Management Group.

The Committee considered a report of the Director of Corporate Resources which detailed work undertaken by the Property and Occupants Risk Management Group, a group created following the Grenfell Tower tragedy in June 2017. A copy of the report, marked ‘Agenda Item 13’, is filed with these minutes.

In response to a question raised, the Director confirmed that following the introduction of revised DCLG guidance regarding fire doors, the Council had written to its suppliers to ensure those used in buildings which it was responsible for were compliant. Any found not to be compliant would be replaced. Such work would likely be managed and funded in the usual way, utilising existing property service budgets.

The Director explained that the property services section as a matter of course undertook regular reviews of its properties and routinely carried out upgrades following changes in guidance or legislation. However, it was likely that further changes in guidance and regulations would be made following the Grenfell Tower tragedy and if this resulted in a large number of upgrades being required at significant cost, this would be managed through adjustments to the MTFS.

RESOLVED:

That the work completed, ongoing and planned by the Property and Occupants Risk Management group during the period from the end of June 2017 to the end of September 2018 be noted.

101. Prevention of the Facilitation of Tax Evasion - Policy Statement and Procedures.

The Committee considered a joint report of the Director of Corporate Resources and the Director of Law and Governance, the purpose of which was to present for approval the new Prevention of the Facilitation of Tax Evasion Policy Statement and Procedures which would form part of the Council's overall suite of counter fraud policies and procedures. A copy of the report, marked 'Agenda Item 14', is filed with these minutes.

In response to a question from a member, the Director confirmed that, separate from this Policy, the Council had established a working group to assess and ensure it complied with HRMC IR35 regarding the employment of self-employed personnel and to ensure appropriate income tax and national insurance contributions were being paid in respect of its own staff.

RESOLVED:

(a) That the Prevention of the Facilitation of Tax Evasion Policy Statement and Procedures be approved;

(b) That the Director of Corporate Resources be authorised to make any minor amendments to the Policy Statement and Procedures, agreed in (a) above, as necessary.

102. Internal Audit Service Progress Report.

The Committee considered a report of the Director of Corporate Resources which provided a summary of progress against the Internal Audit plan for 2017-18 and of work conducted in 2018-19. It also advised of progress on the implementation of high importance recommendations. A copy of the report, marked 'Agenda Item 15', is filed with these minutes.

The Director reported that taking over Leicester City Council's internal audit function had not affected the County Council's own internal audit service function, the conduct of business as usual or the delivery of its own Internal Audit Plan. Recent staffing issues were unusual and proposals to appoint suitably qualified agency staff to fill the current gap were being progressed.

Members requested that a further update be provided at the next meeting of the Committee to assure itself that sufficient resources were in place to deliver the current Internal Audit Plan.

RESOLVED:

(a) That the contents of the update now provided on Internal Audit work conducted during the period 7 July to 12 October 2018, be noted;

(b) That a further update be provided regarding Internal Audit Service resources to provide assurance that current staffing difficulties have not impacted on assurance work being undertaken to deliver the Internal Audit Plan.

103. Quarterly Treasury Management Update.

The Committee considered a report of the Director of Corporate Resources the purpose of which was to provide an update on the actions taken in respect of treasury management in the quarter ended 30 September 2018. A copy of the report, marked 'Agenda Item 16', is filed with these minutes.

The Director advised that the Committee would receive a presentation in January 2019 from the Council's treasury advisors, Link Asset Services, on treasury management and capital strategies. This would be in advance of its consideration of the Treasury Management Strategy Statement and Annual Investment Strategy.

RESOLVED:

That the contents of the report be noted.

104. Dates of meeting in 2019.

RESOLVED:

That the meetings of the Committee in 2019 would be held on:

Friday 18th January 2019 at 10am
Friday 3rd May 2019 at 10am
Friday 26th July 2019 at 10am
Friday 1st November 2019 at 10am

105. Grant Thornton - The Council's new external Auditors

The Chairman introduced to the Committee Mr John Gregory of Grant Thornton, the Council's new external auditors.

The Committee welcomed Mr Gregory to the meeting. Mr Gregory thanked members for inviting him to the meeting and confirmed his intention to build on the good work of KPMG, the Council's previous external auditors, whilst also providing a fresh look at the Authorities finance and governance processes going forward.

10.00 - 11.30 am CHAIRMAN
24 October 2018

CORPORATE GOVERNANCE COMMITTEE – 18TH JANUARY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2019/20

Purpose of the Report

1. The purpose of this report is to allow the Corporate Governance Committee the opportunity to review the treasury management strategy statement and annual investment strategy for 2019/20.

Background

2. The treasury management strategy statement and annual investment strategy form part of the Medium Term Financial Strategy and will be considered by the Council at its meeting on 20th February 2019.

3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.

4. In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. The changes to the Codes reflect concern within Central Government about a trend towards authorities making investments in assets which are not required for service reasons, in an attempt to generate additional resources to assist the revenue budget. Most (but not all) of these investments have been in commercial property and many have been funded by external borrowing. There is a view that some of these investments have been made without authorities having the requisite skills to fully understand the investment.

5. The requirements of the new Code are to ensure that members are fully informed of the details of these types of investments, and in particular that they have a better understanding of the associated risks.

6. The Code states that 'where, in addition to Treasury Management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to those decisions'.

7. Recent guidance produced by the Secretary of State supports the code in requiring local authorities to prepare at least one investment strategy that will contain certain disclosures around risk, security, liquidity and yield when making these types of 'commercial' investments. The Council has had in place for some time its Corporate Asset Investment Fund (CAIF) Strategy which it first produced in 2014 prior to this guidance being produced. This has been updated annually since then, the most recent version being approved by the Cabinet in September 2018, and when read in conjunction with the Treasury Management Strategy and Statement; this fulfils the Council's obligations set out within this guidance.

8. The Council's Corporate Asset Investment Fund (CAIF) Strategy, as approved by the Cabinet in September 2018, sets out the approach the Council will follow when considering the acquisition of investments for the purposes of inclusion within the CAIF. It specifically documents the Council's requirements for ensuring effective due diligence is undertaken, risk appetite, independent and expert advice and scrutiny arrangements, and performance monitoring by the Corporate Asset Investment Fund Advisory Board, the Cabinet and the Scrutiny Commission as part of the regular monitoring of the MTFS.

9. These investments are made outside of the normal treasury management activity with the aims, as set out within the CAIF Strategy of:

   - Generatng an income which will increase the Council's financial resilience and supports delivery of front line services
   - Supporting the aims of the Council's Strategic Plan, in particular delivery of the objective of affordable and quality homes through helping to unlock and accelerate developments;
   - Supporting growth in the County and meeting the aims of the Economic Growth Plan and the County-wide Local Industrial Strategy;
   - Managing risk by investing in diverse sectors and ensuring a more diverse range of properties are available to meet the aims of economic development.

10. A copy of the CAIF Strategy can be found on the Councils website at: http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MID=5183#AI56758. The period covered by the Strategy has been aligned to the MTFS, but like the MTFS this will continue to be reviewed and refreshed on an annual basis and reported to the Cabinet and the Scrutiny Commission as appropriate. The CAIF Strategy will therefore be considered by the Cabinet and the County Council as part of the MTFS 2019-23 in February 2019.

11. The County Council has not borrowed to fund these investments. Any future decisions on availability and proportionality in respect of overall resources to fund the CAIF (and the Capital Programme, the Capital Strategy, which itself is derived from the Councils Strategic Plan and Asset Management Plans), is reviewed annually as part of the MTFS and the Treasury Management Strategy Statement and Annual Investment Strategy. These documents take into account the above statutory guidance issued by the Secretary of State under the Local Government Act 2003.

Treasury Management Strategy Statement and Annual Investment Strategy

12. The Annual Investment Strategy has been updated compared with last year for; the ability to invest in non-ring-fenced banks has been clarified and the lending limits to individual institutions have been increased.

13. From 1 January 2019, UK banks with retail deposits of more than £25bn will have to comply with new structural reform requirements. Structural reform, or ring-fencing, will separate banks' retail banking activities from their wholesale and investment banking activities. Ring-fencing is designed to reduce the likelihood that essential banking services used by ordinary depositors (current accounts, savings accounts and payments) are put at risk by a failure in another part of the business – such as investment banking. A ring-fenced bank must be a separate legal entity with its own board and as such they will be included or excluded from the approved counterparty list on their own merit.

14. By the very nature of their day to day activities non-ring fenced banks will carry a higher level of risk and because of this they are likely to pay a premium. Currently it is early days for ring fencing and there is not much differentiation in rates offered between entities from the same parent group. As the market matures it is expected there will be increased differentiation and there may be circumstances where the council will wish to lend to a non-ring fenced counterparty. Hence, proposed to include on approved counterparty list providing they have passed Link Asset Services financial assessment. For the Council to lend though, non-ring fenced banks will have to be the best option on a risk and reward basis.

15. Changes to the counterparty lending limits have been proposed to allow more flexibility in light of the overall level of cash balances held by the council £220m.

    - UK institutions (that meet the counter party list requirements) for a period of 12 months has been increased from £30m to £40m.
    - UK institutions (that meet the counter party list requirements) for a period of 6 months has been increased from £20m to £25m.
    - Overseas institutions (that meet the counter party list requirements) for a period of 12 months has been increased from £15m to £20m. However, the overall country limit will remain at £30m.

Resource Implications

16. The interest earned on revenue balances and the interest paid on external debt (which are directly correlated to the Treasury Management Strategy Statement and Annual Investment Strategy) will impact onto the resources available to the Council. Increasing counterparty limits will mean some concentration risk but overall will allow more lending to better quality institutions.

Equality and Human Rights Implications

17. There are no discernible equality and human rights implications.

Recommendation

18. The Committee is asked to comment on this report.

Background Papers

19. None

Circulation under the Local Issues Alert Procedure

20. None

Appendix

Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

Officers to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

APPENDIX

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2019/20

1. This strategy statement has been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services Code of Practice (the Code). Accordingly, the Council's Treasury Management Strategy will be approved annually by the full Council and there will be quarterly reports to the Corporate Governance Committee. The Corporate Governance Committee will consider the contents of the Treasury Management Strategy Statement and Annual Investment Strategy at its meeting to be held on 18th January 2019. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

   The Council has adopted the following reporting arrangements in accordance with the requirements of the revised Code:-

Area of Responsibility	**Council/Committee/Officer**	**Frequency**
Treasury Management Policy Statement	Full Council	Annually before start of financial year
Treasury Management Strategy/Annual Investment Strategy	Full Council	Annually before start of financial year
Quarterly Treasury Management updates	Corporate Governance Committee	Quarterly
Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year	Cabinet (following consideration by Corporate Governance Committee, wherever practical)	Ad hoc
Annual Treasury Outturn Report	Cabinet	Annually by end of September following year end
Treasury Management Practices	Director of Corporate Resources	
Review of Treasury Management Strategy/Annual Investment Strategy	Corporate Governance Committee	Annually before start of financial year and before consideration by full Council, wherever practical
Review of Treasury Management Performance	Corporate Governance Committee	Annually by end of September following year end

Treasury Management Strategy 2019/20

2. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act requires the Council to set its treasury strategy for borrowing and to prepare an Annual Investment strategy (for Treasury Management investments) - this is included in later paragraphs of this strategy. It sets out the Council's policies for managing its Treasury Management investments and for giving priority to the security and liquidity of those investments.

This Strategy should be read in conjunction with the Corporate Asset Investment Fund (CAIF) strategy, which sets out the Councils approach when considering the acquisition of investments for the purposes of inclusion within the CAIF, and the Capital Strategy, which sets out the Councils approach to determining its medium term capital requirements. These documents form part of the Medium Term Financial Strategy (MTFS) and together take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

This proposed strategy for 2019/20 in respect of the treasury management function is based upon Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Asset Services.

Balanced Budget Requirement

3. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby the increase in charges to the revenue budget from:

i) increase in interest charges caused by increased borrowing to finance additional capital expenditure, and
ii) any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

Treasury Limits for 2019/20 to 2022/23

4. It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax level is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit” the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years. Details of the Authorised Limit can be found in Annex 2 of this report.

Current Portfolio Position

5. The Council’s treasury portfolio position at 31st December 2018 was:

		Principal £m	Average Rate %
Fixed Rate Funding	PWLB	160.6	6.780
	Market	103.5	4.374
		264.1	5.837
Total Investments		228.7	0.950
Net debt		35.4	

The market debt relates to structures referred to as LOBOs (Lenders Option, Borrowers Option), where the lender has certain dates when they can increase the interest rate payable and, if they do, the borrower has the option of accepting the new rate or repaying the loan. All of these LOBOs have passed the first opportunity for the lender to change the rate and as a result they are all classed as fixed rate funding, even though, in theory, the rate could change in the future.

Borrowing Requirement

6. It is not assumed that the Council will take out any net new borrowing in the period covered by the Medium Term Financial Strategy (i.e. 2019/20 – 2022/23), and it is also expected that maturing loans will not be replaced. However this position may be considered if there is the right opportunity for additional capital investment, only where the investment returns would cover the additional borrowing costs. It is unlikely that this would be external borrowing. In recent years the Council has moved from a position of funding a reasonable proportion of its historic capital expenditure internally (i.e. by using cash resources that would otherwise be available to lend on money markets) at a cost of the loss of interest that would otherwise have been earned, to the current position whereby external debt is greater than the Capital Financing Requirement.

7. There are a number of reasons that the Council is in an ‘overborrowed’ position but among them are the lack of unsupported borrowing within it, a move by Central Government to switch capital approvals (which required external debt to

be raised) to grants and the meaningful levels of voluntary Minimum Revenue Provision (MRP) that have been applied in recent years.

8. The table below shows how the Capital Financing Requirement is expected to change over the period of the MTFS, and how this compares to the expected level of external debt. Although the level of actual debt exceeds the Capital Financing Requirement and will increase further in future years it is currently prohibitively expensive to prematurely repay existing debt. If there are cost-effective opportunities to avoid, or reduce, an overborrowed position they will be considered as long as they are in the best long-term financial interests of the Council. This will probably require both short and long-term borrowing rates to increase meaningfully from their current level.

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Opening Capital Financing Requirement	**246,534**	**236,543**	**230,069**	**223,593**
New Borrowing	0	0	0	0
Statutory Minimum Revenue Provision (MRP)	(9,991)	(6,474)	(6,476)	(6,479)
Voluntary MRP	0	0	0	0
Closing Capital Financing Requirement	**236,543**	**230,069**	**223,593**	**217,114**
Opening external debt	**264,100**	**263,600**	**263,100**	**262,600**
Loans maturing	(500)	(500)	(500)	(500)
Closing external debt	**263,600**	**263,100**	**262,600**	**262,100**
Overborrowed/(borrowing requirement)	**27,057**	**33,031**	**39,007**	**44,986**

It should be noted that from the 2020/21 financial year it is proposed to amend the method of calculating the MRP amount, which is part of the proposals for savings within the budget. Further detail on the change can be found in Annex 1 to this report.

Prudential and Treasury Indicators for 2019/20 – 2022/23

9. Prudential and Treasury Indicators (as set out in the tables in Annex 2 to this report) are relevant for the purpose of setting an integrated treasury management strategy. The Council is also required to indicate that it has adopted the CIPFA Code of Practice on Treasury Management, this was adopted in February 2010.

Prospects for Interest Rates

10. The Bank of England raised interest rates to 0.75% in August 2018, this is the highest rates have been since March 2009. The Bank is very keen to give clear guidance to markets about the likely timing and extent of future base rate movements and had indicated there may be a need to tighten monetary policy at a gradual pace and to a limited extent. The current expectation is that the Bank will not change rates until after the UK exits the European Union and the economic implications of this exit become

clearer. The council's treasury adviser is currently predicting a 0.25% increase in the second half of 2019 and a further 0.25% increase in 2020.

11. In 2019/20 there is expected to be a slowdown in the US, Eurozone and the UK. Central Banks are continuing on the path to returning monetary policy to more 'normal' operations. Nevertheless, overtightening of monetary policy remains one of the biggest risks to global growth, meaning it seems likely that Central Banks will be cautious in taking action and will wait for clear evidence before implementing policy changes.

12. The range of forecasts produced by economists in respect of UK base rate rises is relatively narrow, with very few predicting meaningful increases in bank base rates over the next 2 – 3 years. There is, of course, a possibility that the current uncertainty surrounding Brexit subsides or increases, so there is the prospect of these expectations changing. It is, however, very difficult to foresee circumstances that do not involve base rates staying very low for the next few years.

<u>Borrowing Strategy</u>

13. The outlook for borrowing rates - which are linked to Government bond (gilt) yields – is difficult to predict. Gilt yields have risen steadily from the multi-generational lows reached in the wake of the Brexit vote, but they are still very low by historic standards. UK Gilts will react not only to the UK economic situation, but also to movements in global bond markets, and Governments / Central Banks are very wary of sharply rising bond yields because of the knock-on effect this is likely to have on to other investment markets and potentially the economy. Whilst most investors expect bond yields to continue to trend upwards at a controlled pace, any setback in economic growth (not just in the UK, but also globally) may cause bond yields to fall.

14. Although borrowing from the Public Works Loans Board (PWLB) is still generally the most attractive external option available to the authority, the current overborrowed position makes the use of external borrowing unlikely. Even if the outlook for an overborrowed position changes, which is only likely if significant repayments of existing debt happens, the use of internal borrowing via available cash flows and balances (at a cost of the interest which would otherwise have been gained by lending the money to acceptable counterparties) is a more likely option.

15. Borrowing rates very rarely move in one direction without there being periods of volatility, and it is sensible to maintain a flexible and proactive stance towards when borrowing should be carried out (if, indeed, any borrowing is taken). Likewise it is sensible to retain flexibility over whether short, medium or long-term funding will be taken and whether some element of variable rate funding might be attractive. Any borrowing carried out will take into account the medium term costs and risks and will not be based on minimising short term costs if this is felt to compromise the medium term financial position of the Council.

<u>External v Internal Borrowing</u>

16. The Council currently has significant cash balances invested, and at the end of December 2018 these stood at £229m. These balances relate to a number of different items – earmarked funds, provisions, grants received in advance of expenditure, money invested on behalf of schools and simple cash flow are some of them. A growing source of cash balances relates to the overborrowed position outlined earlier. Without a significant increase in interest rates the overborrowing is forecast to grow to

£160m by 2047. To avoid the value of this cash asset being eroded by inflation opportunities will be sought to improve the return received whilst keeping the risk to capital at a low level. Depending upon the investment approach chosen this could give rise to a requirement for internal borrowing. Therefore the Capital Financing Requirement indicator in Annex 2 is set at a level higher than the forecast requirement in paragraph 8, to provide capacity for internal borrowing.

17. The Council has, since January 2009, repaid almost £95m more of external loans than has been borrowed. There has also been no new borrowing to finance the capital programme in this period. The position is that the Council has more external borrowing than is required to fund the historic capital programme. In an ideal world action would be taken to ensure that an overborrowed position does not occur, but the reality is that this could only happen by the premature repayment of existing debt and this is currently not a cost-effective option. If an opportunity to repay debt occurs that is sensible from a financial perspective, it will be taken.

18. The balance between internal and external borrowing will be managed proactively, with the intention of minimising long-term financing costs. Short-term savings which involve undue risk in respect of long-term costs will not be considered.

Policy on borrowing in advance of need

19. The Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. Where borrowing is required in the approved capital and value for money can be demonstrated by borrowing in advance this option may be taken, but only if it is felt that the money can be invested securely until the cash is required. This allows borrowing to be taken out at an opportune time rather than at the time expenditure is incurred.

20. In determining whether borrowing will be taken in advance of the need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need
- ensure that the revenue implications of the borrowing, and the impact on future plans and budgets have been considered
- evaluate the economic and market factors which might influence the manner and timing of any decision to borrow
- consider the merits (or otherwise) of other forms of funding
- consider a range of periods and repayment profiles for the borrowing.

21. The current position in respect of the level of actual borrowing in comparison to the Capital Financing Requirement, and the move by Central Government to replace borrowing approvals for capital projects with grants, makes it extremely unlikely that borrowing in advance of need will be used in the foreseeable future.

Debt Rescheduling/Premature Debt Repayment

22. Debt rescheduling usually involves the premature repayment of debt and its replacement with debt for a different period, to take advantage of differences in the interest rate yield curve. The repayment and replacement does not necessarily have to happen simultaneously, but would be expected to have occurred within a relatively short period of time.

23. If medium and long-term loan rates rise substantially in the coming years, there may be opportunities to adjust the portfolio to take advantage of lower rates in shorter periods. It is important that the debt portfolio is not managed to maximise short-term interest savings if this is felt to be overly risky, and a maturity profile that is overly focussed into a single year will be avoided. Changes to the way that PWLB rates are set, and the introduction of a significant gap between new borrowing costs and the rate used in calculating premia/discounts for premature debt repayments, significantly reduces the probability of debt rescheduling being attractive in the future.

24. If there is a meaningful increase in medium and long-term premature repayment rates there is a possibility that premature repayment of existing debt (without any replacement) might become attractive, particularly given the current overborrowed position. This type of action would only be carried out if it was considered likely to be beneficial in the medium term.

25. All debt rescheduling or premature repayments will be reported to the Corporate Governance Committee at the earliest meeting following the action.

Annual Investment Strategy

Investment Policy

26. The Council will have regard to the MHCLG's Guidance on Local Authority Investments ("the Investment Guidance") and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are:-

- the security of capital and
- the liquidity of its investments

27. The Council will aim to achieve an optimal return on its investments that is commensurate with proper level of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

28. The Council's policy in respect of deciding which counterparties are acceptable has always been stringent, and is one reason that the various financial organisations that have got into financial difficulties over the years (BCCI, Northern Rock, the Icelandic Banks etc.) have not been on the list of acceptable counterparties.

29. In broad terms the list of acceptable counterparties uses the list produced by Link Asset Services (the Council's treasury management advisor) but excludes any party that is included in the Link list with a maximum loan maturity period of 100 days or less. All counterparties are also restricted to a maximum loan period of one year.

Creditworthiness Policy

30. Link's methodology includes the use of credit ratings from S & P, Fitch and Moody's, factors such as credit outlook reports from the credit rating agencies, the rating of the sovereign government in which the counterparty is domiciled and the level of Credit Default Swap spreads within the market (effectively the market cost of insuring against default). The general economic climate is also considered and will, on occasions, have an impact onto the list of suggested counterparties.

31. Link Asset Services issue timely information in respect of changes to credit ratings or outlooks, and changes to their suggested counterparty list are also issued. These reports are monitored within a short time of receipt and any relevant changes to the counterparty list are actioned as quickly as is practical. A weekly summary of the credit ratings etc. of counterparties is also issued and this gives an opportunity to ensure that no important information has been missed.

Country Limits

32. The Link criteria includes a requirement for the country of domicile of any counterparty to be very highly rated. This is a requirement on the basis that it will probably be the national government which will offer financial support to a failing bank, but the country must itself be financially able to afford the support. The Council's list of acceptable counterparties will include a limit on the maximum amount that can be invested in all counterparties domiciled in a single country (except for the UK) in order to mitigate sovereign risk.

UK Local Authorities

33. The counterparty list from Link does not include Local Authorities, due to credit ratings not being available for the majority of organisations. Having never defaulted in history, UK Local authorities and levying authorities are and have always been regarded as safe counterparties.

34. Despite the difficult financial situation that many organisations find themselves in the legal basis underpinning local authorities and their requirement to repay loans has not changed. It is considered very unlikely that one will be allowed to collapse and default on its debt. The language used to describe the financial position of Local authorities and companies is very similar. However, the actual position is very different. Despite Government cuts to grants Local Authorities are in control of the majority of their income, due to their tax-raising powers. To regain a balanced budget service reduction can take place without a corresponding income reduction. Companies do not have this ability and if a service is cut by them, all of the related income stops. Historically when public sector re-organisations have taken place, resulting in the cessation of one or more entities, government has nominated successor organisations. These organisations take on all of the historic assets and liabilities of the original entities. If a limited company ceases trading the known liabilities can only be settled out of the assets held by the company at that time.

35. Local authorities remain very low risk counterparties and it is extremely unlikely that loans would not be repaid in full, on time and with full interest. The Council's treasury management advisors are aware of local authorities being on the list of authorised counterparties and are supportive of it, and comfortable that they remain low-risk counterparties. There is evidence that lending between local authorities continues to happen, including to those that have been highlighted as in very difficult financial positions.

36. The combination of all these factors produces a counterparty list, for the County Council, which comprises only very secure financial institutions, and a list that is managed pro-actively as new information is available.

37. The investment instruments identified for use in the financial year are listed below. The limits for both maximum loan periods and amounts will be set in line with the criteria shown in Annex 3. This list has changed from the one that was approved as part of the 2018/19 Annual Investment Strategy; the ability to invest in non-ring-fenced banks has been clarified and the lending limits to individual institutions have been increased.

38. From 1 January 2019, UK banks with retail deposits of more than £25bn will have to comply with new structural reform requirements. Structural reform, or ring-fencing, will separate banks' retail banking activities from their wholesale and investment banking activities. The idea is to strengthen the banking system's ability to absorb shocks such as those during the financial crises and prevent the need for taxpayer bailouts. Ring-fencing is designed to reduce the likelihood that essential banking services used by ordinary depositors (current accounts, savings accounts and payments) are put at risk by a failure in another part of the business – such as investment banking. A ring-fenced bank must be a separate legal entity with its own board, and there are limits on how much capital retail and investment banking entities can share.

39. As they are separate legal entities, both ring fenced and non-ring fenced banks have a credit rating in their own right, as such they will be included or excluded from the approved counterparty list on their own merit. By the very nature of their day to day activities non-ring fenced banks will carry a higher level of risk and because of this they are likely to pay a premium. Currently it is early days for ring fencing and there is not much differentiation between entities from the same parent group. As the market matures it is expected there will be increased differentiation and there may be circumstances where the council will wish to lend to a non-ring fenced counterparty.

40. For this reason the investment instruments identified below have been clarified to include non-ring fenced banks as a potential investment option, subject to the individual institution meeting the requirements of the approved counter party list. Ring fenced and non-ring fenced entities of the same parent will be considered as one institution and therefore the total lent to both entities at any one time will be subject to the group lending limit outlined in Annex 3. Before lending to a non-ring fenced bank it will be necessary for the relevant officer to complete a lending assessment, during this assessment a decision will be made as to whether the premium offered justifies the (potentially) increased risk.

41. The limit for lending to UK institutions (that meet the counter party list requirements) for a period of 12 months has been increased from £30m to £40m.

42. The limit for lending to UK institutions (that meet the counter party list requirements) for a period of 6 months has been increased from £20m to £25m.

43. The limit for lending to overseas institutions (that meet the counter party list requirements) for a period of 12 months has been increased from £15m to £20m. However, the overall country limit will remain at £30m.

44. There is a requirement within the Annual Investment Strategy to state which of the approved methods of lending are specified, and which are non-specified. In broad terms a specified investment will be capable of repayment within one year and be made to a counterparty with a high credit rating; by implication non-specified investments are more risky than specified investments as they are either for longer periods of time or to lower-quality counterparties. Anything that does not meet either of these 'tests' is, by default, non-specified and must be highlighted as such within the

Strategy. The long-term nature of the ‘LOBO-offset’ loan to Danske Bank means that it is non-specified investment, although the off-setting nature of the borrowing and the loan actually makes it low risk. Investment in pooled private debt funds is also non-specified, primarily due to the illiquid and medium-term nature of the investment.

Investment	Repayment within 12 months	Level of Security	Maximum Period	Maximum % of Portfolio or cash sum[1]
Term deposits with the Debt Management Office	Yes	Government-Backed	1 year	100%
UK Government Treasury Bills	Yes	Government-Backed	1 year	100%
Term deposits with credit-rated institutions with maturities up to 1 year[2] (including both ring fenced and non-ring fenced banks)	Yes	Varied acceptable credit ratings, but high security	1 year	100%
Term deposits that are legally capable of offset against existing LOBO borrowing that the Council has[3]	No	Varied, but off-setting nature of borrowing against loan gives a very low risk	20 years	25%
Money Market Funds: Constant NAV[4] Low Volatility NAV[5]	Yes	At least as high as acceptable credit – rated banks	Daily, same-day redemptions and subscriptions	£125m (includes any investment in variable NAV MMFs)
Variable NAV Money Market Funds[6]	Yes	At least as high as acceptable credit – rated banks	Same day subscriptions, 2 – 3 day redemption period	£125m (includes any investment in other MMFs)
Pooled private debt funds	No	Diversification within pooled fund and historic loss rate suggests high security	Varies across funds – likely to be at least a three year investment period, followed by a further three years to redeem all loans	£40m
Term Deposits with UK Local Authorities up to 1 year	Yes	LA’s do not have credit ratings, but high security	1 year	50%
Certificates of Deposit with credit-rated institutions with maturities of up to 1 year	Yes	Varied acceptable credit ratings, but high security	1 year	100%

(1) As the value of the investment portfolio is variable, the limit applies at time of agreeing the investment. Subsequent changes in the level of the portfolio will not be classed as a breach of any limits.

(2) For the sake of clarity, if a forward deal (one where the start of the investment is at some future date) is agreed, the maximum period commences on the first date of investment.

(3) Non-specified investment

(4) Funds where the capital value of a unit will always be maintained at £1. These funds have to maintain at least 99.5% of their assets in government backed assets.

(5) Funds are permitted to maintain the unit price at £1 as long as the net asset value does not deviate by more than 0.20% from this level.

(6) Funds will value their units on the basis of the underlying value of the assets that they hold; the unit price will not necessarily always be exactly £1

Pooled Property Fund Investment

45. As at the end of December 2018 £22.5m had been invested. A further £2.25m has been agreed for investment but transactions had not been entered into to action this. This is classified as a service investment, rather than a treasury management investment.

Investment Strategy

46. The investment strategy shall be to only invest in those institutions and/or asset types that are included in the counterparty list, and only to lend up to the limit set for each counterparty. Periods for which loans are placed will take into account the outlook for interest rates and, to a lesser extent, the need to retain cash flows. There may be occasions when it is necessary to borrow to fund short-term cashflow issues, but there will generally be no deliberate intention to make regular borrowing necessary.

Policy on the use of External Service Providers

47. External investment managers will not be used, except to the extent that a Money Market Fund or the managers of pooled property or private debt funds can be considered as an external manager.

48. The Council uses Link Asset Services as its external treasury management adviser, but recognises that responsibility for treasury management decisions remains with the Council at all times. Undue reliance on the Councils external advisers will be avoided, although the value of employing an external adviser and accessing specialist skills and resources is recognised.

Scheme of Delegation

49. (i) Full Council
   - Approval of annual strategy
   - Other matters where full Council approval is required under guidance or statutory requirement

(ii) Cabinet
   - Approval of updates or revisions to strategy during the year
   - Approval of Annual Treasury Outturn report

(iii) Corporate Governance Committee
   - Mid-year treasury management updates (usually quarterly)
   - Review of treasury management policy and procedures, including making recommendations to responsible body
   - Scrutiny of Treasury Management Strategy/Annual Investment Strategy and Annual Treasury Outturn report.

(iv) Director of Corporate Resources
   - Day-to-day management of treasury management, within agreed policy
   - Appointment of external advisers, within existing Council procurement procedures

Role of Section 151 Officer

50. The Section 151 Officer is the Director of Corporate Resources, who has responsibility for the day-to-day running of the treasury management function.

Pension Fund Cash

51. The Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st January 2010, and will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the County Council after 1st April 2010 will comply with the requirements of SI 2009 No 3093. From time to time the Council will manage short term cash flow requirements for either the County Council or the Pension Fund on a non-beneficial basis.

ANNEX 1

ANNUAL STATEMENT FOR THE DETERMINATION OF THE ANNUAL MINIMUM REVENUE PROVISION (MRP)

Statutory regulations introduced in 2008 require local authorities to make prudent provision for the repayment of debt raised to finance capital expenditure. In addition a statement of the level of MRP has to be submitted to the County Council for approval before the start of the next financial year.

Prudent Provision.

The definition of what is prudent provision is determined by each local authority based on guidance rather than statutory regulation. It is proposed that provision is made on the following basis:

<u>Government supported borrowing (through the formula grant system):</u>

Retention of the pre 2003 arrangements whereby provision for repayment is based on 4% of outstanding debt (i.e. repayment over approximately 25 years) including an optional adjustment used in the transition to the new system in 2004 to avoid debt repayment being higher than under the previous system.

<u>Prudential (unsupported) borrowing and expenditure capitalised by direction of the Secretary of State and certain other expenditure classified as capital incurred after 1st April 2008:</u>

Provision to be based on the estimated life of the asset to be financed by that borrowing, with repayment by equal annual instalments. The County Council will also look to take opportunities to use general underspends and one-off balances to make additional (voluntary) revenue provision where possible to reduce ongoing capital financing costs.

Financial Implications

MRP is a constituent of the Financing of Capital budget shown within Central Items component of the revenue budget and for 2019/20 totals £10m. This comprises £9.6m in respect of supported borrowing and £0.4m in respect of unsupported borrowing incurred since 2008/9.

The extent of unsupported borrowing required to finance the capital programme is not directly linked to any specific projects thus in determining the average life of assets an average of 25 years has been taken as proxy for the average life of assets contained within the discretionary component of the Capital Programme.

Proposed Change from 2020/21

Following changes to the legislation governing MRP it is possible to rebase the annual MRP charge to a period more commensurate with the useful service life of the assets purchased. A high level review shows that based on the average remaining economic life of assets held it is possible to revise the MRP calculation to circa 2.5% per annum which would reduce the MRP charge to around £6.5m per annum. It should be noted that a revised approach does not change the overall amount of MRP payable, the same amount is simply repaid over a longer period of time.

ANNEX 2

PRUDENTIAL AND TREASURY INDICATORS

In line with the requirements of the CIPFA Prudential Code for Capital Finance in local authorities, the various indicators that inform authorities whether their capital investment plans are affordable, prudent and sustainable, are set out below.

A further key objective of the code is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The indicators for Treasury management are set out in this paper.

Compliance with the Code is required under Part I of the Local Government Act 2003.

	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	£94m	£106m	£151m	£135m	£104m	£71m
Capital financing requirement	£257m	£247m	£247m	£247m	£247m	£247m
Ratio of total financing costs to net revenue stream	5.8%	5.5%	5.4%	4.6%	4.6%	4.6%
Impact on Band D Council Tax of unsupported borrowing	£3.72	£3.55	£3.42	£3.30	£3.18	£3.07

The projected level of capital expenditure shown above differs from the total of the detailed four year programme presented in this report as an allowance has been provided to cover estimated additional expenditure that may occur during the course of a year, for instance projects funded by government grants, section 106 contributions and projects funded from the future developments programme.

The capital financing requirement (CFR) measures the Authority's need to borrow for capital purposes and as such is influenced by the availability of capital receipts and income from third parties, e.g. grants and developer contributions. The estimates are higher than the amounts shown in the main Treasury Management Strategy as they include provision to potentially use part of the over borrowed position (compared with actual debt). This would provide flexibility to raise prudential borrowing (funded from internal borrowing) to fund future capital developments and the Corporate Asset Investment Fund if needed.

The prudential code includes the following as a key indicator of prudence:

'In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years'. In the medium term this indicator will not be met due to the reduction in the capital financing requirement in recent years and the currently prohibitively expensive premiums to repay existing debt. The Council will consider options to reduce this position where they are in the long term financial interests of the Council. Further details are included in the main Treasury Management Strategy Statement and Annual Investment Strategy 2019/20.

The key indicator of affordability is the impact of capital expenditure on Council Tax. The indicator falls gradually over the periods shown reflecting the decision for no new unsupported borrowing from external loans.

In respect of external debt, it is recommended that the Council approves the limits detailed in the tables below for its total external debt for the next four financial years. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to the Cabinet at its next meeting following the change.

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case, scenario. The key difference is that the Authorised Limit cannot be breached without prior approval of the County Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows. The Operational Boundary is a more realistic indicator of the likely position.

Operational boundary for external debt

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	264.1	263.6	263.1	262.6
Other long term liabilities	1.2	1.1	1.0	1.0
Total	**265.3**	**264.7**	**264.1**	**263.6**

Authorised limit for external debt

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Borrowing	274.1	273.6	273.1	272.6
Other long term liabilities	1.2	1.1	1.0	1.0
Total	**275.3**	**274.7**	**274.1**	**273.6**

In agreeing these limits, the Council is asked to note that the authorised limit determined for 2019/20 will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.

Comparison of original 2018/19 indicators with the latest forecast

In February 2018 the County Council approved certain prudential limits and indicators, the latest projections of which are shown below:

	Prudential Indicator 2018/19	Latest Projection 31/12/18
Actual Capital Financing Costs as a % of Net Revenue Stream	5.54%	5.52%
Capital Expenditure	£122m	£106m
Operational Boundary for External Debt	£265.9m	£265.9m
Authorised Limit for External Debt	£275.9m	£275.9m
Interest Rate Exposure – Fixed	50-100%	100%
Interest Rate Exposure – Variable	0-50%	0%
Capital Financing Requirement	£257m	£247m

The latest forecast of external debt, £264.1m, shows that it is within both the authorised borrowing limit and the operational boundary set for 2018/19. The maturity structure of debt is within the indicators set. The latest projection for capital expenditure is below the indicator set.

Treasury Management Indicators

The Local Government Act 2003 requires the County Council to ensure that treasury management is carried out with good professional practice. The Prudential Code includes the following as the required indicators in respect of treasury management:

a) Upper limits on fixed interest and variable rate external borrowing.
b) Upper and lower limits for the maturity structure of borrowings.
c) Upper limit for principal sums invested for periods longer than 364 days.

After reviewing the current situation and assessing the likely position next year, the following limits are recommended:

a) An upper limit on fixed interest rate exposures for 2019/20 to 2022/23 of 100% of its net outstanding principal sums and an upper limit on its variable interest rate exposures for 2019/20 to 2022/23 of 50% of its net outstanding principal sums.

b) Upper and lower limits for the maturity structure of its borrowings as follows: Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper Limit %	Lower Limit%
under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

c) An upper limit for principal sums invested for periods longer than 364 days is 0% of the portfolio.

The County Council has adopted the CIPFA code of Practice for Treasury Management in the Public Services.

ANNEX 3

POLICY ON APPROVED ORGANISATIONS FOR LENDING

APPROVED ORGANISATIONS/ LIMITS FOR LENDING

Institution*	Maximum Sum Outstanding/Period of Loan
UK Clearing Banks and UK Building Societies**	£25m/6 months upto £40m/12months (Not special Institutions) £50m/12months (special Institutions) 'Special' = significant element of UK government ownership.
UK Debt Management Office	No maximum sum outstanding/12 months
UK Government Treasury Bills	No maximum sum outstanding/12 months
Overseas Banks	£10m/6 months £20m/12 months
Money Market Funds	£25m limit within any AAA-rated fund. £125m maximum exposure to all Money Market Funds
UK Local Authorities	£10m/12 months
Pooled Private Debt Funds	£40m/variable 3-6 years

* includes ring fenced and non-ring fenced banks.
**In the event that an investment is entered into which is legally offset against borrowing in the form of a LOBO (Lender's Option, Borrower's Option) from the same counterparty, the maximum period will be 20 years and the maximum sum will be the amount of the LOBO deal against which the legal offset exists.

The list of acceptable institutions will mirror the list of suggested counterparties maintained by Link Asset Services, except the maximum maturity period will be restricted to 1 year and any institution with a suggested maturity period of 100 days or less will be excluded.

A maximum of £30m can be invested with all banks domiciled within a single country (note: there is no limit for total lending to UK financial institutions).

Some financial institutions have both a parent company and a subsidiary that are licensed deposit takers in the UK. Where this is the case a 'group limit' will apply, and this will be the limit that is given to the parent company.

In some cases the parent company will be an overseas institution and they will have UK-registered subsidiaries. Where this is the case the parent company limit will apply at a total group level, even if this limit is less than would be given to the UK subsidiary on a stand-alone basis. Any money invested with a UK subsidiary of an overseas institution will be classed as being invested in the country of domicile of the parent, if the parent is an overseas institution for country-maximum purposes.

If the credit rating of an individual financial institution decreases to a level which no longer makes them an acceptable counterparty the Director of Corporate Resources will take action to bring this back into line at the earliest opportunity. It should be noted that there will be no legal right to cancel a loan early, and any premature repayment can only be made with the approval of the counterparty and may include financial penalties. Similar actions will be taken if a counterparty is downgraded to a level which allows them to remain on the list of acceptable counterparties, but where the unexpired term of any loan is longer than the maximum period for which a new loan could be placed with them.

In the event that the circumstances highlighted above occur, the Director of Corporate Resources will report to the Corporate Governance Committee.

ANNEX 4

TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

1. This organisation defines its treasury management activities as:

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

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 18TH JANUARY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

QUARTERLY TREASURY MANAGEMENT REPORT

Purpose of the Report

1. The purpose of this report is to update the Committee on the actions taken in respect of treasury management for the quarter ending 31 December 2018 (Quarter 3).

Background

2. Treasury Management is defined as:-

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

3. A quarterly report is produced for the Committee to provide an update on any significant events in the area of treasury management.

Economic Background

4. In the UK, Gross Domestic Product (GDP) slowed to 0.4% in the rolling 3 months to October following the strong growth seen in the summer months. GDP growth was driven mainly by the services sector (0.3%), though the production (0.3%) and construction (1.2%) sectors were also positive contributors. UK unemployment is unchanged and estimated at 4.1% for the period August to October, on top of this real annual wage growth is at its highest level since December 2016.

5. Inflation in the UK (as measured by the Consumer Price Index) fell to 2.3% in November; the recent marked decline in oil prices has resulted in the Bank of England weakening its short term outlook for inflation – the bank now anticipates inflation falling below the 2% target in January. This, coupled with continuing uncertainty surrounding the UK's withdrawal from the EU, resulted in the MPC (Monetary Policy Committee) voting to maintain interest rates at 0.75% during December. However, looking forwards, low unemployment, increasing wage growth and subdued productivity mean domestic inflationary pressure is continuing to build. As such, the Council's treasury management advisers are still forecasting a 0.25% rate rise in the second half of 2019.

6. The US economy is starting to show signs of cooling down, final Q3 annualised GDP was revised lower to 3.4%, slowing from 4.2% in Q2. As expected, US interest rates increased for a fourth time this year with the target range now 2.25-2.50%. However, the Federal Reserve did lower its forecasts for interest rate rises in 2019.

7. Eurozone growth was weak in Q3. GDP growth quarter on quarter was a mere 0.2%. This was mainly caused by temporary issues in the car industry where production back logs have been generated as firms have initially struggled to meet tests allied to new emissions regulations.

Action Taken during Quarter 3 to December 2018

8. The December MPC meeting delivered the expected no change vote with a unanimous 9-0 vote. Indications are that rates will remain on hold at least until after the UK exits the European Union, and probably until the implications of the exit are better understood. The result is that loans for short dated rates out to six months are not overly attractive when compared to those of longer duration. Opportunities will be sought to extend the maturity profile and improve returns.

9. During the quarter the balance of the investment portfolio decreased from £229.5m to £228.7m. Within the portfolio £70m of loans matured at an average rate of 0.82% and £90m of new loans were placed, at an average rate of 1.04%. A further £5m was invested in the Partners Private Debt Fund during the quarter, completing the County Council's commitment of £20m.

10. The loan portfolio at the end of December was invested with the counterparties shown in the list below, shown by original investment date:

	£m	Maturity Date
Instant Access		
Money Market Funds	8.7	January 2019
6 Months		
Santander	20.0	March 2019
Goldman Sachs	10.0	April 2019
National Bank of Canada	10.0	May 2019
Goldman Sachs	10.0	June 2019
12 Months		
Northamptonshire County Council	5.0	January 2019
Lloyds (Bank of Scotland)	10.0	May 2019
Australia & New Zealand Bank	15.0	May 2019
National Westminster Bank Plc	10.0	May 2019
National Westminster Bank Plc	20.0	July 2019
National Westminster Bank Plc	20.0	August 2019
Toronto Dominion Bank	15.0	October 2019
Landesbank Hessen Thuringen	15.0	October 2019
Commonwealth Bank of Australia	10.0	November 2019
Lloyds (Bank of Scotland)	20.0	November 2019
Beyond 12 Months		
Partners Group (Private Debt)	20.0	Estimated 2024
Danske Bank	10.0	September 2027
Total Portfolio Balance at 31st December 2018	**228.7**	

11. The loan to Northamptonshire County Council matured on 2nd January 2019 and has been repaid along with interest of £37,500.

12. During the quarter the final maturity of the five year Local Authority Mortgage Scheme (LAMS) loan with Lloyds was returned. These loans, a total of £8.4m, were classified as ‘service investments’ and do not form part of the Treasury Portfolio. They are reported here for completeness only.

13. The County Council decided to participate in the LAMS in order to help local first time buyers enter the property market. During the schemes existence 350 mortgages were issued and the Council received an average return of around 2.4%. These returns were significantly above market rate for the period and it should be noted that there are likely to

have been knock-on economic benefits to the wider County arising from this local stimulus.

Loans to counterparties that breached authorised lending list

14. There were no loans active during the period that breached the authorised counterparty list at the time that the loan was made, and also none that had already been placed to a counterparty that subsequently fell below the threshold that would have been acceptable for the remaining period of the loan following a credit-rating downgrade.

Resource Implications

15. The interest earned on revenue balances and the interest paid on external debt will impact directly onto the resources available to the Council.

Equality and Human Rights Implications

16. There are no discernible equality and human rights implications.

Recommendation

17. The Committee is asked to note this report.

Background Papers

18. None

Circulation under the Local Issues Alert Procedure

None

Officers to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 18 JANUARY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EXTERNAL AUDIT PLAN 2018/19

Purpose of Report

1. The purpose of this report is to present the External Audit Plan 2018/19 for consideration.

Audit Plan 2018/19

2. The Audit Plan for 2018/19 is included in the Appendix attached to this report. John Gregory from the County Council's external auditors, Grant Thornton UK LLP, will attend the meeting in order to present the Audit Plan and answer any questions.

3. Overall materiality for the audit opinion for the County Council has been set at £14m (£15m 2017/18) and for the Pension Fund at £29m (£31m 2017/18).

4. The significant risks identified by the external auditor for 2018/19 are:

   - Management override of controls – review of management controls over journals, accounting estimates and accounting policies.
   - Valuation of land and buildings – review of the valuation of assets valued on a cyclical basis.
   - Valuation of the pension fund net liability – review of assumptions, methodology and data provided to the Actuary.
   - Pension Fund – valuation of hard to price investments – review of estimates used.

5. External audit fees for 2018/19 are £59,252 for the County Council and £21,280 for the Pension Fund. The fees are set by Public Sector Audit Appointments Limited (PSAA), the sector led body for external auditor appointments. The County Council joined PSAA in 2017.

Recommendation

6. The Committee is asked to note the update provided by Grant Thornton UK LLP.

Equal Opportunities

7. None.

Circulation Under the Local Issues Alert Procedure

8. None.

Background Papers

Appointment of External Auditor 2018/19 – Update, 22 September 2017.
http://politics.leics.gov.uk/documents/s131842/Auditor%20Appt%20Update%20CGC%2022Sep17.pdf

Officers to Contact

Mr C Tambini, Director of Corporate Resources,
Corporate Resources Department,
☎0116 305 6199 E-mail Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director (Strategic Finance and Property),
Corporate Resources Department,
☎0116 305 7668 E-mail Declan.Keegan@leics.gov.uk

Grant Thornton

External Audit Plan

Year ending 31 March 2019

Leicestershire County Council

Leicestershire County Council Pension Fund

18 January 2019

Contents

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

Introduction

Our Team

John Gregory, Engagement Lead

John's role will be to:

- be the key contact for senior officers and the Corporate Governance Committee;
- ensure that Grant Thornton's full service offering is at your disposal; and
- take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.

Avtar Sohal, Senior Audit Manager

Avtar's role will be to:

- manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.
- Review work performed by the audit team to ensure high audit quality

Kerry Sharma, Audit Incharge

Kerry's role will be to:

- take responsibility as the day to day contact for the Council Finance Staff and running of the audit
- ensure effective communication and understanding by the Finance team of audit requirements

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of Leicestershire County Council ('the Authority') and Leicestershire County Council Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

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

Scope of our audits

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

- Authority and Fund's financial statements that have been prepared by management with the oversight of those charged with governance the Corporate Governance Committee; and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Governance Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Authority and Fund's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation

Headlines

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: **Leicestershire County Council** • Management Override of Control • Valuation of Land and Buildings • Valuation of the pension fund net liability **Leicestershire County Council Pension Fund** • Valuation of Level 3 Investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality - Authority	We have determined planning materiality to be £14m for the Authority, which is a based on a proportion of your gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.7m. We will also report any other errors which relate to control weaknesses as part of our reporting.
Materiality – Pension Fund	We have determined materiality at the planning stage of our audit to be £29m for the Fund, which equates to a proportion of your expected net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.45m.
Value for Money arrangements (Authority Only)	Our risk assessment regarding the Authority's arrangements to secure value for money have not identified any VFM significant risks
Audit logistics	Our interim visits will take place in January/February 2019 and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £59,252 (PY: £76,950) for the Authority and £21,280 (PY: £27,637) for the Fund, subject to management meeting our requirements set out on page 14.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit of the Authority

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Leicestershire County Council continues to monitor its progress against its budget for 2018/19 and beyond. The Council is looking at effective measures to ensure that service expenditure is maintained at appropriate levels and managing the risk of increasing costs in special education needs.

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

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

The Council is currently preparing an assessment of the impact of these changes ahead of the preparation of the financial statements.

First Year Audit

This is the first year that we are auditing the financial statements of the Authority. As a new audit client it will be important to establish good working relationships between us and the authority so that we can deliver the audited financial statements to the 31 July 2019 deadline

The Authority has previously worked with other audit firms and agreed the application of accounting policy and methodology in its financial statements.

We will be auditing the Authority and Fund under our LEAP audit methodology and will be introduced to new audit software tools including Inflo, our project management system.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion, although we do not currently believe that your financial sustainability is a significant risk in relation to our VFM conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Council and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will work proactively with the authority to ensure that we gain an understanding of the key risks and challenges that they face earlier and establish working protocols and timelines
- We will discuss and agree current accounting policies and application with the authority and ensure that we are satisfied that accounting treatment is in line with our expectations
- Through our onboarding of the authority we will ensure that we discuss our audit approach and methodology and give access to the authority to our key audit interface software and tools.

Key matters impacting our audit of the Fund

Factors

Investment pooling

The impact of the Fund being part of the 'LGPS Central' pool has been limited to date, but an increasing proportion of investments will be transferred to the pool over the coming year.

SI 493/2018 – LGPS (Amendment) Regulations 2018

The new regulations introduce a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

Pension funds are continuing to work through the GMP reconciliation process.

In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

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Our response

We will continue to review the arrangements for investing through the pool and take these into account in planning our audit procedures, including how we gain assurance over the controls in place at LGPS Central.

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

Significant risks identified – ISA 240

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	**Authority and Fund**	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority and the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including {name of Authority and Fund}, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Leicestershire County Council or Leicestershire County Council Pension Fund.	We have rebutted the risk of fraud arising from revenue recognition
Management over-ride of controls	**Authority and Fund**	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the Authority and Fund, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified – PPE

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	**Authority**	The Authority revalues 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 (£507million) and the sensitivity of this estimate to changes in key assumptions. 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss/write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions 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.

Significant risks identified – Pensions liability

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	**Authority**	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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£589m million in the Authority's balance sheet at 31 March 2018) 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.	We will: • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;

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Significant risks identified – Valuation of Level 3 Investments

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Annual revaluation)	**Fund**	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent 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 Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period. • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert

Other matters

Other work

The Fund is administered by the Authority, and the Fund's financial statements form part of the Authority's financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of the Authority and the Fund, as follows:

- We read the Authority's Narrative Report and Annual Governance Statement and any other information published alongside the Authority's financial statements to check that they are consistent with the financial statements of the Authority and the Fund on which we give an opinion, and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in the Authority's Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on the Authority's consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about the Authority or Fund's 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Authority or Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit of the Authority and Pension Fund.

Other material balances and transactions

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

Going concern

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

Materiality

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

Matter	Description	Planned audit response
1	**Calculation and determination** We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements. We determine planning materiality in order to: – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements	• For the Authority, we have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. Materiality at the planning stage of our audit is £14m for the Authority based on current year forecasts. • For the Fund, we have determined financial statement materiality based on a proportion of the Fund's net assets. Our materiality at the planning stage is £29m which is based on net assets for the year ended 31 March 2018.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.	• For the Authority, we have determined a lower specific materiality level of £100k for the note which discloses the remuneration of individual senior officers.
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	• We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of materiality
4	**Matters we will report to the Corporate Governance Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance Committee any unadjusted misstatements of lesser amounts, other than those which are 'clearly trivial', to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	• In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.7m. • In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.45m. • We will also report any findings in relation to control weaknesses which may or have resulted in errors. • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

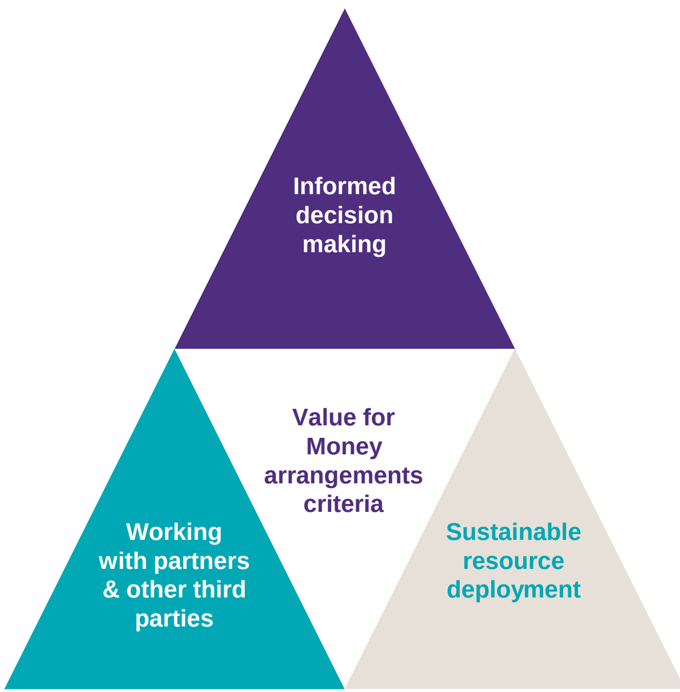
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

We have not identified any significant risks from our initial risk assessment. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report. This will in particular include consideration of your financial performance, to ensure that financial sustainability does not become a significant risk due to any deterioration in your current performance or any new external factors.

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Audit logistics, team & fees

Audit fees

The planned audit fees are £59,252 (PY: £76,950) for the financial statements audit of the Authority, and £21,280 (PY: £27,637) for the financial statements audit of the Fund, completed under the Code, which are inline with the scale fees published by PSAA. In setting your fee, we have assumed that the scope of the audits, and the Authority and Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Where additional audit work is required to address risks we will consider the need to charge fees in addition to the audit fee on a case by case basis. Any additional fees will be discussed and agreed with management and require PSAA approval.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 14). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

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

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

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Independence & non-audit services

Auditor independence

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

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

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

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority and the Fund. No other services were identified.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We can confirm that we have not provided any non audit services to either the authority or the pension fund.

Appendices

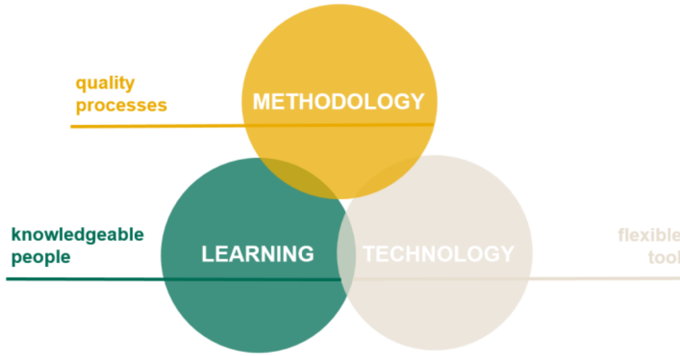
Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE
- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE
- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW
- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE
- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE
- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS
- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Grant Thornton

grantthornton.co.uk

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 18TH JANUARY 2019

REPORT OF THE CHIEF EXECUTIVE

BUSINESS CONTINUITY AND RESILIENCE UPDATE

Purpose of Report

1. The purpose of this report is to provide the Committee with an annual update on the Councils' Resilience and Business Continuity activities, work undertaken with other Leicester, Leicestershire and Rutland local authorities and wider multi-agency resilience activities.

Background

2. As a Category 1 Responder as defined by the Civil Contingencies Act (2004) Leicestershire County Council fulfils its obligations stipulated in the Act through both Business Continuity Policy and membership of the Leicester, Leicestershire & Rutland Resilience Partnership and Local Resilience Forum (LLR Prepared).

3. The Resilience Partnership team provides representation within the Multi-Agency arena of the Local Resilience Forum by a number of professional Resilience Officers and the formulation of both incident response and framework plans. This team also provides a 24 hour response capability and the establishment of Emergency Centres and Humanitarian Assistance.

4. The Council's Major Incident Plan and Business Continuity Policy are the strategic documents which describe the core principles by which the Council maintains its ability to respond to internal and external Major Incidents that impact on 'business as usual'. On an annual basis, there is a requirement to review, update and exercise these Plans to ensure they are appropriate and fit for purpose within the wider multi-agency Framework.

Progress Summary

5. The following is a summary of progress achieved on the Council's Resilience and Business Continuity activities since the previous annual report presented to this Committee in October 2017.

6. **On-Call Arrangements**

   The revised On-Call Senior Manager (OCSM) arrangements were established in October 2017 to act as the first point of contact for any incident that affects the Council. Mandatory training sessions have been held for all managers on the OCSM rota. This ensures that the OCSM role provides a consistent and effective response at a senior level during incidents. Going forward, all new managers who join the OCSM rota will be provided with individual training and a series of mandatory annual refresher training sessions to ensure that effective senior manager cover continues.

7. **Creation of New Major Incident & Business Continuity Plans**

Following a business needs analysis on the structure of resilience and business continuity provision within the Council, three new plan structures have been created:

(i) Leicestershire County Council Major Incident Plan

This new single purpose plan for the structured response to a major incident lays out the Councils' response to both internal and external incidents that impact to such a degree that normal day to day operations are affected. As well as general guidance and identified roles and responsibilities for departments and areas of the Council, itemised 'Action Cards' give an *aide-memoire* of pre-agreed actions for key personnel in order to facilitate a more strategically led process.

(ii) Business Continuity Plans at Three Levels of Provision

Corporate Business Continuity Plan*:* A new Corporate Business Continuity Plan is in development. This plan will take direction from the Council's Corporate Business Continuity Strategy and, using the information collated by Departmental Management Team (DMT) plans (see below), will provide the Council's Corporate Management Team (CMT) with clear reference material on the prioritised critical services and suppliers within the corporate structure. This will then enable strategic oversight of business continuity, and enable CMT to provide pre-determined, clear strategic guidance to Council staff in order to assist in impact mitigation following an incident.

DMT Business Continuity Plans*:* New DMT Plans are currently being developed. These plans will combine the information captured in the new team level plans to allow DMT managers to effectively assess risk and plan contingency measures to ensure continuity of service during an incident that impacts on business continuity. These plans will be supervised by the Resilience Planning Group (RPG).

Team Business Continuity Plans*:* A new two-part plan template has been developed and provided for all teams in the Council. For all critical services, or services that include a critical supplier, there is a detailed plan to gather all relevant information required for completion of the DMT plan (see above) and a shorter, less detailed plan is provided for non-critical services and teams that have been assessed as not using a critical supplier. Importantly, this approach allows for the identification of all critical services and suppliers within the Council, in order to allow departments to assess the impact and needs of services in an incident. This enables a more effective and robust examination of single points of failure and areas where back up processes need to be considered. These plans will be supervised at departmental level.

(iii) Flood & Severe Weather Plans

Following work with the Council's Highways Operations Team, Croft Operations Room, Environment Agency, Flood Wardens and the Resilience Partnership, a new Flood & Severe Weather Plan has been created. This identifies key roles and responsibilities so as to provide structure and direction to the Council during a flooding or severe weather event within the Leicestershire area. This plan sits under the umbrella of the LLR Prepared Flood Framework in order to clearly define the support available to affected Boroughs and Districts affected by a flood or severe weather event.

8. **Internal Vulnerability Assessment**

A vulnerability assessment examining weaknesses from people, processes and technology, was commissioned to review the level of the Council's cyber maturity and vulnerability to external attack or influence. This assessment was carried out by the external provider C3IA who submitted a full report to I&TS and a summary report to RPG. All lessons or areas for improvement identified from the report were accepted by I&TS for action.

9. Using the information accumulated by the above external audit by C3IA, a joint CMT/RPG exercise was run to examine the Council's response to a serious 'Malware' attack and the release of customer data that would have led to serious reputational damage and possible litigation. It was noted that the Council's response structures were appropriate to respond to a cyber enabled incident and the independent review of our cyber preparedness (see above) has been completed and a project team convened by I&TS to implement recommendations

<u>Training</u>

10. During this reporting period a continuous programme of training and development has taken place including:

    (a) Team Business Continuity - In order to assist in the development of the new team business continuity template as discussed above, teams have received training to ensure that on transfer to the new template, plans are fit for purpose.

    (b) Emergency Centre Volunteers - Following a summer recruiting drive, the Council has greatly increased its number of Emergency Centre Volunteers that are trained in the necessary skills to staff Rest Centres established in the response to a major incident. These staff volunteers could be utilised in Emergency Rest Centres, Survivor Reception Centres, Friends and Family Centres or Humanitarian Assistance Centres.

    (c) Loggists - During the response to a major incident the Council is required to keep and maintain clear records of information, decisions and actions taken during the response and, as seen in recent national news, these may be used as evidence many years later. During this reporting period training of suitable staff within the Council has been undertaken to ensure it has the ability to fulfil this need.

'No Deal' EU Exit Planning

11. Over recent months the Resilience and Business Continuity Team have been actively engaged in planning for a 'No Deal' EU Exit both internally and across the multi-agency partnership.

12. LLR Prepared arrangements have been put in place including completion of specific risk assessments, On Call Senior Management arrangements, service specific planning (Environment & Transport, Communications, and Trading Standards), the holding of multi-agency workshops, and participation in national and regional briefings.

13. As part of the National planning for the UK EU Exit, the Council is Chairing the LLR Prepared Strategic Coordinating Group meetings and the Multi-Agency Communications Group and associated reporting to MHCLG from two weeks prior to 6 weeks post leaving the EU. This continues to be work in progress due to the dynamic nature of events and planning arrangements will continue up to and beyond the day when the UK is due to leave the EU (i.e. 29th March 2019).

Internal Incidents during 2018

14. Since the 2017 annual report, internal incidents of varying levels of severity have required Resilience & Business Continuity support and follow-on actions. These have included:

    - February 2018: Collapse of CAPITA service provision company
    - 8th February 2018: Air conditioning failure in Data Centre
    - December 2017 and February/March 2018: Severe weather and snow responses
    - 7th March 2018: Glenfield power failure
    - 12th July 2018: Fire at the Easter Annex
    - 30th July 2018: Glenfield burst water main

15. Although no significant lessons were identified from these incidents, debriefs have been recorded and appropriate actions taken to update and improve the Council's response arrangements. A regular update on all incidents is provided to the Resilience Planning Group.

Customer Feedback

16. Data gathered in the 2108 Customer Satisfaction Survey of internal corporate services shows positive feedback form customers. Customer's ratings included: staff knowledge (81%), helpfulness (79%) and the quality of advice (78%) for the Resilience and Business Continuity Teams.

LLR Prepared and Resilience Partnership Multi-Agency Working

17. As part of the Multi-Agency response to Major Incidents, the Council's Resilience Partnership team was involved in response to the following incidents:

(i) 11th December 2017: Birstall Explosion: During the response to the explosion in Allington Drive, Birstall, staff were deployed to establish an emergency Rest Centre for the temporary shelter of residents evacuated. The response included the operational deployment of Council staff from Adult Social Care, Housing and Highways.

(ii) 25th February 2018: Hinckley Road Explosion: Although in Leicester City, the team was heavily deployed in response to the explosion and subsequent multi-agency meetings including Rest Centres, Humanitarian Assistance Centre, Tactical & Strategic Coordinating Groups and Recovery Coordinating Group.

(iii) Leicester City Football Club Helicopter Crash: Although on private land, the team deployed in support of the Recovery Coordinating Group, Mass Fatalities Coordinating Group and facilitation of the 2000/1 Memorial Walk.

(iv) 4th December 2018: Blackbird Road Gas Leak: Establishment of an Emergency Rest Centre, attendance at Police Silver Control and liaison with agencies at the incident cordon control and identification of vulnerable.

18. A performance summary for the Resilience Partnership for the 2017/18 financial year can be seen in the appendix attached to this report.

Schedule of Work: Forward Plan 2019/20

19. The list below notes the planned areas on which work will be focused during the next 12 months:

- Deal/No Deal EU Exit Planning: Integrated multi-agency working and planning, will include multi-agency working, cross border Local Authority, Local Resilience Forum and Regional Resilience working
- Ongoing implementation of learning from the Kerslake Report on the Manchester Arena attack, emerging learning from the Grenfell Inquiry and learning from local incidents
- Business Continuity Supplier Assurance: Continue to review key and critical supplier business continuity arrangements in order to ensure maximum resilience in the provision of service
- Business Continuity training and exercising: to examine and prove new Business Continuity structure throughout LCC at Operational, Tactical and Strategic level. Emphasis on assisting DMT managers on the implementation of the new Business Continuity structure and data gathering from operational team plans in order to ensure production of high quality Business Continuity reporting to CMT and Strategic Business Continuity planning
- Annual Refresher Training for all On Call Senior Managers
- Joint CMT and RPG major incident exercise 2019 to prove new Major Incident Plan, Flood & Severe Weather Plan and Business Continuity Plans

Resource Implications

20. The implementation of the Business Continuity Schedule of Work will continue to be undertaken as part of ‘business as usual’, working with the Council’s Resilience Planning Group and Business Continuity & Resilience Working Party, and will not require additional resource.

Conclusion and Recommendations

21. During 2018, work has been undertaken to develop and establish a dynamic and structured provision of resilience and business continuity across the Council. This work has been undertaken at the same time as undertaking regular exercises/testing of Business Continuity plans and dealing with a record number of Business Continuity-related incidents.

Recommendations

22. The Committee is asked to note the progress made on LLR Preparedness and Business Continuity during 2018 and provide comment and feedback on the proposed priorities identified for 2019/20.

Officers to Contact

Zafar Saleem
Head of Communities, Policy & Resilience
Strategy & Business Intelligence
Chief Executives Office
Tel: 0116 305 4952
Email: zafar.saleem@leics.gov.uk

Andrew Murr
Resilience & Business Continuity Manager
Chief Executives Office
Tel: 0116 305 6105
Email: andrew.murr@leics.gov.uk

APPENDIX

Resilience Partnership Key Achievements 2017/18

The officers in the Resilience Partnership Team undertake a wide range of projects - for individual authorities, for authorities collectively and representing local authorities across the work of the multi-agency LLR Prepared forum.

This summary report gives highlights of collective work across the last year, but does not reflect the significant ongoing work that officers undertake locally keeping all local plans and arrangements up to date and authorities ready to respond.

1. Duty Officer Support (24/7 365 First Point of Contact for Local Authorities for emergency response)

The Duty Officer received 77 calls between 1st April 2017 and 28th February 2018, a slight increase on last year's 73.

In addition to these calls the Duty Officer also receives and assesses flood alerts, flood warnings and severe weather warnings both in and out of hours, alerting relevant services and carrying out multi-agency tasking as appropriate.

Examples of the range of calls the Officers received requests for assistance included:

April	October
• Basset Street water leak • Birstall Library water leak • Charnwood 'Harborough Hope' demonstration	• Northbound M1 Holiday Inn LPG leak • Melton white powder incident • Charnwood white powder incident
May	**November**
• 'Move to Critical' actions	• Hamilton Industrial Park fire • Kimberly House power issues • NWL suspect package
June	**December**
• Ashby water main burst • London Bridge terrorist attack • New Walk suspect package • Grassington Close fire	• Birstall Explosion • Severe weather snow • Melton Woodhouse water outage • Westcotes Drive electrical substation fire • Waltham On The Wolds water outage • Hinckley Academy power cut
July	**January**
• Leicester power outage • Loughborough hand grenade • Clements Court fire • City Hall protests	• Long Whatton burst water main • Avian Influenza • Coleman Close fire
August	**February**
• Leicester Eastgate Apartment Block fire • Blackbird Road suspect package • Goscote House fire • Mulberry Avenue fire	• Media regarding teacher convicted of sexual offences • Herbert Street suspect package evacuation • Hinckley Road explosion • Severe weather – snow • Reservoir risk of overtopping: River Welland
September	**March**
• Student X-Country cardiac arrest • 'Move to Critical' actions	• Severe weather – snow • Bath Lane fire

In addition to the Duty Officer initial response and actions the Partnership also supports authorities in responding to, and recovering from, incidents. This year notable examples of this were during the Allington Drive and Hinckley Road explosions where rest centres, TCG, SCG and RCG structures were supported over a number of days.

The Partnership Alerting System has proved invaluable this year, swiftly mobilising volunteers for rest and support centres from across the LRF area when needed.

2. Training and Exercising

The team has continued to deliver well received training – both for individual authorities and for collective groups. Local area/ Resilience Partnership training:

- Emergency Centre Volunteer (including refresher) 36
- Loggist training /refresher 53
- Resilience Partnership Board Annual Exercise 69

In addition to local area training and updating, Resilience Officers led on/ assisted with the planning for the following exercises, training and development:

- Brenntag COMAH Exercise
- Flood Warden Croft Depot Visit
- Flood Seminar
- LLR Prepared Week and Webinars
- Community Summit
- Recording, Documentation & Logging Training
- East Midlands Airport Exercise ‘Trace’
- Trent Catchment Area 3 Day Regional Exercise
- Move to Critical Exercise
- Multi-Agency JESIP Training
- Resilience Direct Mapping Development
- Post Room Suspicious Package Procedures

3. Aware and Prepared Community Resilience

The Resilience Partnership has continued to progress community resilience planning with the following notable points:

- Continuing allocation of £30,000 award from the Environment Agency administrated Local Levy Fund in £600 segments to support community planning
- 47 communities have completed or are engaged in developing community plans
- Delivery of Business Continuity Awareness Week and LLR Prepared Week

4. Local Resilience Forum Representation

The Resilience Partnership Team has provided representation of local authorities throughout the LRF structure. Most notably they have been leading and supporting the following work streams:

• 4X4 plan	• Identification of Vulnerable People
• Stranded Motorists plan	• Overseas influx
• Mass Fatalities, Excess Deaths and replacement National Emergency Mortuary Arrangements	• Emergency Centres - review of Family and Friends and Survivor Centre arrangements
• Recovery Plan	• Excess Deaths Plan
• COMAH Sites and regulation	• Logging and recording
• LRF Risk Assessment update and	• Cross border liaison

reissue	
• Leics and Rutland Safety Advisory Group	• Midlands LRF Coordinators Group Forums
• Humanitarian Assistance (Human Aspects) plan	

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE

18 JANUARY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of the Report

1. One of the key roles of the Corporate Governance Committee is to ensure that the Council has effective risk management arrangements in place. This report assists the Committee in fulfilling that role by providing a regular overview of key risk areas and the measures being taken to address them. This is to enable the Committee to review or challenge progress, as necessary, as well as highlight risks that may need to be given further consideration. This report covers:

   - The Corporate Risk Register (CRR) – an update on risks
   - Updates on: -
     - Risk Management – General
     - Risk Management Maturity Health Check
     - Risk Management Policy and Strategy
     - Insurance
     - Counter Fraud

Corporate Risk Register (CRR)

2. The Council maintains Departmental Risk Registers and a Corporate Risk Register (CRR). These registers contain the most significant risks which the Council is managing and which are ‘owned’ by Directors and Assistant Directors.

3. The CRR is designed to capture strategic risk that applies either corporately or to specific departments, which by its nature has a long time span. Risk owners are engaged and have demonstrated a good level of awareness regarding their risks and responsibilities for managing them.

4. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be added to the CRR as necessary. Equally, as further mitigation actions come to fruition and current controls are embedded, the risk scores will be reassessed and this will result in some risks being removed from the CRR and reflected back within the relevant departmental risk register.

5. Movements since the CRR was last presented to the Committee on 24 October 2018 are detailed below.

Risks Added

- Risk 1.9 (Children & Family Services) - If the immigration status of unaccompanied asylum-seeking children (UASC) who arrive in the County is not resolved, then the Council will have to meet additional long term funding in relation to its housing and care duties.

- Risk 10.1 (Children & Family Services) - If the Local Authority and partners do not succeed in developing an inclusive culture across all schools, education providers and partner agencies (including the Parent Carer Forum), then it will be difficult to secure parental confidence in the ability of the 'whole system' to meet the needs of the large majority of children with SEND in a mainstream school context.

Risk Reworded.

- Risk 1.6. – If the High Needs Block Development Plan is not delivered on time and within budget then the number and cost of specialist placements is likely to exceed current predictions and the High Needs Block Budget will exceed latest forecasts.

- Risk 2.2 - Impact on County Council services and its MTFS of the Better Care Together (medium term) Transformation Plan in Leicester, Leicestershire and Rutland (LLR), could lead to an inability to deliver improved outcomes and financial sustainability.

6. The most up-to-date position of the risks on the CRR is shown in the table below. The risks are numbered within each category. The full CRR is attached as Appendix A to this report.

7. The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that:

    a. A horizontal arrow shows that not much movement is expected in the risk;
    b. A downward pointing arrow shows that there is an expectation that the risk will be mitigated towards 'medium' and would likely be removed from the register;
    c. An upwards pointing arrow would be less likely, but is possible, since it would show that the already high scoring risk is likely to be greater.

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl changes)	Update Based on risks discussed at department's management teams during December 2018	Direction of Travel (Residual Risk Score over the next 12 months)
1. Medium Term Financial Strategy (MTFS)					
All	1.1	Risk around the MTFS including the ability to deliver savings through service redesign and Transformation as required in the MTFS, impact of the living wage and other demand and cost pressures.	25	<u>MTFS</u> The draft MTFS has been prepared and savings requirements incorporated. Continuing pressure on budgets underlines the growing demand impacting the Council's services, social care and special educational needs and disability support in particular. The Local Government Finance Settlement (13 December 2018) provided no direction on medium term funding but was positive in terms of additional one off monies being received e.g. business rates. <u>Transformation</u> The full business case for the Early Help Review (including Children's Centres) has been approved by the Transformation Delivery Board.	⇔ Expected to remain high/red
CE	1.3	If S (106) monies for the Council as a whole are not managed properly then there could be financial risks as well as legal challenges.	16	No change to the previously reported position.	⇔ Expected to remain high/red
CR	1.4	If claims relating to uninsured risks materialise or continue to increase then LCC will need to find increased payments from reserves,	16	See specific update	⇔ Expected to remain high/red

		impacting on funds available to support services			
C&FS	1.5	<u>Social Care</u>: If the number of high cost social care placements (e.g. external fostering, residential and 16+ supported accommodation) increases (especially in relation to behavioural and CSE issues) then there may be significant pressures on the children's social care placement budget, which funds the care of vulnerable children.	25	There have been new entrants into residential and high cost 16+ provision during November, and due to children's' ages the Service is only projecting exit from residential placement to commence from June 2019. All children have their own individual needs and are in residential care for a range of reasons. Timing of exit from residential care also needs to take into account the child's educational needs, provision and status e.g. it would be unlikely that management would authorise a change of placement during a child's GCSE year. The increase in use of 16+ placements during 2018/19 has been positive as a number of these young people have transitioned from higher cost placements or would otherwise have required residential care. Similarly, the Supported Lodgings recruitment during this year has exceeded targets, enabling a number of older children to transition from high cost placements into the community.	⇔ Expected to remain high/red
C&FS	1.6	<u>Education:</u> If the High Needs Block Development Plan is not delivered on time and within budget then the number and cost of specialist placements is likely to exceed	25	There has been an external challenge (by an independent SEND Company) of the Council's High Needs Block Development Plan.	⇔ Expected to remain high/red

		current predictions and the High Needs Block Budget will exceed latest forecasts			
CR	1.7	If the Council is not compliant with the HRMC IR35 regulations regarding the employment of self-employed personnel then there is a risk of large financial penalties	20	The requirement for a central support role has been agreed, and recruitment is almost complete. A reminder of the Policy and Process was included in the Managers Digest (28 September), including the use of Reed Employment Agency for all recruitment activity, but due to the complexity of interpreting IR35 regulations, Managers may need further support. The emphasis on IR35 compliance was provisionally for the public sector but is being extended to the private sector to provide an equal footing.	Expected to move to medium/ amber
CR	1.8	If public sector partners and major providers of services to the public sector get into financial difficulties there could be an impact on both the Council's financial position and services	16	The financial strength of suppliers is included in the contract management dashboard for key suppliers, alongside other performance data and the Council's spend (dashboard being piloted by Corporate Resources). This supplements the financial checks undertaken as part of the procurement process. There will be a refresh of an initial supplier stability review undertaken in June 2018.	Expected to increase
C&FS	1.9	If the immigration status of unaccompanied asylum-seeking children (UASC)	16 **(New)**	The increase in the risk score is twofold: 1. Whilst overall numbers are stable, most UASC are now classed as care leavers or entitled to care leaving	Expected to move to medium/

		who arrive in the County is not resolved, then the Council will have to meet additional long term funding in relation to its housing and care duties.		support by law. As children in care get older, the law requires that they have both a social worker and personal advisor allocated to support them from 15.5 years until the age of 18. From the ages of 18-25 the statutory support is the responsibility of the personal advisor. The UASC team will not have the personal advisor capacity to meet this statutory requirement. 2. The duty to support Care Leavers has been extended (from 21) to age 25 years. As UASC do not have local connections, it is expected that they be more likely to will seek to access this extended service. And whilst new UASC enter the service, older UASC will not be leaving placing additional pressures on the budget for benefits, housing etc. There has been a recent increase in the number of UASC arriving for whom this is likely to apply.	amber
2. Health & Social Care Integration					
All	2.2	Impact on County Council services and MTFS of the Better Care Together (medium term) transformation plan in Leicester, Leicestershire and Rutland (LLR), could lead to inability to deliver improved outcomes and financial sustainability.	16	The NHS Long Term Plan was published on 7 January. Each part of the country (in this case Leicester, Leicestershire and Rutland) will be expected to develop their local plans further in response to this during 2019. The County Council will review this risk again in 2 months' time	Expected to remain high/red

All	2.3	Challenges caused by the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016.	16	Ongoing provision of citizen's advice including money and debt advice funded by LCC and District Councils. From April 2019 Citizen's Advice Bureaus (CABs) will also be funded by DWP to provide Universal Credit support. Currently stable level of demand for hardship support services.	Expected to remain high/red
3. ICT, Information Security					
CR	3.2	If the Council fails to meet the information security and governance requirements then there may be breach of the statutory obligations	16	With regard to training on Information Security and Data Protection latest data on the Council's Learning Hub shows 90% compliance against a target of 90%. However, ongoing requirements to review training every 12 months could impact on the compliance rate. Phase 2 elements of the GDPR has been scoped and agreed. Work is progressing on surveillance and camera systems, procurement of an asset register system, and it is envisaged that all actions will be completed by March 2019.	Expected to move to medium/ amber
All	3.5	If the Council fails to maintain robust records management processes to effectively manage information under its custodianship, personal data may not be processed in compliance with the Data Protection Act 1998 resulting in regulatory action and/or reputational damage.	15	A further report will be presented to Chief Officers in January 2019, proposing a Data Protection Impact Assessment (DPIA) approach. This approach will assist in establishing priority areas and minimise data protection risks.	Expected to move to medium/ amber

CR	3.6	If a replacement (ERP) system is not implemented successfully the Council will not reap the benefits and the Council's financial and HR activity could be negatively impacted upon	20	Data cleansing has commenced and this will be an ongoing activity for the next six months. To assess the system functionality requirements, a series of advisory workshops have been completed with positive outcomes – further workshops are planned in 2019. After the workshops are all completed the initial configuration of the system will be made and reviewed in February 2019.	⇩ Expected to move to medium/ amber
C&FS	3.7	If the quality of data in Children and Families (C&FS) Information Management System is too low to satisfy statutory requirements (e.g. data returns) this will impact upon service delivery	16	Strongly embedded monthly business support processes but need to do further work with Business Intelligence to ensure regular access to tableau reporting to enable C&FS to manage their own data quality issues.	⇩ Expected to move to medium/ amber
4. Commissioning & Procurement					
CR	4.1	If the Authority does not obtain the required value and level of performance from its providers and suppliers then the cost of services will increase and service delivery will be impacted.	15	Contracts dashboard (covers high risk and value business critical contracts) was presented to the Corporate Resources Management Team in December and the format has been agreed and dashboards will be rolled out to other departments. Guidance on setting and monitoring KPI's will be	⇩ Expected to move to medium/ amber

				incorporated into the new toolkit by December. Action is being taken to evaluate the effectiveness of measures taken on improving the management of contracts. Due to resource capacity, discussions are underway with Learning and Development to undertake a training needs analysis with a view to procuring appropriate trainer.	
E&T	4.2	If Arriva is successful in its concessionary travel appeal then reimbursement costs for the total scheme could increase significantly.	15	No change to previously reported position.	⇩ Expected to move to medium/ amber
5. Safeguarding					
C&FS	5.1	<u>Historical</u>: If as a result of a concerted effort to explore abuse by the Independent Inquiry into Child Sexual Abuse (IICSA) and Police Operations, then evidence of previously unknown serious historical issues of child sexual exploitation (CSE) or abuse is identified	25	The IICSA announced in September that the Public Hearings for the Janner Investigation will be held for 3 weeks in February 2020. A Preliminary Hearing has been scheduled by the IICSA for 23 May 2019 at which details regarding the Public Hearings will be agreed.	⇔ Expected to remain high/red
6. Brexit					
All	6.1	Uncertainty and significant knock on consequences	16	With an increased likelihood of a non-deal exit, more detailed contingency plans are being	⇔

		on public services (including potential legal, regulatory, economic and social implications), and the local economy as a result of the United Kingdom leaving the European Union		developed by the LLR Resilience Forum and Partnership and the Council's Business Continuity team. Progress will be reported to Chief Officers at the end of January 2019.	Expected to remain high/red
7. People					
CR (ALL)	7.1	If sickness absence is not effectively managed then staff costs, service delivery and staff wellbeing will be impacted	16	The Intensive Support Project is ongoing. Trade Unions have not accepted the position with regard to tightening of the Absence Management Policy - the initial target is to reduce absence to 8 days per FTE by August 2019 recognising that the corporate target remains at 7.5 days FTE. Discussions are underway on the next steps.	⟷ Expected to remain high/red
All	7.2	<u>Recruitment and retention</u> If departments are unable to recruit and retain skilled staff promptly then some services will be over - reliant on the use of agency staff resulting in budget overspends and poor service delivery	25	<u>C&FS (risk score =25)</u> Elements of a recruitment and retention strategy have been agreed and implemented. Social worker apprenticeship posts (6) will be in place from next year and the first frontline unit (consisting of 4 social workers) is in place. There is a steady recruitment of staff but the majority of social work posts recruited are newly qualified social workers which bring pressures of how these staff are supported (require i.e. extra support, knowledge etc. but not in a position to take on the full case load of a social worker).	Expected to remain high/red

				A&C (risk score =16) No change to previously reported position. The rates of pay are not competitive for certain posts resulting in recruitment difficulties and competition from other Authorities.	
A&C	7.3	If the department does not have a sustainable external workforce to work with it may be unable to meet its statutory responsibilities.	16	Although a small project - 'external workforce' has been established to work with the authority's providers to target more effective recruitment and retention, this has not yet had the desired impact. This is largely due to the rates of pay not being competitive for certain posts and competition from other Authorities.	Expected to move to medium/ amber
8. Business Continuity					
CE	8.1	If suppliers of critical services do not have robust business continuity plans in place, the Council may not be able to deliver services.	15	A report is scheduled to be presented to Chief Officers in January 2019 to provide an update on Business Continuity and Leicester, Leicestershire, and Rutland (LLR) Prepared activity.	Expected to remain high/red
9. Environment					
E&T	9.1	If the ash dieback disease causes shedding branches or falling trees then there is a possible risk to life and disruption to the transport network.	15	No change to the previously reported position.	Expected to move to medium/ amber
E&T	9.2	If there was a major incident which results in unplanned site closure (E.g. fire) then	15	Actions being taken are as follows: Management of contracts : • Landfill contracts are being reviewed and amended to reflect changing disposal	Expected to move to

		the Council may be unable to hold or dispose of waste.		sites and potential for additional alternative sites. • Regular contract meetings with disposal and treatment providers are being undertaken. • Additional contingency options for contracted Waste Transfer capacity are being explored with providers Business Continuity : • Regular communications are undertaken with the District Councils to manage changes in delivery locations and move away from landfill as the primary disposal outlet. Further actions have also been progressed: • Work continuing to secure a site for creating additional Waste Transfer Station capacity. • Loughborough Waste Transfer Station and Recycling Household Waste Site reopened on Monday 10th December following improvement works.	medium/ amber
10. Partnerships					
C&FS	10.1	If the Local Authority and partners do not succeed in developing an inclusive culture across all schools, education providers and partner agencies	16 **(New)**	This risk relates to building parental confidence. C&FS has developed a business case for significant investment in expansion of SEND provision and creation of new specialist SEND provision. This has been approved by Chief Officers and will strengthen medium term strategic planning.	⇩ Expected to move to green

		(including the Parent Carer Forum), then it will be difficult to secure parental confidence in the ability of the 'whole system' to meet the needs of the large majority of children with SEND in a mainstream school context.			

Risk Management – general update

8. Risk management information and guidance has been loaded onto the Council's intranet enabling accessibility to all staff and ensure consistency in application.

9. The Managers' Digest (November 2018) provided information and guidance about risk management including managers' roles and responsibilities. The Managers' Checklist has also been updated to assist with the induction of new employees with responsibility for risk management.

10. Corporate data reporting now uses Tableau self-service dashboards. The Departmental Risk Registers and the Corporate Risk Register have been converted into dashboards on a regular basis and now form part of the Corporate Reporting tool.

Risk Management Maturity Health Check Update

11. The independent health check by the Risk Management Partners (RMP) risk consultant was undertaken in October. They produced a draft report which overall is positive but recognises there are some issues and it suggests possible actions to address these. The draft report has been shared with all Chief Officers who will consider the report and the actions proposed in detail which will feed in to the review of the next Risk Management Strategy as detailed below. The report and the actions proposed will be reported to this Committee in May 2019.

Risk Management Policy Statement and Strategy.

12. The Council's Risk Management Policy Statement and Strategy are reviewed annually and included as an appendix to the Council's annually updated Medium Term Financial Strategy. This year, the Policy Statement has been reviewed and revised to reflect significant local (i.e. proposals for a new council for Leicestershire) and nationwide (i.e. Brexit) developments. The revised Policy Statement is attached as Appendix B. In view of the timing of the RMP

health check report outlined above, a detailed review of the Strategy has not yet been undertaken and it is proposed that this be delayed until the full detail of the RMP report can be properly considered.

13. A light touch review has established that the current Strategy remains fit for purpose and can therefore be included unchanged within the 2019/20 – 2022/23 MTFS which is to be considered by the Cabinet on 8th February and full Council on 20 February 2019. This will allow time for a full review to be undertaken during 2019, taking account of the improvements proposed and arising from the RMP health check.

14. Once the full review has been completed the refreshed Strategy will be presented to this Committee and thereafter will form part of the refresh for the next MTFS.

Insurance update

Municipal Mutual Insurance Limited

15. Since the last update to the Committee on 25 July 2018 the position of Municipal Mutual Insurance (MMI) remains stable with assets currently matched to liabilities. There has been no further requirement for reserve strengthening by way of an increase in the claims levy which currently stands at 25%.

16. The July update commented on the valuation of the reinsurance asset in MMI's accounts and how this would be affected by a change in the presentation and allocation of claims following a Supreme Court decision. In May 2018 'Equitas' (as the lead reinsurer) was granted the right to appeal the arbitration ruling in the Court of Appeal. The hearing is scheduled to be held on 18 March 2019 and so a further update should be available for the May 2019 Committee. Should the reinsurance case ultimately prove successful for MMI and further strengthen the balance sheet the possibility of an increase in the levy diminishes. The run off of claims is still in its early stages and the ultimate is not expected to be reached until around 2050.

17. In conjunction with the reinsurance case an investment strategy review is being undertaken. The current investment portfolio is made up of investments in highly rated, low risk assets. MMI's board is considering a change to the investment criteria to a less risk averse approach allowing investment in 'A' rated corporate bonds. An analysis of the potential additional return that might be generated through this change is being prepared by MMI's external investment managers. The timing of any change is also being considered in view of Brexit risk.

18. Following on from the above, the Council's fund set aside to address the failure of the MMI remains adequate. However, should the claims experience start to deteriorate through, for example, new heads of claim, changes in the law or the discovery of more institutional abuse dating back to the 1980's and beyond, a reassessment may need to be made. Any such deterioration should be identified early enough to allow sufficient lead in time to plan.

19. On a positive note, nationally the number of new claim notifications in respect of mesothelioma (exposure to asbestos) appears to have passed its peak.

However, this is offset in large measure by an increase in new abuse claim notifications. It is important to note that a key risk is the volatility of claims notifications as the liability tail unwinds.

Counter fraud update

Fraud Risk Assessment 2018/19

20. The CIPFA Code of Practice – Managing the Risk of Fraud Corruption (the Code) recommends that local authorities identify and assess the major risks of fraud and corruption to the organisation. The Internal Audit Service performs a biennial fraud risk assessment and uses the results to direct anti-fraud resources accordingly. The County Council does not provide many of the services that have historically been considered to be at high risk of fraud, such as revenue and benefits. However, the change of emphasis from local government being a provider to a commissioner of services changes the risk profile of fraud, as well as the control environment in which risk is managed. More ‘at arm’s length’ delivery of services by third parties, for example, contractors and external providers; and personal control of social care budgets, means that more public money is entrusted externally, which may impact on the wider control environment.

21. National fraud intelligence received through publications such as CIPFA’s annual Fraud & Corruption Tracker (2018) and Fighting Fraud & Corruption Locally – the local government counter fraud and corruption strategy (2016-19) help to inform local authorities of key fraud risks for councils and also of emerging frauds relevant to the sector. Such intelligence is used proactively to influence the fraud risk assessment. The Internal Audit Service also networks closely with other local authorities to share both fraud intelligence and strategies to manage fraud risks. As an example, the Internal Audit Service is an active participant in the Midland Counties’ Fraud Group.

22. Appendix C attached to this report, contains a summary level of the fraud risk assessment, with a corresponding risk score for each area, based on the Council’s overall potential exposure (impact on service delivery, finance and reputation and perceived likelihood). Scoring has been derived through discussions with individual service leads and departmental risk champions to give them the opportunity to consider whether scores remain reasonable or whether there have been any changes during the previous year that may lead to necessity to amend scores, e.g. known exposure to fraudulent activity, additional controls introduced; increased or decreased metrics/values etc. Recognising fraud in this manner ensures there is a comprehensive understanding and knowledge about those areas where potential fraud risk is the highest and the scale of potential losses. This in turn directs the Council’s overall Anti-Fraud and Corruption Strategy and further allows the Council to direct counter-fraud resources accordingly. Consequently, this influences the internal audit annual planning process.

Internal Fraud Communications to Staff

23. During the last quarter, the Internal Audit Service co-ordinated targeted internal communications to raise the awareness of fraud risk with Council staff. This coincided with International Fraud Awareness Week. This communication strategy enabled the Internal Audit Service to remind staff of key policies and procedures, the Council's whistleblowing process, the availability of the Council's fraud e-learning module and of good practice with regard to conflicts of interest. Internal Audit Service took further steps to inform staff of the Council's zero tolerance approach to fraud and financial irregularity and what that might mean in practice. As part of the process, the Internal Audit Service refreshed the information held on the intranet regarding fraud to ensure that it remains relevant and fit-for-purpose. The fraud communications also led to reminding managers of their responsibilities for operating a robust internal control environment within their service areas, e.g. effective segregation of duties in key processes.

Serious & Organised Crime

24. In December 2016 the Home Secretary wrote to Council Leaders to discuss the threat from Serious and Organised Crime (S&OC) to publicly procured services in Local Government. The Home Office/DCLG had undertaken a pilot programme which has highlighted how local authority procurement is at risk of infiltration from S&OC. S&OC is far-reaching and includes terrorism, drug trafficking, human trafficking, child sexual exploitation, fraud and cyber-crime. The Internal Audit Service continues to do work to improve the Council's resilience to S&OC risk and during the last quarter undertook some targeted internal audit work in the following area:

- Due-diligence surrounding the rental of County Council commercial premises, e.g. industrial units, systems and processes were found to be generally sound with only minor recommendations made.

  Further work is currently underway in another area showcased by the Home Office to be at risk of infiltration from S&OC groups:

- Taxis/private hire vehicle (PHV) contracts, e.g. home-to-school transport

Counter Fraud "Doing the Basics Well" Audits

25. In response to the risk of fraud, the Internal Audit Service has undertaken short "doing the basics well" compliance audits in specific areas. During the last quarter, audit assignments were undertaken (or are currently ongoing) in the following areas:

- Overtime
- Travel claims
- Supplier VAT number validation
- Validation of VAT-only invoices
- Imprest accounts
- The link between the corporate induction process and raising fraud awareness with new staff

- Engagement of social care professionals (risks of employing staff on false qualifications)
- Declaration, and authorisation of, gifts and hospitality

Recommendations

It is recommended that the Committee:

a) Approves the current status of the strategic risks facing the County Council;

b) Makes recommendations on any areas which might benefit from further examination and identify a risk area for presentation at its next meeting;

c) Notes the updates provided on Risk Management general, Risk Management Health Check, insurance and counter fraud;

d) Notes the revised Risk Management Policy Statement attached as Appendix B to this report, that the current Risk Management Strategy remains fit for purpose, and that both will be presented as an appendix to the 2019/20 – 2022/23 Medium Term Financial Strategy to the Cabinet on 8 February and full Council on 20 February 2019 for approval;

e) Notes that the Risk Management Strategy will be reviewed in detail during 2019 taking account of the outcome of the RMP health check and that a further report on the outcome of that review will be presented to this Committee in due course.

Resources Implications

None.

Equality and Human Rights Implications

None.

Circulation under the Local Issues Alert Procedure

None

Background Papers

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 19 February, 13 May, 23 September and 25 November 2016; 17 February, 26 May, 22 September and 17 November 2017; 29 January, 23 April and 25 July 2018, 24 October 2018.

Officers to Contact

Chris Tambini, Director of Corporate Resources
Tel: 0116 305 6199
E-mail: chris.tambini@leics.gov.uk

Neil Jones, Head of Internal Audit and Assurance Service
Tel: 0116 305 7629
Email: neil.jones@leics.gov.uk

Appendices

Appendix A - Corporate Risk Register
Appendix B - Risk Management Policy Statement
Appendix C - Fraud Risk Assessment 2019

Corporate Risk Register (December 2018) **APPENDIX A**

Dept.	Risk #	Risk	Causes (s)	Consequences (s)	Risk Owner	List of current controls	Current Risk Score: I	Current Risk Score: L	Current Risk Score: Risk Score	Risk Response; *Tolerate Treat Terminate Transfer*	Further Actions / Additional Controls	Residual Risk: I	Residual Risk: L	Residual Risk: Risk Score	Action Owner / (Date)	Action Complete (Yes or No)
1. Medium Term Financial Strategy (MTFS)																
All	1.1	Risk around the MTFS including the ability to deliver savings through Service Redesign/ Transformation as required in the MTFS, impact of the living wage and other demand and cost pressures	• Reducing government funding • Increased demand for the most vulnerable continues to increase: Adult Social Care / CYPS • Significant efficiencies/savings already realised and implemented thereby making it increasingly difficult to deliver unidentified savings	Service Delivery • Negative impact on all services as further service cuts will be required to reduce deficit Reputation • Significant impact on reputation exacerbated by the need for quick and potentially crude savings if a more considered approach not adopted Financial • Loss of income • Restricted funding from other sources	Chief Executive/ All Directors	• Four year MTFS approved • Monitoring processes in place at service, departmental and corporate level • Progress with savings monitored and reported to Scrutiny Commission regularly • Reporting of Transformation Programme aligned with Corporate Finance reporting • Progress on savings from Transformation Programme monitored regularly to resolve early issues • Design Authority operational. • Transformation Programme aligned to MTFS • Introduction of the Business Consultant role within the TU to focus on supporting the development of Business Case development • Deliverability assessments on all Business Cases and newly identified opportunities for savings now routinely completed.	5	5	**25**	Treat	• Further work on the Council's low funding position to make the case for increased funding to government. Transformation Programme • Development of business case for Early Help Review including Children's Centres - action has been completed in September 2018 • TU resources are being focused on work with all Departments to identify new opportunities for savings and develop relevant business cases	5	5	**25**	Chief Executive / All Directors During 2018/19	
CE	1.3	If S106 monies for the Council as a whole are not managed properly then there could financial risks as well as legal challenges	• Due to the pooling limitations imposed by the Community Infrastructure Levy Regulations 2010 (as amended) on the use of s106 planning obligations.	Financial • Failure to secure funds putting LCC at financial risk Reputation • Possible need for challenge / defend challenge in high court	Director of Law & Governance Head of Planning, Historic & Natural Environment	• Agreed positions established with District Councils • Analysed data of s106 contributions since 2010 • Infrastructure and Development Oversight Group in place- work programme and timetable in place • Approach to projects and pooling established (subject to individual project circumstances). • Regular updates to Cabinet on planning decisions that do not reflect the County Council's section 106 requirements. • Members notified of requests for section106 contributions that fall within their division.	4	4	**16**	Treat	• Improve procedures and practices • MASTERGOV software now installed and being tested for monitoring and output reporting. • Lack of staff resources to manage all the workload • Developer Contributions Policy under active review • A review of S (106) will take place over the summer and the results reported to Cabinet in September. • Recruitment underway for Developer Contributions Officer	4	3	**12**	Head of Planning, Historic & Natural Environment During 2018/19	

CR	1.4	If claims relating to uninsured risks materialise or continue to increase then LCC will need to find increased payments from reserves, impacting on funds available to support services	• Estimates from MMI continue to report a liability • Potential to increase MMI levy as a result of recent foster care judgement and could impact the SOA. • The judgement has an unknown impact • Any claims arising from the time Independent were insurers would need to be self-funded.	Financial • Amounts involved are large and LCC is currently the MMI's largest creditor Service Delivery • Reduced funds available to support services	Director of Finance (Corporate Resources)	• Detailed review of MMI claims undertaken before payments made • Process for defending claims in place • Ongoing partnership work with MMI to improve claims handling to reduce and manage losses • A separate 'Uninsured Loss Fund' is established to meet to mitigate against such consequences of MMI an similar situations • Training held to inform staff an management who undertake placement decisions re potential for future liabilities following Supreme Court decision that a local authority can be held vicariously liable for the wrongful actions of foster carers to a child in foster care	4	4	**16**	Tolerate		4	4	**16**	Head of Internal Audit Service and Insurance Manager Ongoing 2018/19	
C&FS	1.5	Social Care If the number of high cost social care placements (e.g. external fostering, residential and 16+supported accommodation) increases (especially in relation to behavioural and CSE issues) then there may be significant pressures on the children's social care placement budget, which funds the care of vulnerable children.	• Demand for high cost placements increasing especially in relation to behaviour & CSE issues	Financial • High cost and overspending of budget	Director - Children & Family Services	• Weekly tracking of admissions and discharges of Children in Care - Panel process reviewed to introduce tighter HOS control of children entering care and legal proceedings (Child Decision Making Panel established January 2018) • Annual Market Position Statements were published to ensure marketing and recruitment for placement sufficiency remains appropriately targeted (2015-17) - mainstream and specialist Foster Carer recruitment targets for 2017-18 will be met by the end of April 2018 (one month over); two new strategies (Recruitment and Retention Strategy and Adoption and Permanence Strategy) will sit under an overarching Placement Strategy to be launched April 2018; targets against both these Strategies have already been agreed. • 16+ placement framework was introduced during 2016 and has effectively allowed the service to manage costs of these placement but ensure we have sufficiency to enable to move children from more costly placements or for UASC. • Complex Care Panel with health is ongoing, allows shared decisions for children in care with more	5	5	**25**	Treat	• Word Of Mouth project – six year programme of targeted savings • Consultant advising on additional growth and to deliver a revised payment scheme • Advice being taken for additional growth to recruit foster carers • Approach to Fostering being looked at by Transformation unit through consideration of use of market for contracted residential beds	4	5	**20**	Director - Children & Family Services During 2018/19	

						complex and continuing needs • Processes have been amended so that requires for residential placements must now be signed off by the Director and requests for independent fostering and 16+ by the AD for CSC – this is helping to ensure appropriateness and quality of requests and allowing closer scrutiny of processes • Monthly high level DMT reviews are ongoing. Panel meetings also held to look at high cost placements in residential care and to ensure that appropriate plans and resources are in place to support placements • Adoption complaints significantly reduced during 2017 with the introduction of a dedicated Service Manager for Permanence, the introduction of a support worker following the growth bid and a programme of training and awareness to promote staff understanding of the child's permanence journey - further improvements in Permanence (adoption and SGO) will be achieved in 2018, with an ongoing programme of awareness, introduction of dedicate staff for SGO support and recruitment of a third therapeutic worker for post 3 year adoption placement										
C&FS	1.6	<u>Education</u> If the High Needs Block Development Plan is not delivered on time and within budget then the number and cost of specialist placements is likely to exceed current predictions and the High Needs Block Budget will exceed latest forecasts	• Services requesting support for high needs including SEN placements. • Insufficient budget	<u>Service Delivery</u> • Unable to meet the needs of all vulnerable children in a cost effective and inclusive way • Unable to meet the department's statutory duties around SEND Placements within available resources <u>People</u> • Resources tied up in independent provision and not used in the most efficient way to meet needs <u>Reputational</u> • Bad publicity and low confidence in Local Authority to support vulnerable children and young people • Low confidence in ability of	Director – Children & Family Services	• High Needs Project Board and HNB Development Plan in place • SEND Sufficiency plan based on developing inclusion and establishing new provision progressing through Corporate Approval (Corporate schools Group 17 Dec) • Application for SEMH Free School to be submitted to DfE • Work underway with our maintained and academy mainstream and special schools to increase their capacity to meet higher levels of need. • Work with Behaviour Partnerships to increase their capacity to offer provision	5	5	**25**	Treat	• Development of mainstream resource provisions and special school capacity: Expanded and new resourced provision is now established at Wigston, Iveshead, Rawlins Academy Hinckley Academy and All Saints Primary Wigston from April/Sept 2018. Co-production with parents has taken place to design this provision. • Expressions of interest have been received from 29 schools and academies to develop new resourced provisions, with bids currently undergoing evaluation. • high Needs Development Programme includes a wide range of activities to support effective inclusion in schools and to ensure effective processes, including top-up funding and activities to incentivise schools to support	4	4	**16**	Head of Service SEND & CDS Children & Family Services During 2018/19	

				department to manage it's services, budgets and meet savings targets (MTFS). • Poor outcomes at SEND Inspection Financial • Budget overspent / continuing budget overspend which is unsustainable • Required savings targets not met		• New improved contract and procurement arrangements now in place • New extended offer at Oakfield for children with behavioural difficulties is now in place • Extended offer at Maplewell Hall and Birchwood School for children with Autism now in place review of pupils in independent provision at key transition. • additional provision from Sept 2018 at Wigston All Saints, Quorn Rawlins and Hinckley Academy Dorothy Goodman					children through effective early help and support. • SENA Service has been strengthened and growth bid submitted to further increase SENO capacity, together with a 6 month 'deputy' post to accelerate changes. • Panel processes have been refreshed to include greater input from partners and decision making oversight. • • Post of SEND Inclusion Development Officer established, to lead on sufficiency planning. • Independent 'Challenge' via external company, with challenge meeting testing High Needs recovery Plan December 2018.					
CR	1.7	If the Council is non-compliant with HRMC IR35 regulations regarding the employment of self -employed personnel then there is a risk of large financial penalties	• Clear Policy not in place • Guidance, training and COMMS not in place for managers • Lack of monitoring to identify contracts where issues exist.	Financial • Large financial penalties Reputation • Loss of reputation as a good employer • Adverse media coverage loss of public confidence Legal • Risk of legal action against the Council for non-compliance	All Directors	• Guidelines in place • Policy in place • Tax expert able to provide advice on compliance • Management of self-employed through Reed agency	5	4	**20**	Treat	• Establish central control point – role agreed and recruitment underway • Develop guidance, training and improved COMMS for managers. Policy and process included in Managers Digest (September) including use of Reed Agency for all recruitment activity • Review of all current identified post outside of Reed employment to identify issues • Improve the standard of checks and information available from other employment agencies • Review the T&C for CIS contracts	4	3	**12**	Assistant Director - Corporate Services Assistant Director – Strategic Finance & Property Corporate Resources 2018/19	
CR	1.8	If public sector partners and major providers of services to the public sector get into financial difficulties there could be an impact on both the Council's financial position and services	• Monitoring arrangements re key partners are not in place	Financial • Additional budgetary pressures	Director of Corporate Resources	• Attendance at LALAT • Oversight and monitoring of other organisations finances	4	4	**16**	Treat	• Extra resources will be put in place to assess the financial health of maintained schools (and academies) and the financial planning service enhanced to support them. • Continued use of credit scores to inform decision making. Need to be aware of their limitations. • Monitoring of key partner organisations including regular dialogue	4	4	**16**	Assistant Director – Strategic Finance & Property Corporate Resources 2018/19	
C&FS	1.9	If the immigration status of unaccompanied asylum-seeking children (UASC) who arrive in the County is not resolved, then the Council will have to meet additional		Service Delivery • Potential inability of service to meet demand from unplanned UASC arriving in the County People • UASC arriving unplanned in the County do not get their needs addressed and appropriate support • Pressures on staff (resources to deal with UASC) Reputational	Director of Children & Family Services	• Development of a specialist UASC team - recruitment of manager and staff to specialist UASC team has taken place; ongoing development of specialist skills, knowledge and competencies within team • Department is part of a regional group that is looking at processes / approaches / potential	4	4	**16**	Treat	• supporting bid for regional foster carer recruitment drive	4	3	**12**	Assistant Director – Children's Social Care 2018/19	

		long term funding in relation to its housing and care duties.		• Negative publicity due to department being unable to meet its statutory duties with regards to UASC • Threat of Judicial Review and Appeals if not meeting statutory duties with regards to UASC Financial • Significant cost of providing emergency and additional support for UASC with complex needs • National government funding unlikely to meet needs of UASC arriving unplanned in County – additional budgetary pressures on department		numbers with regards to UASC										
2. Health & Social Care Integration2																
A &C	2.2	Impact on County Council services and MTFS of the Better Care Together (medium term) transformation plan in Leicester, Leicestershire and Rutland (LLR), could lead to inability to deliver improved outcomes and financial sustainability.	• the partnership may breakdown, the Council may withdraw from the process and levels of demand will continue to increase from partners leading to financial and safety risks.	Service Delivery • STP programme outcomes are not delivered and the programme fails leading to reputational risks, partnership breakdown and financial instability within the health and care economy • STP care pathway changes fail to maintain safe, high quality clinical care • The shift of care from acute to community settings is not modelled or implemented effectively leading to unforeseen pressure in other parts of the health and care economy Financial • The investment case within the SOC in not fully supported, leading to gaps in the financial plan/assumptions for delivering the programme • The savings from STP are not achieved, leading to gaps in the financial plan/assumptions for delivering the programme. • A notional figure of £5m impact on ASC has been highlighted within the Strategic Outline Case. People • Partners are unable to provide sufficient staffing resource to deliver the programme leading to failure to deliver at the required pace and scale • Lack of LLR integrated	Chief Executive Director- Adults & Communities and Director of Health and Social Integration	• 5 year Strategic Plan has identified five key strands for change, they include the development of : • new models of care focused on prevention, and moderating demand growth, and an integrated urgent care offer. • A reconfiguration of hospital based services, subject to consultation. • Redesigned pathways to deliver improved outcomes for patients and residents. • STP Governance arrangements have been developed which includes a new System Leadership Team (SLT) with membership from the five NHS partner organisations and the three upper tier local authorities. • Refreshed finance and capacity modelling is being undertaken as part of the development of the sustainability and transformation plan.	4	4	16	Treat	• The County Council raised concerns about the current governance and viability of the STP and has determined not to be a signatory to a further draft plan. The NHS has decided not to publish a further plan but to promote partnership activity under the Better Care Together banner. Progress with any sort of medium term local NHS plan is largely dependent on the award of significant capital funding for which a business case is being prepared. • NHS commissioning arrangements are now under review	4	6	16	Director- Adults & Communities & And Director of Health and Social Integration	

A & C	2.2	Impact on County Council services and MTFS of the Better Care Together (medium term) transformation plan in Leicester, Leicestershire and Rutland (LLR), could lead to inability to deliver improved outcomes and financial sustainability.	• Transferring patients early from UHL to ICRS 2 community services	workforce plans Reputational • The communication and engagement plan for BCT is ineffective leading to lack of public support or opposition to the plans • Initially this will increase the number of service users requiring assessment and services and potentially increase in demand on social care and providers.	Director- Adults & Communities & Assistant Director – Strategy & Commissioning	• Working closely with health to identify the potential increase in demand, impact on social care and how we can mitigate for this. • Development of new models of care including integrated locality teams and Home First services will identify any cost pressures	4	4	16	Treat	• Risk regarding setting and delivering pooled budgets between Clinical Commissioning Groups (CCGs) and LA (including Better Care Fund (BCF)) due to increasing CCG activity levels, financial pressures, and larger savings targets • risk to delivering BCF metrics such as Delayed Transfer of Care and Non elective admissions due to increased demand on the health and care system • potential policy risks linked to new NHS funding requirements (when known) and the delays to the green paper on Adult Social Care.	4	4	16	Director- Adults & Communities & Assistant Director – Strategy & Commissioning Adults and Communities Ongoing	
All	2.3	LCC and partners do not have the capacity to meet expected increase in demand caused by the Welfare Reform Act	• Decreased income • Continual economic climate • High unemployment / Reduction in wage increases • Changes in the benefit system • Introduction of Universal Credit transfers responsibility to vulnerable people • Inadequate information for business cases jeopardising robust decision making • More demand for advice services • No central funding for Local Welfare Provision post April 2015 • PIP migration for new and existing service users including appointee and deputyship in receipt of DLA who were under 65 on 8 April 2013 commences 13/7/15	Service Delivery • Service users losing support/income leading to a rise in number of people needing support from LCC and other local agencies People • Families less able to maintain independence • Difficulty in identifying and implementing effective preventative measures • 'Hard to reach' groups slip through the net Reputation • Cases of hardship / lack of support in media • Potential inspection • Public confused as to which Agency has responsibility Financial • A&C debt increases • Demand led budgets under more pressure • Risk of litigation / judicial review • Increased risk due to the migration from Disability Living Allowance to Personal independence Payments	All Directors	The Welfare Reform risk within the A&C Departmental Risk Register is scored as 6 (Green). Work has progressed on this risk as follows: • A&C have been working with CE (Policy Team) to group and map the risks to see how they fit together and understand how they flow into the strategic risks (reputational, service and financial) for the Council. • This information has been shared with Departmental Risk Champions with a view to: raise awareness of welfare reform risks; Officers within Departments to consider impacts on their individual departments. • Departments have been advised to identify any specific risks (welfare reform related) and retain and monitor via individual departmental risk registers. Any escalation of risks should take the normal route	4	4	16	Treat	The largest reduction in benefits started in 2018/19 and therefore impact has been relatively low and additionally universal credit is being rolled out across the county at the moment. Therefore this risk will be retained at a Corporate level and updates will be provided where relevant.	4	4	16	All Departmental Management Teams During 2018/19	

				locally effective from 13 July 2015 over the following 2 years. The longer term risk has also now increased in relation to the Governments roll-out timetable that most existing benefit claimants will be moved over to Universal Credit during 2016 and 2017. However, it has now been acknowledged that at least 700,000 claimants will not be on Universal Credit by the end of 2017.												
3.	**ICT, Information Security**															
All	3.2	If the Council fails to meet the information security and governance requirements then there may be breach of the statutory obligations	• Increased information sharing and direct access to systems across partnerships • Increased demand for flexible working increases vulnerability of personal, sensitive data taken offsite. • More hosted technology services • Greater emphasis on publication of data and transparency • Greater awareness of information rights by service users • Increased demand to open up access to personal sensitive data and information to support integration of services and development of business intelligence.	Service Delivery • Diminished public trust in ability of Council to provide services • Failure to comply with Public Service Network (PSN) Code of Connection standard would result in the Council being disconnected from PSN services, with possible impact on delivery of some vital services. People • Loss of confidential information compromising service user safety Reputation • Damage to LCC reputation Financial • Financial penalties	Assistant Director – Corporate Services / Head of Information Management & Technology	• New, simplified Information Security and Acceptable Use Policy in place • PSN compliance achieved • Regular penetration testing and enhanced IT health checks in place • Improved guidance about data transfer tools in place • Programme of communications in place to re-inforce data security practices • Mobile device management process in place • New security governance arrangements in place • Increased communication and guidance on cyber security issues • E-learning for all staff in place- made mandatory for all staff. All staff enrolled first of February 2017 • Induction process includes requirements around information security • New firewall in place providing two layers of security protection in line with PSN best practice • E-learning -refresher course is now available online on the new Learning Management System • Intrusion Detection Policy • Learning Management System provides improved monitoring of e-learning completion. • COMMS Plan in place to raise awareness with staff	4	4	**16**	Treat	• Develop a process for ensuring refresher training is completed to maintain compliance rates • Work progressing to move towards compliance with the new EU General Data Protection Regulation (new data protection act)	4	3	**12**	Assistant Director - Corporate Services During 2018/19	
All	3.5	If the Council fails to maintain robust records management processes to effectively manage	• Lack of a co-ordinated approach in place to index, review and manage historical case files (paper and electronic) with	Service Delivery • Service delivery adversely affected by out of date data People • Personal information held	All Directors	• Information Governance Board. Monthly monitoring of GDPR compliance work plan ad regular review of risks. • Completion of ICO 2017 audit action plan	5	3	**15**	Treat	• Ongoing work plan towards GDPR compliance • Plans in place to tackle physical file management issues • Identification of additional resources required • Ongoing work plan towards	5	2	10	Director	

		information under its custodianship, personal data may not be processed in compliance with the Data Protection Act 1998 resulting in regulatory action and/or reputational damage	regard to retention or disposal decisions • Retention periods could be exceeded and therefore personal and sensitive data held longer than necessary • Retention schedules not developed or compiled with • Indexing training not in place or provided	longer than required Reputation • Potential adverse media attention and public lack of confidence • Subject access requests may not be compiled with Financial • Potential financial penalties • Insurance implications Legal • Non – compliance with IICSA Inquiry. • Destruction of records could lead to a Criminal Offence • Non-compliance with ICO and Data Protection Act - Principle 5		Note : Legal services view is that fines for not retaining data when it should be retained for example in litigation or ICSA would be greater than if data is kept securely for longer than is legally required . However records should not be held for an indefinite period of time**.**					GDPR compliance				(Corporate Resources) and Director of Law and Governance 2018/19	
CR	3.6	If the replacement ERP system is not implemented successfully the organisation will not reap the benefits and the organisations finance and HR activity could be negatively Impacted.	• Lack of an agreed project plan to procure replacement system • Users are not engaged through focus groups or workshops • Monitoring arrangements not in place to identify early any emerging issues • Governance arrangements not in place between partners	Service Delivery • Unable to deliver critical business services and other projects delayed. Financial • Implement cost increase. Reputation • Adverse publicity due to negative impact on supplier, customers and staff.	Director of Corporate Resources	• Contract agreed for new system (Oracle Fusion) experienced implementation partner procured and Programme Director appointed. • New governance structure for implementation phase in place	5	4	**20**	Treat	• Dedicated Team Manager and reporting Lead being recruited • Early commencement of data cleansing to reduce the potential for errors. • Detailed assessment of system functionality with requirements being undertaken through 6 weeks of advisory workshop	5	2	10	Assistant Director – Strategic Finance Corporate Resources During 2018/19	
C&FS	3.7	If the quality of data in C&FS Information Management System is too low to satisfy statutory requirements (e.g. data returns) this will impact upon service delivery	• Data quality processes not defined, communicated • Users not trained • Report are not routinely produced and queries are not investigated and resolved	Service Delivery • Inability to effectively plan at a strategic and operational level (including individual plans for children, young people and families) • Potential for poor inspection outcomes People • Inability to support vulnerable children, young people and families in Leicestershire • Poor outcomes for children, young people and families in Leicestershire Financial • Inability to effectively make financial plans and therefore meet savings targets (i.e. MTFS) and plan sustainable service delivery in the future Reputational • Potential for poor inspection outcomes	Director of C&FS	• Self-service of improved set of data quality reports (tied to MOSAIC) • Improved training, development and guidance for staff • Data Quality processes established and in place (such as weekly runs of Annex A (Ofsted SIF Inspection Framework) data files; Statutory data validation (as part of Statutory returns process); and, data matching (NHS Number and Education Database) • Ongoing training and development (Frameworki and Capita) - resource for this post currently (Dec 16) in discussion with L&D • Additional capacity (consultant) involved in improving practice guidance for using IMS. • Mosaic reporting group established and working	4	4	**16**	Treat	• Self-service of improved set of data quality reports ((tied to MOSAIC) • Improved training, development and guidance for staff • Monthly data quality improvements meetings with associated task groups established • New Business Support structure will provide capacity within IM&T to support and guide services in data quality and the structure has also provided capacity within services to improve data quality	3	4	12	Head of Business Services Children & Family Services During 2018/19	

				• Negative publicity for the Council and department		through reporting requirements. • L&D resource being moved to CFS for closer working with IM&TT.										
4. Commissioning & Procurement																
All	4.1	If the Authority does not obtain the required value and level of performance from its providers and suppliers then the cost of services will increase and service delivery will be impacted	• Lack of robust contract management /performance measures for in-house services • Robustness of supply chain • Reduced funding and resources • Staff turnover leading to lack of continuity in contract management • Insufficient investment in contract management skills and competencies	Service Delivery • Business disruption due to cost and time to re-tender the contract • Standards/quality not met resulting in reduced customer satisfaction • Relationships with providers/suppliers deteriorate People • Additional workload where disputes arise Reputation • Customer complaints Financial • VfM/ Efficiencies not achieved • Increased costs as LCC has to pick up the service again • Unfunded financial exposure	Director – Corporate Resources & Transformation / Assistant Director – Corporate Services	• Departments currently undertake management and monitoring of contracts • Commissioning & Procurement Strategy in place with agreed framework for measuring progress against key principles to identify issues at earliest opportunity • New governance arrangements in place • Contract Management Framework available in the Toolkit • Recruitment completed for Commissioning Support Unit to strengthen contract management arrangements • LLR and LCC Commissioning Programmes completed	5	3	**15**	Treat	• Implement improved KPIs for all contracts • Implement training for all contract managers • Complete key supplier cost reduction programme and achieve savings target for 2018/19	4	3	**12**	Head of Commissioning and Procurement Support Corporate Resources During 2018/19	
E&T	4.2	If Arriva is successful in its concessionary travel appeal then reimbursement costs for the total scheme could increase significantly		• Potential for significant additional expenditure or contraction of the commercial bus service network	Director E&T	• Current mitigating actions include an appeal response to the DfT on 29/1/18 (use of external consultant to support). • Submission of evidence has refuted all claims for additional costs by Arriva save for reclassification of service types. The timescale for appeal determination is possibly up to 18 months • Using expert consultant resource to supplement local submission of data to the DfT to dispute the appeal detail provided by Arriva	5	3	**15**	Treat	• Defend and submit appeal detail to DfT • There is a further risk that if the approach adopted by Arriva is found to be appropriate then the county is likely to be exposed to a further financial risk from other operators.	5	2	**10**	Assistant Director - Highways Environment & Transport 2018/19	
5. Safeguarding																
CFS	5.1	Historic: If as a result of a concerted effort to explore historical abuse by the Independent Inquiry into	Historical Concerted effort to explore historical exploitation and abuse in response to the Independent Inquiry and	Service Delivery • Need to review and redesign current service in the light of lessons learnt Reputation	Reputation Chief Executive	Historical • Established Independent Inquiry Strategic Governance Group to oversee planned investigation and information gathering	5	5	**25**	Treat	Historical • Establish close working relationships with other authorities	4	5	**20**	Reputation Chief Executive Reputation & Service Delivery	

		Child Sexual Abuse (IICSA) and Police Operations, then evidence of previously unknown serious historical issues of child sexual exploitation (CSE) or abuse is identified.	Police Operations	• Potential adverse media and political risk Financial • Increased cost of settling claims and service redesign	Reputation & Service Delivery Director - Children & Family Services Legal Director of Law & Governance Financial Director - Corporate Resources	• Pro-active engagement with the Independent Inquiry • Refreshed Communication Strategy and Implementation Plan • Appointed Legal Support and Counsel • Member briefings held (x2) • Partnership governance is in place • CSE Executive Role and Terms of Reference revised and agreed					• Further revision of Comms Strategy • Review of current internal governance arrangements • Continue to work closely with the IICSA team • Set funding aside to meet the costs of the inquiry • Review activity in the light of the delay to the Janner investigation public hearings • Carefully plan activity and monitor progress and expenditure				Director - Children & Family Services Legal Director of Law & Governance Financial Director - Corporate Resources Ongoing	
6.	**Brexit**															
All	6.1	Uncertainty and significant knock on consequences on public services (including potential legal, regulatory, economic and social implications), and the local economy as a result of the United Kingdom leaving the European Union	Uncertainty and impact on local government	Service Delivery • Uncertainty around ESIF and other funding streams • Uncertainty around any potential changes to government policy following the formation of a new government. Lack of steer for local policy making. • Impact on the Economy due to uncertainty during the negotiation period. • Impact on staffing in commissioning contracts involving high numbers of non UK citizenship e.g. home care and cleaning. Legal • Changes in UK/EU legislation e.g. procurement, employment Financial • Uncertainty around EU funding, inward investment • Further austerity measures and demand pressures People Impact on incumbent workforce who have non UK citizenship e.g. agency workers	CE/Directors	• Working with partners to maximise benefit from existing European bids and programmes • Review of significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment; • Assessment of impact of the risk assessment on the assumptions used to generate the medium term financial plan • Access a diverse range of external funding opportunities • Reflection of Brexit impact in revised Enabling Growth Plan • Gathering intelligence and modelling future scenarios relating to Brexit impacts to inform future policy. • The LLEP's Business Board has agreed to monitor Brexit impacts (both negative and positive) on the economy and the Economic Growth Team will undertake this work for the LEP	4	4	**16**	Treat	• Continue to monitor post Brexit negotiations and national policy direction and maintain an overview of the developing situation. • Leicester and Leicestershire Business survey is being commissioned to review business confidence, investment plans and barriers to growth. • A report has been produced on initial scoping work. The outcome of government negotiations will determine whether a 'deal' is agreed. If there is a 'no deal' Brexit the transition period will not apply and consequences will begin from April 19, not January 21.	4	4	**16**	Assistant Chief Executive Chief Executives	
7.	**People**															

CR	7.1	If sickness absence is not effectively managed then staff costs, service delivery and staff wellbeing will be impacted	• Policy and Procedures are not in place • Lack of training for managers • Monitoring and reporting systems are inadequate or not in place • Support mechanisms not in place	Service delivery • Increased pressure on services to provide same/more with less • Increased requirement for temporary/casual staff. People • Negative impact on staff if they perceive absences are not managed properly • Loss of productivity Reputation • Avoidable costs to LCC in difficult times Financial • Increased staff costs	Director of Corporate Resources	• Revised Policy in place. • HR advice being provided to Managers. • Training for Managers in place. • Comprehensive monitoring and reporting (Manager; Depts, DMT; CMT) to identify issues/solutions. • Support from Mental Health First Aiders being utilised.	4	4	**16**	Treat	• Targeted work with managers and services (Intensive Support Project). • Develop, agree and implement Increment Policy (on hold) • Implementation of absence management triage project - impact reporting at 3; 6 & 12 mths before full roll out. Pilot has ended – not taken forward • Revise Absence Management Policy – consultations underway with Trade Unions • Revise Terms and Conditions	4	3	**12**	Assistant Director, Corporate Services (Corporate Resources) During 2018/19	
All	7.2	If Depts. are unable to recruit and retain skilled staff promptly (social workers and team managers) then some services will be over-reliant on the use of agency staff resulting in budget overspends and poor service delivery	• No Recruitment or Retention Strategy	Service Delivery • Children and young people potentially left at risk of harm People • Additional training in Signs of Safety for agency workers • Additional time required for permanent staff to support agency staff • Recruitment and retention of staff Reputational • The Local Authority is not seen to support staff through impact on recruitment and retention Financial • Additional budget costs leading to overspend • Required savings targets not met	Director of Children & Family Services	• Monthly reporting on agency staff and associated costs • Working with Corporate communications on a new Social Worker recruitment campaign • Monthly reporting on caseloads and supervision policy • Completed a growth bid and identified establishment for additional staff • In some areas market premia payments are being made	5	5	**25**	Treat	• Development of a recruitment and retention strategy • Continue actively recruiting to permanent posts • Continue supporting Social Workers, e.g. Newly Qualified Social Workers, through recruitment and retention strategy • Working with Agency staff to support them to become permanent members of staff • In house training programme being developed in Adults and Communities.	5	3	**15**	Assistant Directors Children's Social Care and Adults and Communities During 2018/19	99
A&C	7.3	If the department does not have a sustainable external workforce to work with it may be unable to meet its statutory responsibilities.	• Recruitment and retention planning not in place • No communication with homecare providers	• The Department will not be able to meet its statutory responsibilities	Director Adults and Communities	• A small external workforce team has been appointed for a two-year period, ending spring 2020, to work with the authority's providers to target more effective recruitment and retention through a range of interventions.	4	4	**16**	Treat	• Revised workforce development plan is being drafted. • New governance arrangements being considered	3	3	**9**	Assistant Director Adults and Communities During 2018/19	
8. Business Continuity															
CR	8.1	If suppliers of critical services do not have robust business continuity plans in place, the Council maybe	• No BC framework in place i.e. definition of a critical supplier or identification of critical services. • Failure to develop a BC Plans • Guidance or	Service Delivery • Delays in services may place vulnerable people at risk • Re-work /re-planning due to clash of priorities People • Council unable to support people in receipt of service to	Assistant Chief Executive Chief Executive's Department	• Contract Management and compliance monitoring in place. • Improved Frameworks for commissioning services detailing BC requirements.	5	3	**15**	Treat	• Complete an assurance exercise to ensure all critical contracts have BCP in place. • Not all contracts are procured through the Corporate Commissioning Unit (CCU). A detailed report on current	5	3	**15**	Head of Policy and Strategy (CE) Resilience & Business Continuity Manager	

		be unable to deliver services.	communication not in place • No monitoring of supplier or business continuity compliance for critical services • Contract specifications are not clear as to BC arrangements	adverse outcomes for individuals Reputation • Damage from negative publicity and loss of trust with the public Financial • Supplier BC failure results in additional costs to source alternative providers							practices and concerns to be submitted to Chief Officers seeking guidance on further action				During 2018/19	
9. Environment																
E&T	9.1	If the ash dieback disease causes shedding branches or falling trees then there is a possible risk to life and disruption to the transport network	• Lack of preparation to deal with the impact of Chalara i.e. Awareness, Planning, Action and Recovery	• Potential for serious physical harm/damage to property • Potential for insurance claims against council • Ecological/landscape impacts • Reputational damage • Financial – additional resources to undertake tree inspections, replanting strategy, availability of qualified tree surgeon to undertake work	Director of Environment and Transport	• Cross departmental project team set up to devise approach to council's response to Ash Dieback including associated costs for implementation. • Assessment of current extent and progress of disease in Leicestershire. • Ash Dieback action plan produced and reported to Cabinet in July 2018.	5	3	**15**	Treat	• Implementation of the cross departmental ash dieback action plan (to timescales included in the plan) is now underway.	5	2	**10**	Assistant Director Highways & Transport Environment & Transport During 2018/19	
E&T	9.2	If there was a major incident which results in unplanned site closure (e.g. fire) then the Council may be unable to hold or dispose of waste.	• Lack of preparation to deal with the impact.	• Waste not being collected • Negative publicity • Increased costs	Director of Environment and Transport	• Management of landfill contracts – contract meetings, renewals, etc • Business Continuity Plan in place • CSWDC arrangements in place • Delivered programme of improvements at Loughborough WTS	5	3	**15**	Treat	• Identify potential site(s) for new Waste Transfer Station (WTS) and commence work on planning permission. • Conclude future arrangements (CSWDC) • Review of BC plan to reflect any service changes	4	2	**8**	Assistant Director Environment & Waste During 2018/19	
	10.1 Partnerships															
C&FS	10.1	If the Local Authority and partners do not succeed in developing an inclusive culture across all schools, education providers and partner agencies (including the Parent Carer Forum), then it will be difficult		Service Delivery • Increased time spent addressing complaints and attending SEND Tribunals People • Children, young people and families perceive that the quality of provision within Leicestershire is not appropriate to meet leave. Reputational • Negative publicity for the local authority (possible media coverage) Financial • Increased resource needed to deal with complaints and	Director of Children & Family Services	• Appropriate procedures in place to deal with complaints • High Needs Development Plan includes range of actions and activities to develop the right conditions for inclusion • Communication Strategy to promote positive messages, including, for example, video of new provisions and service user views	4	4	**16**	Treat	• Continued implementation of High Needs Delivery Plan, including Comms Strategy and development of the Local Offer • Oversight of HNDP by the High Needs Board, reporting through to SEND Board to ensure partnership buy-in • Continued dialogue with parent Carer Forum and development of co-ordinated activity to win 'hearts and minds'	3	2	**6**	Head of Service SEND & CDS Children and Family Services During 2018/19	

		to secure parental confidence in the ability of the 'whole system' to meet the needs of the large majority of children with SEND in a mainstream school context		tribunals												

Department

A&C = **Adults & Communities**
E&T = **Environment and Transport**
CE = **Chief Executives**
PH = **Public Health**
C&FS = **Children and Families Services**
CR = **Corporate Resources**
All = **Consolidated risk**

Risk Removed from the Corporate Risk Register

Dept.	CRR Risk No	Risk Description	Current Risk Score	Reason	Date of Removal
C&FS	1.2	Local Authority legal requirements to meet deficit budgets from maintained schools becoming sponsored academy, and pressure from Sponsors to meet repair costs.	16	Agreed by Corporate Governance Committee	17 November 2015
E&T	5.2	LLEP-insufficient funding for transport schemes to deliver economic growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council	20	The risk has been downgraded from red to amber as the likelihood has reduced from 4 to 2 following the confirmation of future local growth funding in the Autumn 2015 Statement (further details to follow in the new year). As the risk score has been revised from 20 to10, this risk has been removed from the Corporate Risk Register but it will continue to be monitored through the Environment & Transportation Departmental Risk Register.	19 February 2016
E &T	4,1	Impact of an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply which could have an adverse impact on the functioning of the transport network.	15	The risk has been downgraded from red to amber as the likelihood has been reduced from 5 to 4 as a result of Districts having moved through the consultation phases and firmer programmes are now in place for publishing Core Strategies. LCC is also starting discussions with Districts on possible cumulative impact studies. As the risk score has been revised from 15 to 12, this risk has been removed from the Corporate Risk Register but it will continue to be monitored through the Environment & Transportation Departmental Risk Register.	13 May 2016
A&C	2.1	Care Act 2014 Funding Risk for 2016/17 and beyond due to Care Act Phase 2 implementation delayed by Ministers until April 2020	16	The current risk score has been reduced from 16 to 12 as a result of ongoing implementation of the Adult Social Care restructure, which has enabled the department to ensure the risk of unfunded posts, is significantly reduced. The Commissioning and Quality Action Plan has been completed and the Care Pathway and Business Support action plans are in progress. The risk will continue to be monitored as part of the A&C Departmental Risk Register	26 May 2017
C&FS	4.1	Supporting Leicestershire Families (SLF) - If LCC is not able to provide adequate outcomes data to partners then partner contributions to the pooled budget may not continue.	15	The risk has been reviewed (Assistant Director – Education & Early Help) and the current risk score re-evaluated and reduced so that this is now being managed within the Supporting Leicestershire Families Delivery Plan. The risk has been reduced as all partners have agreed continued funding and further work has been undertaken on outcomes data.	26 May 2017
C&FS	1.7	If suitable placements are unavailable for unaccompanied asylum seeking children (UASC) who arrive in the County, either planned or unplanned, as a result of : • potential mandatory requirement to engage in the National Transfer Scheme; • resettlement of UASC from Calais in line with the requirements of Dublin III agreement and the Dubs amendment;	20	The UASC team is now established and the numbers of UASC are not as high as initially forecast. The current risk score as been reduced from 20 to 12. The risk will continue to be monitored as part of the Children & Families Services Departmental Risk Register	22 September 2017

		• continuing response to spontaneous cases of UASC arriving in the County then there will be significant pressures on meeting the department's statutory duties to UASC as well as financial pressures in meeting their complex needs.			
CR	3.1	If there is an outage ICT systems may not be able to be restored quickly and effectively which could have a major impact on service delivery	15	The further mitigating actions have been completed and the current risk score as been reduced from 15 to 12. The risk will continue to be monitored as part of the Corporate Resources Departmental Service Risk Register.	22 September 2017
CR	3.4	If there is insufficient capacity to provide information technology solutions then service improvements and savings will not be achieved.	16	The current risk score has been reduced from 16 to 12 as a result of ongoing implementation of the New Target Operating Model and improved resource planning processes. The risk will continue to be monitored as part of the Corporate Resources Departmental Register	22 September 2017
CFS	5.1	Safeguarding- Current Risk element If as a result of a concerted effort by the IICSA and Police Operations there is a significant increase in identified cases, then the Council does not have the capacity to meet the demand on the CSE resources	25	Note that whilst the 'Historical' risk and score is to be retained unchanged in the CRR, the IICSA[1] Strategy and Governance Group proposed (6 December 2017) that the 'Current' risk (*If as a result of a concerted effort by the IICSA and Police Operations there is a significant increase in identified cases, then the Council does not have the capacity to meet the demand on the CSE resources*) should be removed from the CRR, but nevertheless retained (and reworded) in the C&FS Departmental Risk Register. This suggestion is based on the limited connection between historical allegations and the current CSE service which is now established within the departmental budget in terms of costs and funding. [1] The Independent Inquiry into Child Sexual Abuse	29 January 2018
CE	2.5	Health & Social Care Integration (BCF) If Health and Care partners fail to deliver the local integration programme in accordance with national Better Care Fund (BCF) policy, within the financial envelope of the BCF pooled budget and by meeting national metrics, then elements of BCF funds could be withheld.	16	The level of financial risk was reduced after a letter was received from the Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government) and Department of Health and Social Care (formerly – Department of Health) Secretaries of State on 6th December 2017 to confirm that due to the improved the DTOC (Delayed Transfer of Care) performance that there will be no impact on the Improved Better Care Fund – (IBCF) allocation for 2018/19. The risk will be reviewed following the publication of the National BCF Operational Guidance for 2018/19 which is due to be published soon. The current risk score has been re-evaluated and reduced (from 16 to 9)	23 April 2018
All	3.3	ICT, Information Security (Business Intelligence) If there is a failure to provide business intelligence required to support transformation, inform commissioning, and strategic planning and to complete statutory returns then policy will not be evidence based.	15	The current risk score has been reduced from 15 to 12 as good progress has been made across a number of areas: • Data and Business Intelligence Strategy and Implementation Plan in place. • Ongoing support for front line managers in managing data and provision of Tableau data quality reports to identify weaker areas. Tableau self-service dashboards rolled out across many areas of the council. BI Development team established and Business Partners in post to manage relationships with each Department and with IT. Ongoing work to improve data quality issues. Many performance dashboards have an accompanying data quality dashboard. The risk will continue to be managed within the CE Departmental Risk Register.	23 April 2018
E&T	9.1	Health & Safety (SEN risk assessments) If the Service is unable to recruit appropriate skills / resources to implement Audit recommendations then service users' safety is at risk as well as financial and reputation consequences.	15	All outstanding SEN transport risk assessments were completed by the end of January 2018. Processes have been embedded to ensure assessments are revisited with increased staff resource focussing on planned review updates. The Current Risk Score has been reduced to 5 and the risk will be managed at Departmental level.	23 April 2018
E&T	10.1	Winter Maintenance The absence of a depot in the North East of the County may impact on the delivery and the cost of the Winter Maintenance programme for 2019/2020	16	The Department has reduced the impact and likelihood scores leading to a reduction in the current risk score from16 to12. Property Services are progressing with completion of planning consent for Sysonby farm by March 2019. The Department are working on a build programme to deliver facility before end of September 2019. Removal of the risk from the CRR at this point was queried because of the length of time to obtain planning consent but assurances were received from the Director that the risk will be managed within the Environment and Transport Departmental Risk Register	25 July 2018
A&C	2.4	Domiciliary Care (HTLAH) If the domiciliary care market does not have the capacity to provide high quality services to local residents within the county, then people may not receive services to meet their needs.	16	The HTLAH project is now closed. This risk was closed and formulated into a market sustainability risk for the department. The current risk score for social care market is 12 and the risk is being managed within the A&C Departmental Risk Register.	25 July 2018

Appendix B

Leicestershire County Council

Risk Management

POLICY STATEMENT AND STRATEGY

Document Details:

Owner/Lead Officer	: Head of Assurance Services, Corporate Resources Department
Created	: 3 January 2019
Review Arrangements	: Annually
Next Review Date	: Spring 2019
Ratified by	: CMT (Annually)

Risk Management Policy Statement

1. Local government's purpose and relationships with its local stakeholders and partners, the UK Government and Europe, continue to be redefined. The uncertainty of the impact of Brexit, continued austerity, future economic uncertainty, escalating costs of social care and pension liabilities, increased expectations alongside concerns about councils having the capacity and capability to respond, are all creating a lasting change.

2. Local authorities have no alternative but to understand and manage risk. Those authorities which stimulate effective and efficient risk management and strive to create an environment of 'no surprises' should be in a stronger position to deliver objectives, sustain services, achieve better value for money, and promote good corporate governance both within the organisation itself and in tandem with stakeholders and partners. Successful risk management should balance a level of control to provide sufficient protection from harm, without stifling development and recognising and grasping opportunity, where calculated risk is accepted and even applauded. New layers of complexity and risk arise, but they open up new opportunities for innovation, collaboration, transformation, community engagement, and new approaches to service delivery. These include prevention and integration strategies, collaborating with communities and other partners, embracing digital technology, and investment in infrastructure to remain sustainable. Authorities are venturing more into commercial property and other income generating activities for the future prosperity of communities. Effective risk management is essential to assist decisions on whether the benefits of taking actions outweigh the risks.

3. Leicestershire County Council remains one of the best performing councils in the country despite its very low funding position. The Council's Strategic Plan 2018-2022 (the Plan) outlines the long-term vision for the organisation and the people and place of Leicestershire. The Plan is underpinned by other key policies and strategies including the Council's Medium Term Financial Strategy and Transformation Programme. The Plan recognises that the future remains uncertain, but brings with it challenges and exciting opportunities for all. The outcomes are aspirational and seek to outline the end results wanted for the people of Leicestershire. Since the Plan was implemented, the Leader of the Council has set out proposals for a new council for Leicestershire.

4. Whilst ensuring that the most vulnerable are protected, in order to continue its own fundamental transformation, the Council will embrace an attitude to risk allowing a culture of creativity and innovation, in which in all areas of the business, risks are identified, understood and proactively managed, rather than avoided. Risk management is at the heart of the Council and its key partners. The Council will not shy away from risk but instead seek to proactively manage it. This will allow it to not only meet the needs of the community today, but also be prepared for future challenges.

5. This Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of its risk. In implementing the framework, the Council provides assurance to its stakeholders, partners and customers that a consistent identification, assessment, evaluation and management of risks and opportunities of those current, developing and as yet unplanned Council activities, plays a key role in the delivery and achievement of the vision contained in its Strategic Plan and all of its other plans, strategies and programmes

6. This Policy has the full support of Members and Chief Officers, who are committed to embedding risk management throughout the Council and is reliant upon the co-operation and commitment of all management and employees to ensure that resources are utilised effectively.

Signed: Title: Chief Executive Date: 3 January 2019

Appendix C - Leicestershire County Council - Fraud Risk Assessment - 2019

#	Area	Impact	Likelihood	Risk Score
	COMMON FRAUD AREAS (EXCLUDING NFI)			
1	Members' Allowances / Expenses	4	1	4
2	Council Tax Discount / Local Council Tax Support	2	2	4
3	Business Rate Fraud	2	2	4
4	Procurement - From initial need development through to contract award	3	3	9
5	Procurement - Contract Management Fraud - Supplier manipulating its contract with the council for financial gain- i.e. duplicate payments, inaccurate payments, claims for additional work etc.	3	3	9
6	Procurement Cards	1	4	4
7	Economic and Voluntary Sector Support Fraud / Grant Fraud	2	1	2
8	Employee Fraud - Allowances & Expenses	3	3	9
9	Employee Fraud - Recruitment	2	2	4
10	Employee Fraud - Ghost Employees	2	1	2
11	Creditor Fraud - False Payments	2	2	4
12	Mandate Fraud	3	2	6
13	Schools - LA Maintained	3	3	9
14	Residential and Non-Residential Adult Social Care - Deprivation of Income	3	5	15
15	Adult Social Care - Abuse of Service Users' Funds, Property etc.	3	3	9
16	Adult Social Care - Personal Budgets	2	5	10
	NATIONAL FRAUD INITIATIVE (NFI) RELATED FRAUD AREAS			
17	Pension Fraud - died but still being paid - *NFI Report 52*	2	1	2
18	Pension Fraud - pensioner reemployed - *NFI Reports 54, 55, 78*	1	1	1
19	Employee Fraud - abuse / misuse of time and resources - *NFI Reports 65, 66, 68*	1	3	3
20	Employee Fraud - no entitlement to work in the UK - *NFI Reports 70, 73*	2	3	6
21	Employee / Procurement Fraud - improper employee / supplier relationship - *NFI Reports 80, 81*	2	3	6
22	Blue Badge Misuse - *NFI Reports 170, 172*	2	3	6
23	Concessionary Travel *NFI Report 172*	1	3	3
24	Residential Care - *continuing to pay care home fees etc. after a SU dies - NFI Report 173*	1	2	2
25	Insurance Claimants - *NFI Report 180*	1	5	5
26	Creditors - duplicate payments - *NFI Reports 700-703, 707-713*	3	2	6
	FRAUD - OTHER - CASH & ASSETS			
27	Foodcourt - Cash & Stock	1	2	2
28	Libraries - Cash & Assets	1	3	3
29	Museums - Cash & Assets	2	3	6
30	Registration Service - Cash & Assets (incl. risk of identy theft)	3	1	3
31	Registration Service - Public Protection & Counter Fraud Issues, e.g. misinformation to obtain welfare/benefits, identity theft, sham marriages	3	1	3
32	Beaumanor Hall - Cash and Stock	1	2	2
33	Country Parks - Cash and Assets	1	1	1
34	Adult Learning Service - Cash	2	4	8
35	Leicestershire Highways - MOTs - Cash, fraudulent use of certificates etc.	1	2	2
36	Leicestershire Highways - Stores, Plant etc.	3	2	6
37	Central Print Service - Cash & Assets	1	1	1
38	Integrated Passenger Transport Unit - Misuse of Assets, e.g. vehicles	1	4	4
39	Misappropriation of Surplus Assets, e.g. furniture, ICT	1	2	2
40	Imprest Accounts / IRSs	1	3	3
41	Money Laundering Activity	2	2	4
42	Public Health – activity level based payments	3	1	3
	E-FRAUD			
43	Cyber Fraud	4	2	8
	BRIBERY & CORRUPTION			
44	From a prospective contractor to influence the outcome of a procurement exercise	4	2	8
45	From a member of the public in return for priority over fostering and adoption approvals	4	1	4
46	From a businesses or ‘rogue traders’ in return for not investigating trading standards complaints or not investigating offences/not instituting legal proceedings	3	1	3
47	From a parent in return for the allocation of a school place which they are otherwise not entitled to	3	1	3
48	Bribing an external assessment agency (e.g. OfSTED, CQC) to issue a positive report when this otherwise wouldn't be the case	4	1	4
49	Bribery with regard to matters concerning investments	4	1	4
50	Bribing an elected member, e.g. development & planning decisions	4	1	4

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Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE - 18 JANUARY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

INTERNAL AUDIT SERVICE PROGRESS REPORT

Purpose of Report

1. The purpose of this report is to: -

    a. provide a summary of work conducted during the period 13 October 2018 to 4 January 2019;
    b. report on progress with implementing high importance recommendations;
    c. provide a brief update on the Internal Audit Service's resources

Background

2. Under the County Council's Constitution, the Committee is required to monitor the adequacy and effectiveness of the internal audit function, which is provided by Leicestershire County Council's Internal Audit Service (LCCIAS). To do this, the Committee receives periodic reports on progress against the annual Internal Audit Plan.

3. Most planned audits undertaken are of an 'assurance' type, which requires undertaking an objective examination of evidence to reach an independent opinion on whether risk is being mitigated. Other planned audits are of a 'consulting' type, which are primarily advisory and guidance to management. These add value, for example, by commenting on the effectiveness of controls designed before implementing a new system. Also, unplanned 'investigation' type audits may be undertaken. Internal audit staff also undertake other control environment related work.

Summary of progress against the Internal Audit Plan 2018-19

4. This report provides in **Appendix 1** a summary of work undertaken between 13 October 2018 and 4 January 2019.

5. For assurance audits (page 1 of Appendix 1) an 'opinion' is given, i.e. what level of assurance can be given that material risks are being managed. There are usually four levels: full; substantial; partial; and little. 'Partial' ratings are normally given when the auditor has reported at least one high importance recommendation, which would be reported to this Committee and a follow up

audit would ensue to confirm action had been implemented. Occasionally, the auditor might report a number of recommendations that individually are not graded high importance but collectively would require a targeted follow up to ensure improvements have been made.

6. LCCIAS also undertakes consulting/advisory type audits (pages 2 and 3). Where these incur a reasonable amount of resource, they are also included. Examples include advice, commentary on management's intended control design and framework and potential implications of changes to systems, processes and policies. Once more, a number of information security risk assessments were reviewed and comments provided back to the Information Governance Service.

7. Page 4 informs of: -

    a. Where LCCIAS either undertakes or assists with unplanned investigations. These are not reported to the Committee until the final outcome is known. This quarter, another investigation was started and two small scale investigations were concluded.
    b. 'Other control environment/assurance work', which gives a flavour of where internal auditors are utilised to challenge and improve governance, risk management and internal control processes which ultimately strengthens the overall control environment;
    c. Where LCCIAS auditors are utilised to undertake work assisting other functions. An Audit Manager assisted in interviews for senior finance staff.

8. In order to remain effective, LCCIAS staff regularly attend training and development events and both midlands and national internal audit network events. A summary of events attended during the last quarter is shown on page 5 of Appendix 1.

<u>Progress with implementing high importance recommendations</u>

9. The Committee is also tasked with monitoring the implementation of high importance recommendations. **Appendix 2** details high importance (HI) recommendations and provides a short summary of the issues surrounding these. The relevant manager's agreement (or otherwise) to implementing the recommendation and implementation timescales is shown. Recommendations that have not been reported to the Committee before or where LCCIAS has identified that some update has occurred to a previously reported recommendation are shown in **bold font.** Entries remain on the list until the auditor has confirmed (by specific re-testing) that action has been implemented.

10. To summarise movements within Appendix 2: -

    a. **New –** none.
    b. **Extend** - A&C - Area office safes – progress made but further unannounced internal audit checks will be undertaken.
    c. **Closed** – none.

<u>Internal Audit Service Resources</u>

11. At the meeting of the Corporate Governance Committee on 24 October, the HoIAS reported on vacancies within the Service as well as two unplanned long term (medical treatment) absences, both of which were temporarily effecting the Services timely completion of audits. The Committee requested a further update on this point. In respect of the two absences, one member of staff has now been able to return to work. However, the other case is far more complex but this is being managed in the normal way. The current position within the Section has improved since the update to the Committee, as the finance placement appointed in the summer is now actively undertaking audits with less supervision being required. Additionally a CIPFA trainee started in early December and has quickly grasped the expectations of the role. Also, there is potential to utilise a member of staff currently operating in another Council function who is trained in the use of the data extraction and analysis tool (IDEA) used by LCCIAS which is being considered. If successful, this solution would provide a valuable resource, and potentially guidance/training to new users from the internal audit function.

12. Pending completion of a review of the staffing structure to align to current (and future) demand, the HoIAS continues to explore different mechanisms to replenish resources. Job descriptions and person specifications have been lodged with the Council's appointed agency resource provider, but to date interest has been disappointing. Action to make a permanent appointment is being taken and this will likely generate more interest. In the immediate term, an exercise is underway to map remaining audits in order to approach (and buy in from) accredited suppliers listed on internal audit frameworks necessary officers with appropriate expertise to complete this work.

13. Despite these recent staffing issues, work within the Service is still progressing although subject to decisions to prioritise or postpone some audits. This will improve as the measures proposed to appoint staff, either temporarily or permanently, over the coming months come to fruition. The position continues to be monitored and regular updates are provided to the Director of Corporate Resources. A further update will also be provided to this Committee, as appropriate.

<u>Resource implications</u>

14. There are no resource implications arising directly from this report. Any costs incurred from purchasing agency staff and the recruitment of any new permanent officers will be met from existing staffing budgets not currently being used.

Equality and Human Rights Implications

15. There are no discernible equal opportunities implications resulting from the audits listed.

Recommendation

16. That the contents of the routine update report be noted

Background Papers

The Constitution of Leicestershire County Council
Report to the Corporate Governance Committee on 25 July 2018 - Internal Audit Plan for 2018-19

Circulation under the Local Issues Alert Procedure

None.

Officer to Contact

Neil Jones, Head of Internal Audit & Assurance Service
Tel: 0116 305 7629 Email: neil.jones@leics.gov.uk

Appendices

Appendix 1	-	Summary of Internal Audit Service work undertaken between 13 October 2018 and 4 January 2019
Appendix 2	-	High Importance Recommendations

Summary of Internal Audit Service Work – 13th October 2018 to 4th January 2019

Appendix 1

Assurance Audits

Department	Entity	Final report (or position at 4/1)	Opinion	HI Rec'n
Children & Family Services	Warren Hills Nursery	23-Oct-18	Substantial	No
Children & Family Services	The Hall School	26-Oct-18	Substantial	No
Children & Family Services	Sketchley Hill Primary School	13-Nov-18	Substantial	No
Children & Family Services	Thistly Meadow Primary School	15-Nov-18	Substantial	No
Children & Family Services	Westfield Junior School	23-Nov-18	Substantial	No
Children & Family Services	Swithland St Leonard's CE Primary School	29-Nov-18	Substantial	No
Children & Family Services	Wigston Menphys Nursery School	28-Nov-18	Substantial	No
Children & Family Services	Cossington CE Primary School	Draft issued	TBC	TBC
Children & Family Services	St Botolphs CE Primary School	6-Dec-18	Substantial	No
Children & Family Services	Desford Community Primary School	14-Dec-18	Substantial	No
Corporate Resources	Leicester-Shire School Music Service	Draft issued	TBC	No
Consolidated Risk	Counter Fraud - Employment of Social Care Professionals	Draft issued	TBC	No
Consolidated Risk	Counter Fraud – Supplier VAT Number Validation	Draft issued	TBC	No

Consulting audits

Department	**Entity**	**Final report (or position at 4/1)**
Consolidated Risk	ISRA – Generic Mailbox	Signed off 20/11/18
Consolidated Risk	ISRA – Liquid-Logic Customer Portal	Signed off 16/10/18
Consolidated Risk	ISRA - Tableau Third Party Access	Signed off 7/12/18
Consolidated Risk	ISRA – School Parking Enforcement Camera	Signed off 10/12/18
Consolidated Risk	ISRA - Thoughtonomy RPA	Complete – still awaiting further direction from Information Governance
Consolidated Risk	ISRA - Office 365	Signed off 12/11/18
Consolidated Risk	ISRA - Public Access WiFi	Signed off 31/10/18
Consolidated Risk	PSN - Attendance at working group and consultancy work provided through this group.	Ongoing
Consolidated Risk	Wide Area Network – control advice	Ongoing
Corporate Resources	Follow up External Audit ISA260 Report 2017/18	Complete
Corporate Resources	Fit for the Future Project – IAS continues to liaise with the Project Team and Nottingham City Council internal auditors. IAS received the Organisational Impact Assessments completed following the first round of workshops. These will be reviewed to determine what impact any process/system changes will have on the Council's control environment.	Ongoing

Corporate Resources	Review of the following Policy and Procedures: • Attendance at the (now disbanded) IT Security Controls Group meetings • Advisory on the replacement of the current penetration test provider • Current issues being identified from the ISRA process, information provided to the Data Protection Officer • Outcome and results of the LGA Cyber Security stocktake and way forward	Ongoing

Investigations concluded

Environment & Transport	Misuse of travel pass by a service users family member	Passed on to issuing LA
Corporate Resources	Suspected ‘false’ invoicing	Unproved but re-training

Other control environment/assurance work

Department	**Entity**	**Final report (or position at 4/1)**
Adults & Communities	Disabled Facilities Grant	Complete
Consolidated Risk	IR35 Project Group – review the project plan and controls being implemented	Ongoing
Consolidated Risk	Counter Fraud – revise fraud risk assessment; arrange for staff communications to coincide with International Fraud Awareness Week; attended Police fraud training and met Police with City colleagues to discuss serious and organised crime work	Ongoing
Consolidated Risk	Property & Occupants Risk Management Group	Ongoing
Consolidated Risk	Prepare January Risk Management Update to CGC including challenge risk scores and review Risk Management Health Check draft report and actions required	Ongoing

Work assisting other functions

Department	**Entity**	**Position**
Corporate Resources	An Audit Manager assisted with interviews within Strategic Finance	Staff appointed.

Training, development and networks attended during the quarter

CIPFA Better Governance Forum

- Professional internal audit standards - Role of the Head of Internal Audit; Annual reports and the HIA opinion; use of data analytics; widening the scope of internal audit
- Auditing culture & ethics; financial resilience; cyber risks; projects and efficiencies in audit planning
- Governance – role of the leadership team and audit committee; LEPs and financial resilience

Networks

- National/Midlands Heads of Internal Audit groups – pension pooling; risk appetite; use of data analytics; provide input to the National Audit Office study on local government governance and accountability
- Contract audit group – including Public Health contracts
- Information technology audit group – including GDPR position; use of data analytics; payment card industry related controls
- Local Audit Quality Forum – practitioners including external auditors guidance to risks and assurances for financial resilience and sustainability

Ad-hoc

- Leicestershire Police - fraud and cyber protection
- Ideagen Conference – developing internal audit software to improve efficiencies

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High Importance Recommendations at 4 January 2019

Audit Title (Director)	Summary of Finding(s) and Recommendation(s)	Management Response	Action Date (by end of)	Confirmed Implemented
Reported January 2018				
Office Safes (A&C)	An investigation into the potential misuse of a service user's funds identified that the employee under suspicion had been able to deposit a large sum of cash into an area office safe, with no evidence of questions asked nor checks undertaken and no record of the deposit. The safe also contained cash and other valuable items held on behalf of service users which are not covered by the LCC insurance policy. Visits to other sites revealed similar with improvements required for controlling access and recording contents. The Department had previously identified gaps in its management of service user's personal property, including that in safes and had instigated a multi-function working group to review and improve practice and put into place a policy. Recommended that finalisation of the policy should be expedited and rolled out to Area Offices regarding safes and contents. Unannounced follow up audit visits will take place.	Agreed **The policy is scheduled to be approved at the Department's Management Team (6 February).** **In the meantime, the Department has undertaken checks at some of the locality offices that office safe control procedures are being followed. Unannounced internal audit visits to other localities confirmed that processes are better but there is room for further improvement. The Department has shared its plan for further checks and that will be accompanied by further audit visits.**	March 2018 Extend to end of June 2018; September 2018 January 2019 **April 2019**	

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