Public Document Pack

PETERBOROUGH CITY COUNCIL

AUDIT COMMITTEE

MONDAY 11 FEBRUARY 2019
7.00 PM

Bourges/Viersen Room - Town Hall

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

AGENDA

There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Daniel Kalley on 01733 296334 as soon as possible.

Did you know? All Peterborough City Council's meeting agendas are available online or via the modern.gov app. Help us achieve our environmental protection aspirations and view this agenda online instead of printing it.

Emergency Evacuation Procedure – Outside Normal Office Hours

In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair. In the event of a continuous alarm sounding remain seated and await instruction from the duty Beadle.

Recording of Council Meetings: Any member of the public may film, audio-record, take photographs and use social media to report the proceedings of any meeting that is open to the public. Audio-recordings of meetings may be published on the Council's website. A protocol on this facility is available at:

http://democracy.peterborough.gov.uk/ecSDDisplay.aspx?NAME=Protocol%20on%20the%20use%20of%20Recording&ID=690&RPID=2625610&sch=doc&cat=13385&path=13385

Committee Members:

Councillors: D Over (Chairman), A Shaheed, Warren, G Elsey, A Ellis, J Davidson and K Aitken (Vice Chairman)

Substitutes: Councillors: H Fuller, C Hogg and A Joseph

Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk

PETERBOROUGH CITY COUNCIL

MINUTES OF THE AUDIT COMMITTEE MEETING HELD AT 7:00PM, ON MONDAY, 19 NOVEMBER 2018 BOURGES/VIERSEN ROOM, TOWN HALL, PETERBOROUGH

Present: Councillors Over (Chairman), Ellis, Fuller, Aitken, Shaheed, Shaz Nawaz and Warren

Officers in Attendance: Peter Carpenter, Acting Corporate Director of Resources
Steve Crabtree, Chief Internal Auditor
Dan Kalley, Senior Democratic Services Officer

Also in Attendance: Suresh Patel, Director Ernst & Young LLP

25. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Elsey. Councillor Fuller attended as substitute

26. DECLARATIONS OF INTEREST

No declarations of interest were received.

27. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 24 SEPTEMBER 2018

The minutes of the meeting held on 24 September 2018 were agreed as a true and accurate record with the following alteration:

Item 22 which read “The Audit Committee considered and **RESOLVED** (Unanimously) that there were no write-offs to report” should be amended to read “The Audit Committee considered and **RESOLVED** (Unanimously) to note the write-offs contained in the report.”

28. EXTERNAL AUDIT PLAN

The Audit Committee received a report in relation to the External Audit Plan from Ernst and Young LLP (EY).

The Acting Corporate Director of Resources, introduced the report, which set out the key risks of the audit of the 2018/19 accounts. The accounts delivered covered both Peterborough City Council and the Combined Authority.

The Director EY explained the content of the report and members were asked to note the key risks set out by them. Although this was an outline plan, EY were currently undertaking the risk assessment process. Members were informed that the report outlined key areas of focus for the 2018/19 audit and it was not envisaged that there would be any major changes to the final plan. The Committee's attention was drawn to subsidiaries and interests in other entities which the council may have as consideration needed to be given to consolidating these interests on an annual basis. It was suggested that a further addition to the work programme on the new accounting standards was brought before the Committee before the end of the financial year.

Two new accounting standards had been introduced this year. The first concerned financial instruments around assets and liabilities, which was having less of an impact across the public sector in comparison to the private sector, although it may be an issue if the Council had any complicated investments. The Department for Communities and Local Government (DCLG) had recently announced that gains and losses expected to influence the bottom line were now governed by a statutory override which allowed for retention of that statutory override for a period of five years.

The method used to calculate Materiality had changed and had been reduced from 2% to 1.8% of gross expenditure to recognise the financial outturn of Local Authorities.

The fee charged by EY had been reduced to reflect the new contract and it was emphasised that there would be no reduction in the quality of service the Council received. Members were informed that the use of new technology and the new analytics portal allowed for a more efficient service and a reduction in the duplication of work which justified the revised fee.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- In essence IFRS16 resulted in operational leases being bought over to the balance sheet and would revolve around the transfer of Amey assets, such as dust carts and the arrangements in place for their replacement in future years.
- The Materiality calculation had been changed across the sector to 1.8% to reflect the high level of interest by other stakeholders within the accounts and therefore lower the testing levels to give more assurance.
- The new contract had been agreed and fees were unlikely to be reduced further at this time.
- New members of the external auditing team were now in post. A number of sessions had already taken place between them and the finance team at the Council to ensure smooth transitions.
- The Risk Assessment within the report identified two areas of significant risk, management override and revenue recognition and the committee were assured that EY were satisfied that all was being done at this stage to minimise these risks and to date there was no evidence to show anything was inappropriate.
- The portal security was a robust solution to deliver data and complied with GDPR requirements.

The Audit Committee considered and **RESOLVED** (Unanimously) to:

1. Note the key risks set out by Ernst Young LLP in their report and their audit approach to meet those risks
2. Identified to Ernst Young LLP any other matters Audit Committee considers will influence the audit.
3. Note that the Public Sector Audit Appointments scale fee will apply unless additional work is required as set out on page 32 of the report
4. Add a report on the new accounting standards IFRS9, IFRS15 and IFRS16 to the work programme.

29. INTERNAL AUDIT: MID YEAR PROGRESS REPORT 2018/2019

The Audit Committee received a report in relation to the Internal Audit mid year progress.

The Chief Internal Auditor introduced the report and advised members that in March last year the audit plan was presented which set out the work that would be undertaken throughout the year. A new approach had been adopted and the new plan was more risk based and would be regularly reviewed.

The report highlighted the background commentary on work conducted to date and attention was drawn to the number of audits per year which had increased from 73 to 80. Additional resources were currently being sought to accommodate the additional workload this created.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The additional work required by the Audit Department would have an effect on resources. The costs incurred in conducting the additional seven internal audits would be offset against the vacancy currently within the team and the Combined Authority would cover the costs incurred by their element. The actual cost would be provided to Members by the Chief Internal Auditor.
- The internal auditors were not proposing to adopt the materialism percentages used by EY as the internal audit was focused more around risk as opposed to value and therefore considered other issues.
- Grant funds were used for the purpose for which they were allocated and not to the costs of audits. Part of the stipulations of the grants were regular reviews by Audit or similar which must be signed off by Service Director Financial Services or the Chief Executive. The costs associated with these reviews were met by the department as they fall outside of the scope of grant funds.
- The plan was re-assessed regularly to allow items of greater risk to the council to be dealt with as they occur which was reflected in some items appearing to drop off the plan and then reappearing.
- The committee had the opportunity to request an audit on specific items. The Audit Department would bring their Emerging Risks Report to the committee in February when the work programme could be discussed and following this a more detailed plan would be presented in March.

- The committee may want to consider the Annual Governance Statement which would highlight what they think of the issues and how they are being addressed. This may influence items to be included in the plan.
- Income from the Combined Authority was governed by a Service Level Agreement, not only for audit but for all services provided, which had been agreed at £24,000. Two reviews have been completed to date and three are currently in progress.
- The Asset Management Plan and the Asset Acquisition Strategy Proposal to the Medium Term Financial Strategy (MTFS) would be discussed at the next meeting in February and the committee would have the capacity to endorse and challenge the reports at that meeting.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the progress of the Internal Audit Plan for 2018/2019 and the action points above.

ACTION

The Chief Internal Auditor, Steve Crabtree agreed to provide Members with the additional costs which would be incurred in conducting the additional internal audits.

30. COMBINED AUTHORITY OVERVIEW

The Audit Committee received a report in relation to an overview of the Combined Authority following a specific request by the Chair of Audit Committee at the September 2018 meeting.

The Chief Internal Auditor introduced the report which provided an overview to Members of the Committee as to decision making arrangements adopted at the Combined Authority.

The Combined Authority adopted a new Constitution in September and this report included that revised structure. The structure now included additional sub committees introduced as a result of increased workloads, additional programmes and changes to funding and each area was assigned to a dedicated portfolio holder. Governance arrangements were also set in the Constitution and decisions would be made dependent on the Chair, with specific quorate requirements in place and approvals now being made by the Board rather than the Mayor.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- It was confirmed that each Committee would include a Member and a reserve from Peterborough, including opposition Members. Not all committees had met at this stage.
- The revised arrangements looked more secure and should provide more continuity as Members had expressed concern that there had been a high turnover of board members in the past.
- Internal audit was provided to the Combined Authority by Peterborough City Council who needed to be covered in the service they provided and

ensure they provided impartial advice to the correct governance structures within the Combined Authority.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the decision making arrangements adopted by the Combined Authority.

31. USE OF CONSULTANTS - UPDATE REPORT

The Audit Committee received a report in relation to the use of consultants.

This was as a result of the Sustainable Growth Scrutiny Committee review into Peterborough City Council's use of consultants, the subsequent endorsement of their recommendations by Cabinet, and the agreement of Audit Committee to undertake an ongoing monitoring role.

The Acting Corporate Director of Resources introduced the report. Members were informed that the definition of a consultant was defined as a professional who provided professional or expert advice in a particular area. The overall impact of a consultant was that clients had access to deeper levels of expertise than would be feasible to retain in house. Agency costs related to staff covering normal jobs, mostly in social care.

Spend had reduced since 2010 and considering the pro rata spend up to September, the trend should continue. 2017/2018 figures included about £221,000 of charges relating to the Combined Authority which had since been recharged. This was relevant as should a Transparency Report analysis be carried out as these costs would appear against costs applicable for consultancy.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- Agency expenditure to date this year was unknown however the Acting Corporate Director of Resources agreed to obtain the figure.
- The need for consultants and agencies was recognised however Members expressed concern that there appeared to be a number of local consultancies who had connections to the council and/or it's members and/or officers.
- There was a drive to source consultants locally and this was in line with a previous government initiative which promoted councils to use local resource over and above wider national resources if relevant.
- Some consultants were procured through lawyers and Deloitte LLP with specific procurement contracts in place with specific values attached to them, which when used up, needed to be procured again. Individual consultants were appointed through an approval process which was signed off by Human Resources (HR) who monitored their use.
- The Acting Corporate Director of Resources agreed to investigate the costs in relation to the Independent Chair of Safeguarding Children's and Adults Boards, with an associated cost of £52,150.00 in comparison the costs associated with the Chair of CDOP and Chair of

Serious Case Review Sub Committee for the year 16/17 was £2,475.00.

- Members would prefer to see agency fees reduced by bringing more services in house.
- The Audit Committee was the ideal forum to monitor and review expenditure on consultants.
- To compile the report was relatively easy now there was a methodology in place which was repeatable and provided consistent answers.
- Some fees would be covered by grant funding or the Combined Authority and members would have liked to know the overall spend on consultants taking this into account.

The Audit Committee considered and **RESOLVED** (Unanimous) to note the report on the use of consultants for the financial years 2016/17, 2017/18 and up to September 2018 and agreed the action points.

ACTIONS

The Acting Corporate Director of Resources agreed to:

1. Obtain the figure for Agency Expenditure to date this year.

2. Obtain the reason for the difference in costs between PSCB work - Independent Chair of Safeguarding Children's and Adults Boards, the cost of which was £52,150.00 and the costs associated with PSCB Support - Chair of CDOP and Chair of Serious Case Review Sub Committee 16/17 the costs of which were £2,475.00.

3. Find out if, of the two agencies mentioned in the previous action point, one agency was less expensive than the other.

32. WORK PROGRAMME 2018/19

The Audit Committee received a report in relation to the Work Programme through to March 2019.

The work programme was to be updated to include a report on the new accounting standards which needed to be presented before the end of the financial year.

Members were also provided with an update in relation to the Regulation of Investigatory Powers Act 2000 (RIPA). An assessment of the Council's RIPA arrangements were due to commence on 20 November 2018.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the report.

7:00pm – 7.57pm
Chairman

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 4
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter - Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Acting Corporate Director: Resources Kirsty Nutton - Head of Corporate Finance	Tel. 384564 Tel. 384590

CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter - Acting Corporate Director Resources	**Deadline date:** N/A

The Audit Committee is asked to:

1. Consider and endorse the grant certification report.

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following a referral from the S151 Finance Officer.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to introduce the certification of claims and returns annual report from Ernst & Young (EY), the Council's external auditors.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.5

"To consider the external auditors annual letter, relevant reports and the report to those charged with governance"

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	n/a

4. BACKGROUND AND KEY ISSUES

4.1 Guidance for 2017/18 claim certification was issued to auditors by Public Sector Audit Appointments (PSAA).

4.2 This requires no materiality threshold to be applied to the audit work and a qualification letter must be issued for any errors found, no matter how small. Errors were found in the samples tested, which when extrapolated over the whole population are estimated to total £4,238. This represents an error rate of 0.0065% on the £65,201,608 claim.

4.3 The issues identified were relatively minor and no audit recommendations were made on the basis of these findings.

4.4 The proposed audit fee has reduced to £20,825 from £24,075 for 2016/17 claim. This is due to the cases tested being less complex despite more testing being undertaken. It is higher than the PSAA indicative fee of £13,619 because the indicative fee assumes that some of the testing carried out by EY would be undertaken by the Council.

4.5 The 2017/18 Audit was the last Housing Benefit audit to be undertaken under the PSAA appointing regime. KPMG LLP have been appointed to undertake the 2018/19 Housing Benefit Grant Claim Audit . EY remain the Council's appointed auditor for the Statement of Accounts.

5. CONSULTATION

5.1 The grants certification report and approach to further testing have been discussed and agreed with the S151 officer.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 To note the EY 2017/18 certification report and comment on any issues the Committee considers relevant.

7. REASON FOR THE RECOMMENDATION

7.1 Audit Committee to note the contents of the report and to comment on issues identified within the external audit report.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None as Audit Committee is required to receive the report.

9. IMPLICATIONS

Financial Implications

9.1 The cost of the grant certification has already been factored in to budgetary control position.

Legal Implications

9.2 None.

Equalities Implications

9.3 None.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None

11. APPENDICES

11.1 App A - Certification of claims and returns annual report 2017-18

Certification of claims and returns annual report 2017-18

Peterborough City Council

January 2019

Building a better working world

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Peterborough City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Peterborough City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, and management of Peterborough City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 - Housing benefits subsidy claim

The Council administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid. The certification guidance requires reporting accountants to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the certification of previous years claims.

Scope of work	Results
Value of claim presented for certification	£65,201,618
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2017-18	£20,827
Fee – 2016-17	£24,075

The main issues we reported are:

- Testing of the initial sample of non-HRA Rent Rebates – Earned Income - identified one error where benefit had been overpaid due to the incorrect calculation of the claimant's income. Testing of a further 40 cases identified one further error of this nature;
- Testing of the initial sample of non-HRA Rent Rebates – Board and lodging - identified one error where the Authority overstated subsidy as a result of applying the Local Housing Allowance (LHA) cap incorrectly, and two errors where subsidy was understated due to applying the LHA cap incorrectly. Testing of a further 40 cases identified one error where subsidy was overstated due to applying the LHA cap incorrectly;
- Testing of the initial sample of non-HRA Rent Rebates – Short-Term leased accommodation - identified three errors where the Authority overstated subsidy as a result of applying the Local Housing Allowance (LHA) cap incorrectly. Testing of a further 40 cases identified three further errors where subsidy was overstated due to applying the LHA cap incorrectly, and four errors where subsidy was understated due to applying the LHA cap incorrectly;
- Testing of the initial sample of Rent Allowances – Earned Income – identified one error where benefit had been overpaid due to the incorrect calculation of the claimant's income, and one error where benefit had been underpaid due to the incorrect calculation of the claimant's income. Testing of a further 40 cases identified one further error where benefit had been overpaid due to the incorrect calculation of the claimant's income;
- Testing of the initial sample of Rent Allowances – Prior Year Eligible Overpayments – identified one error where benefit had been overpaid due to the incorrect calculation of the claimant's income. Testing of a further 40 cases identified one further error where benefit had been overpaid due to the incorrect calculation of the claimant's income, and one error where benefit had been underpaid due to the incorrect calculation of the claimant's income.

We reported the extrapolated value of these errors in our qualification letter to the DWP. The total extrapolated error was £4,238.

Housing benefits subsidy claim

02 - Fees

Claim or return	2017-18	2017-18	2016-17
	Actual fee	**Indicative fee**	**Actual fee**
Housing benefits subsidy claim	20,827*	13,619	24,075

* The 2017-18 fee is subject to the agreement of the Service Director – Resources and PSAA. The actual fee for 2017/18 includes an additional fee of £7,208. The PSAA guidance sets out that the Council is responsible for completing the 40+ testing. However, as in previous years, the Council requested that we undertake this testing. Although we had one additional set of 40+ testing compared to prior year, we had a lower level of test fails overall, and less complex cases. Therefore the audit was smoother and took less time than previous year and the additional fee is lower than in the previous year.
We are currently agreeing the additional fee with PSAA.

16

03 – Looking forward

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. Following a request for quotes in November 2018 the Council has appointed KPMG to act as reporting accountants in relation to the housing benefit scheme.

EY | Assurance | Tax | Transactions | Advisory

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 5
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter - Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Acting Corporate Director: Resources Kirsty Nutton - Head of Corporate Finance	Tel. 384564 Tel. 384590

ERNST & YOUNG LLP AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2019

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter - Acting Corporate Director Resources	**Deadline date:** 11 February 2019

It is recommended that Audit Committee:

1. Note the revised key risks set out by Ernst Young LLP in their report and their audit approach to meet those risks.
2. Identifies to Ernst Young LLP any other matters the Audit Committee considers will influence the audit.
3. Notes that the Public Sector Audit Appointments scale fee will apply unless additional work is required as set out on page 36 of the report.

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee to update them in respect of changes made to the Outline Audit Plan which was presented at 19 November 2018 Audit Committee.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to involve the Audit Committee in determining the audit approach and to identify any additional issues it considers relevant to the audit

2.2 This report is for Audit Committee to consider under its Terms of Reference -

- 2.2.2.5 *To consider the external auditors annual letter, relevant reports and the report to those charged with governance.*
- 2.2.2.7 *To comment on the scope and depth of external audit work and to ensure it gives value for money*

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	n/a

4. BACKGROUND AND KEY ISSUES

4.1 The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsibilities will be discharged. It has been discussed and agreed jointly by Council representatives and External Audit (EY).

4.2 On 19 November 2018 Audit Committee received an Outline Audit Plan which summarised EY's initial assessment of the key risks driving the development of an effective audit for the Council, and outlined their planned audit strategy in response to those risks.

4.3 Following further planning work and sector wide feedback there have been some changes made to the key risks in the Final Plan which are summarised on page 3 of the Final Plan (Appendix A). Overall the general risks previously listed have been replaced by more specific descriptions of risk to be reviewed in the audit. These amendments are not a result of any concerns specific to the Council arising since November.

4.4 The generic 'Risk of fraud in revenue and expenditure recognition' has been replaced by two more specific related risks - 'Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure and REFCUS' and 'Misstatements due to fraud or error – incorrect application of capital grants'.

4.5 As noted these are not as a result of specific concerns with the Council's policies and behaviour, but rather are sector wide recommendations given the current financial climate there is elevated risk of significant errors in the financial statements in these particular areas.

4.6 Due the the phased implementation of the Council's new Local Authority Trading Company, Peterborough Limited, the 'Assessment of Group Boundary' is no longer a key risk, although this is likely to be for 2019/20 Statement of Accounts audit.

4.7 'PFI Accounting' and 'Valuation of property, plant and equipment assets under depreciated replacement cost model' have both been included as they are complex areas of the accounts which rely on judgements and estimates which have a material impact on the accounts.

4.8 EY advise that risks identified in sections 2 and 3 of the plan are likely to result in an audit fee variation, the level of which will be commensurate with the additional work required.

4.9 The materiality levels applied to the audit have reduced due to a change in the methodology by which the gross expenditure figure, which these levels are proportionate to, has been calculated. The changes are summarised in the table below:

	Outline Plan	**Final Plan**
Gross revenue expenditure	£588m	£557m
Planning Materiality	£10.6m	£10.0m
Performance Materiality	£7.9m	£7.5m
Audit Differences	£529k	£500k

These will be updated during the audit to use the actual gross revenue expenditure amount from the 2018/19 Statement of Accounts.

5. CONSULTATION

5.1 The Plan has been circulated to relevant officers for comment, including the Acting Corporate Director: Resources, and Head of Corporate Finance.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Approval of the revised External Audit Plan 2018/19 and comment on any issues the Committee considers relevant.

7. REASON FOR THE RECOMMENDATION

7.1 The Plan provides a summary of the Auditor's proposed work. Members can ask questions and make comments to the External Auditor on its contents and coverage.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 It is a requirement of the Audit Code to agree the plan but the Committee may influence the content of the plan.

9. IMPLICATIONS

Financial Implications

9.1 There are no direct implications arising from this Plan for Ernst and Young. Fees identified are commensurate with previous years, and are set by the Public Sector Audit Appointments body and included in the Medium Term Financial Strategy.

Legal Implications

9.2 None.

Equalities Implications

9.3 None.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 The Accounts and Audit Regulations 2015
The Local Audit and Accountability Act 2014
The National Audit Office's 2015 Code of Audit Practice
The Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd

11. APPENDICES

11.1 Appendix A - Peterborough City Council Audit Plan Year ended 31 March 2019

This page is intentionally left blank

Peterborough City Council
Audit Planning Report

Year ended 31 March 2019

30 January 2019

EY
Building a better working world

30 January 2019

Audit Committee
Peterborough City Council

Dear Committee Members

2018/19 Audit Plan

We are pleased to attach the Final Audit Plan for the 2018/19 audit following completion of our risk assessment procedures. The main changes to the Outline Audit Plan we presented to the 19 November 2018 meeting are in relation to the risks we have identified. We include a summary of these changes on the next page and provide more detailed explanations in Sections 01 and 02.

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

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

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

We welcome the opportunity to discuss this report with you on 11 February 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

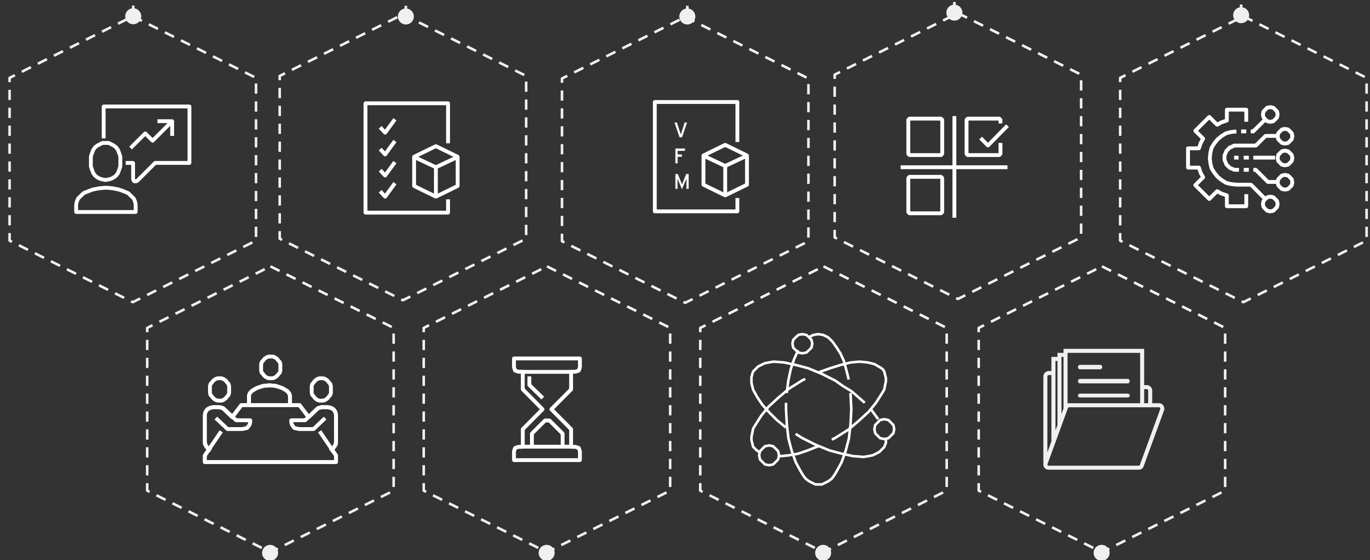
Suresh Patel

For and on behalf of Ernst & Young LLP

Summary of changes to the risks identified for 2018/19

	Risk / area of focus	Outline Plan	Final Plan	Reason for change
1	Risk of fraud in revenue and expenditure recognition	Fraud risk	Not included	We have rebutted the risk
2	Misstatements due to fraud or error - management override	Fraud risk	**Fraud risk**	n/a
3	Valuation and impairment of Property, Plant and Equipment (PPE) and Investment Property (IP)	Inherent risk	**Inherent risk**	n/a
4	Pension liability and assets	Inherent risk	**Inherent risk**	n/a
5	Assessment of Group Boundary	Other risk	**Not included**	No significant developments impacting the group boundary
6	PFI Accounting	Inherent risk	**Significant risk**	We have not reviewed in detail the Schools PFI accounting since 2015/16
7	New accounting standards	Other risk	Other risk	n/a
8	Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS	Not included	Fraud risk	Focused consideration of management override of controls
9	Misstatements due to fraud or error - incorrect application of capital grants	Not included	Fraud risk	
10	Valuation of property, plant and equipment assets under depreciated replacement cost model	Linked to item 3	Significant risk	Specific risk in relation to specialist assets

Contents



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

01 Overview of our 2018/19 audit strategy

Overview of our 2018/19 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	**No change** in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS	Fraud risk	New area of focus	The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets and one way management override (as outlined above) can manifest. We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.
Misstatements due to fraud or error - incorrect application of capital grants	Fraud risk	New area of focus	The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets and another way management override (as outlined above) can manifest. The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the application of capital grants.
PFI Accounting	Significant risk	**Change** in focus	The Council has a material PFI arrangement. The complexity of PFI accounting represents an inherent risk. We last reviewed in depth the Council's arrangements in 2016 and will need to draw on our PFI experts to carry out a review including any changes made by the Council.

Overview of our 2018/19 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of property, plant and equipment assets under depreciated replacement cost model	Significant risk	New area of focus	Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation. As the Council's DRC asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Valuation of other Land and Buildings and Investment Properties	Inherent risk	**No change** in risk or focus	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation & Pensions Assets	Inherent risk	**No change** in risk or focus	The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £271 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.
New accounting standards	Other risk	New area of focus	For 2018/19 the Council needs to consider the new accounting standards relating to financial instruments (IFRS 9) and revenue from contracts (IFRS 15). The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.

Overview of our 2018/19 audit strategy

Materiality

Planning materiality
£10.0m

In light of changes across the audit profession we have reduced the top of our range for materiality from 2% to 1.8% of the forecast gross expenditure (based on the PY outturn) of the Council. Our planning materiality has decreased from £10.5 million in the prior year.

Performance materiality
£7.5m

We have set performance materiality at £7.5 million, which represents 75% of materiality and is the top of our range.

Audit differences
£500k

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.5 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Overview of our 2018/19 audit strategy

Audit scope

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

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

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

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

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

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

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

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

Audit team

We have made two changes to your audit team, bringing in Dan Cooke as Audit Manager and Bach Pham as lead executive. Both Dan and Bach have good experience and knowledge of local government in the East of England. Suresh Patel will continue to be your Engagement Lead.

02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error *

What is the risk?	What will we do?
The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. These are set out on the following pages.	▸ Identifying fraud risks during the planning stages. ▸ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▸ Understanding the oversight given by those charged with governance of management's processes over fraud. ▸ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▸ Determining an appropriate strategy to address those identified risks of fraud. ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. To address the residual risk of management override we perform specific procedures which include: ▸ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing; ▸ Assessing key accounting estimates for evidence of management bias; and ▸ Evaluating the business rationale for significant unusual transactions

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and REFCUS and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

In 2017/18 the Council incurred £80.3 million capital expenditure (of which REFCUS represented £23.4 million).

What will we do?

Our approach will focus on:

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Sample testing REFCUS transactions to ensure they have been correctly classified and the expenditure meets the definition of allowable expenditure, or is incurred under direction from the secretary of state; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

Our response to significant risks (continued)

Misstatements due to fraud or error – incorrect application of capital grants *

Financial statement impact

We have identified a specific risk of misstatements due to fraud or error that could affect the income and expenditure accounts and the balance sheet.

We consider the risk applies to the application of capital grants in the comprehensive income and expenditure statement (CIES) and balance sheet.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to the application of capital grants in the financial statements.

The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the application of capital grants.

In 2017/18 the Council applied £36.5 million of capital grants and contributions.

What will we do?

Our approach will focus on:

- Sample testing the application of capital grants to ensure they meet the definition of capital expenditure;
- Sample testing capital grants received in advance to ensure any conditions have been correctly applied; and
- Using our data analytics tool to identify and test journal entries adjustments that impact capital grant accounts.

Our response to significant risks (continued)

Valuation of property, plant and equipment assets under depreciated replacement cost model

Financial statement impact

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of property, plant and equipment using the depreciated replacement cost method in the balance sheet.

36

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation.

As the Council's DRC asset base is significant (£319 million), and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

Our approach will focus on:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their DRC valuations (e.g. floor plans to support valuations based on price per square metre and the specialised nature of the assets);
- Consider the use of EY valuation specialists to review a sample of the underlying assumptions used to value any material specialist DRC assets;
- Review DRC assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Our response to significant risks (continued)

PFI accounting

Financial statement impact

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of PFI liabilities in the balance sheet.

What is the risk?

The Council has a material PFI arrangement for three secondary schools in Peterborough. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2015/16 and concluded that the accounting disclosures were materially correct. Given the complexities involved we have identified a need to undertake a technical review of the accounting arrangements by an EY PFI specialist to ensure the arrangements are still operating effectively.

In 2017/18 the Council reported future PFI repayments totalling £179.4 million in the financial statements.

What will we do?

Our approach will focus on:

- Making enquiries to management in respect of changes to arrangements and the calculation of annual payments and the on going liability; and
- Using our PFI specialists to review the operating and accounting models for the schemes to ensure these are operating effectively and consistent with the disclosures in the financial statements.

Other areas of audit focus

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

What is the risk/area of focus?	What will we do?
Valuation of other Land and Buildings and Investment Properties The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We will: ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated; ▶ Consider changes to useful economic lives as a result of the most recent valuation; and ▶ Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Pension Liability Valuation & Pensions Assets The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £271 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▸ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council; ▸ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and ▸ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 considering fund assets and the Council's liability.

What is the risk/area of focus?	What will we do?
New accounting standards The Code requires the Council to comply with the requirements of two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are: ▸ IFRS 9 - Financial instruments ▸ IFRS 15 - Revenue from contracts ▸ IFRS 16 - Leases There is an inherent risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.	We will: ▸ Engage early with the Council on their assessment and evaluation of the impact of each new accounting standard. We will also provide an early view on the Council's proposed accounting and disclosures; and ▸ If required, undertake additional audit procedures on the Council's assessments we will discuss with the Chief Financial Officer the impact on our audit fee.

03 Value for Money Risks

Value for Money

Background

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion. For 2018/19 this is based on the overall evaluation criterion:

“In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”

The NAO defines proper arrangements as your arrangements to:

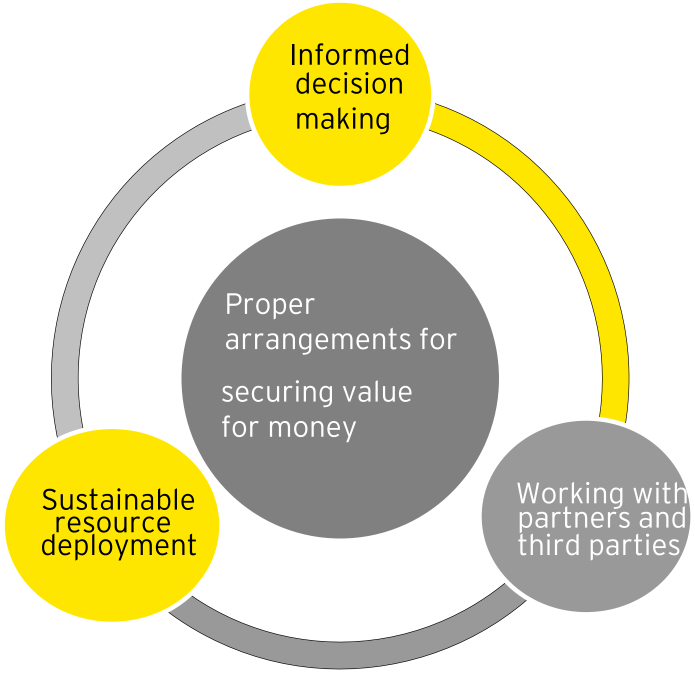
- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

The NAO’s auditor guidance includes specific reference to combined authorities, recognising their commissioning role and focus on partnership working.

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

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”.

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We have therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. Based on our initial planning considerations we have identified a significant risk noted on the following page which we view as relevant to our value for money conclusion.



Value for Money Risks

What is the significant value for money risk?

We reported in the previous year our views on the financial resilience of the Council and in particular the scale of the financial challenge it faces. Like most local authorities, the Council's finances continue to be stretched. There are significant gaps in the budget over the period of the Medium Term Financial Strategy. The cumulative budget gap to 2020/21 is £20.7million and this also includes the successful delivery of £72.3 million of savings up to that period. Whilst the Council is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial resilience.

What arrangements does the risk affect?

- Take informed decisions
- Deploy resources in a sustainable manner

What will we do?

Our approach will focus on:

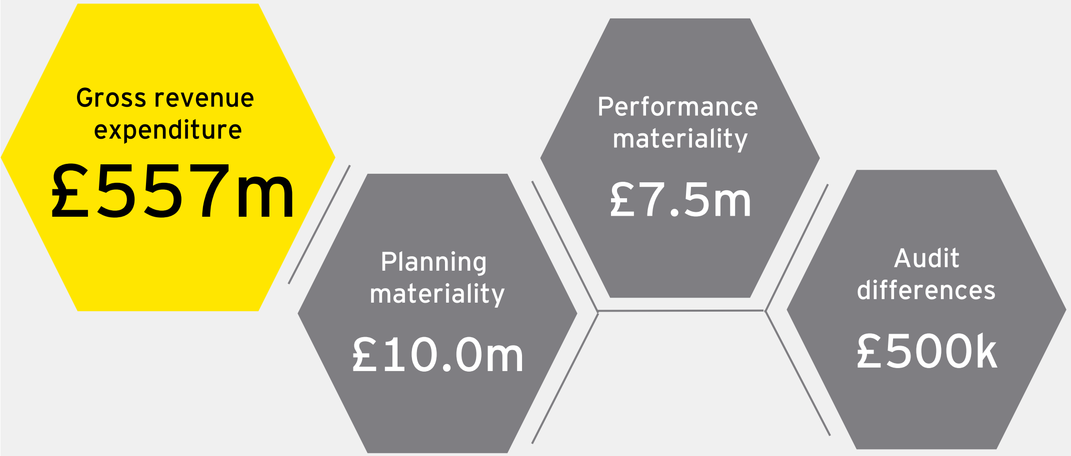
- Delivery of the Council's 2018/19 savings plans and linkages to delivery of longer-term transformational change;
- Review of the Council's 2019/20 financial plan; and
- Review of the Council's longer-term financial strategy in the light of the local and wider financial pressures.

04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £10.025 million. This represents 1.8% of the Council's prior year gross expenditure on provision of services (excluding NDR tariff payments and some non recurring items such as de-recognition of subsidiary assets). In the prior year we applied a threshold of 2%. We have applied a lower percentage on the basis that the Council meets the Local Audit & Accountability Act 2014 criteria for a major local audit based on its size. We have also considered its overall risk profile and public interest in comparison to other councils. We will reassess materiality throughout the audit process. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £7.519 million which represents 75% of planning materiality.

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

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

Specific materiality – We set lower materiality levels for some disclosures e.g. remuneration disclosures, related party transactions, members' allowances and exit packages, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. We will apply a £1k threshold to any errors identified as this is the rounding point in the financial statements.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. **Financial statement audit**

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

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

Procedures required by standards

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

Procedures required by the Code

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

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

47

Analytics:

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

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

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

Internal audit:

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

06 Audit team

Audit team

Audit team structure:

We have put together an audit team, based from our Cambridge office, with significant experience of auditing unitary authorities dealing with the same issues as the Council. They are committed to working effectively with the finance team to deliver a smooth and effective audit, adding value wherever possible.

Suresh Patel
Engagement Partner

Suresh was your engagement partner for the previous two years and brings significant experience of leading the audits of other unitary authorities.

Dan Cooke
Manager

Dan has over 10 years of experiencing auditing local authorities and has recent experience of managing the audit of unitary authorities.

Bach Pham
Senior

Bach is a recently qualified accountant with almost 4 years of experience of auditing local authorities in the East of England.

Use of specialists

Our approach to the involvement of specialists, and the use of their work:

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

Area	Specialists	
	EY	Council
Valuation of Land and Buildings	Real Estates team (if required)	Wilkes Head & Eve & NPS
Pensions disclosure	EY Actuaries	Hymans
PFI	PFI Specialist	N/A

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

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

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

07 Audit timeline

Audit timeline

Timetable of communication and deliverables

Timeline

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

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November	Audit Committee	Outline Audit Plan
	December		Final Audit Plan to management
	January		
Walkthrough of key systems and processes Testing of routine processes and controls	February	Audit Committee	Final Audit Plan (presented to Committee)
Interim audit testing	March		Interim audit update (verbal unless there are significant issues)
	April		
Year end audit Audit Completion procedures	May/June		
	July	Audit Committee	Audit Results Report Audit opinions and completion certificates
	August		Annual Audit Letter

52

08 Independence

Introduction

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

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

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services. We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted. We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

55

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

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

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

At the time of writing, the Council has not engaged us to undertake any non-audit services.

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

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

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

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

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

Other communications

EY Transparency Report 2018
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here: http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018

09 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

58

	Planned fee 2018/19	Scale fee 2018/19	Final Fee 2017/18
		£	£
Standard Fee – Code work	83,570	83,570	108,533
Additional code work	0	0	6,750
Total audit		83,570	115,283
Other non-audit services not covered above (Housing Benefits - **note 1**)	N/A	N/A	20,827
Total other non-audit services	N/A	N/A	20,827
Total fees	**N/A**	**83,570**	**136,110**

All fees exclude VAT

Note 1: The Council has appointed a new provider for the 2018/19 housing benefit audit.

The agreed fee presented is based on the following assumptions:

- The level of risk in relation to the financial statements and VFM arrangements remains the same;
- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

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

The risks identified in sections 2 and 3 of this plan are likely to result in an audit fee variation, the level of which will be commensurate with the additional work required.

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

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report - February 2019
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balances	Audit Results Report - July 2019

59

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report - July 2019
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report - July 2019
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit Results Report - July 2019
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report - July 2019

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: ▶ Relationships between EY, the Council and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit planning report, Feb 2019 and Audit results report, July 2019

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report - July 2019
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit Results Report - July 2019
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report - July 2019 Annual Audit Letter - August 2019
Representations	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report - July 2019
Material inconsistencies and misstatements	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - July 2019
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - July 2019
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report - February 2019 Audit Results Report - July 2019

62

Appendix C

Additional audit information

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

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ED None

ey.com

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 6
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton, Resources portfolio holder	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director: Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

2019/20 TREASURY MANAGEMENT STRATEGY

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter, Acting Corporate Director: Resources	**Deadline date:** Cabinet 25 February 2019

Audit Committee is asked to

1. To review and approve the 2019/20 Treasury Management Strategy (TMS) before it is approved as part of the Medium Term Financial Strategy (MTFS) at Full Council in March 2019.

1. ORIGIN OF REPORT

1.1 The Treasury Management in the Public Services: Code of Practice 2017 recommends that Members receive reports on its treasury management policies, practices and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

1.2 The annual strategy is approved by Council as part of the MTFS. Members are required to review and approve the strategy to ensure compliance with best practice.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide the Treasury Management Strategy 2019/20 to Audit Committee for approval of the policies and Prudential Indicators in line with the consultation timelines for the MTFS.

2.2 This is in accordance with the Committees' Terms of Reference – 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	25 February 2019
Date for relevant Council meeting	6 March 2019	Date for submission to Government Dept. *(Please specify which Government Dept.)*	

4. BACKGROUND AND KEY ISSUES

4.1 The Prudential Code underpins the system of capital finance. Local authorities determine their own programmes for capital investment in long term and current assets that are central to the delivery of quality local public services. Prudential indicators are developed as part of the annual MTFS process to ensure that:
a) Capital investment plans are affordable;
b) All external borrowing and other long term liabilities are within prudent and sustainable levels; and
c) Treasury management decisions are taken in accordance with professional good advice.

4.2 The 2019/20 – 2023/24 Treasury Management Strategy is contained in Appendix 1 to this report.

4.3 The Council has continued to operate a restrictive lending list due to the continued economic uncertainty. Surplus cash is only invested for short periods with Barclays, Bank of Scotland (part of the Lloyds Banking Group) and the Churches, Charities and Local Authorities (CCLA) money market fund. The Council also invests with other Local Authorities and the Debt Management Office (DMO).

4.4 The Council has continued to borrow to fund the capital programme. Loans have been arranged at interest rates to achieve budget certainty and for varying periods to fit in with the Councils debt maturity profile.

4.5 The main changes to the TMS policies from last year's MTFS Treasury Strategy are as follows:

- An amendment to the Minimum Revenue Provision (MRP) Policy to include how the Council will treat impairments on Third Party Loan defaults;
- The use of Overpayments of MRP;
- a revised capital programme profile over the next five years

5. CONSULTATION

5.1 The Council's Prudential Code and Treasury Management Strategy 2019/20 - 2023/24 will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

5.2 The Council continues to liaise with its treasury advisors, Link Asset Services.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report and Strategy are presented to the Committee to provide the opportunity to review and approve the policies and Prudential Indicators of the 2019/20 TMS in advance of it being presented to Full Council in March 2019.

There is a statutory requirement for Council to approve the Prudential Indicators as contained in the TMS, and it is in line with best practice for Audit Committee to consider this strategy prior to full approval by Council.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Prudential Code and Treasury Management Strategy 2019/20 - 2023/24 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2017.

9. IMPLICATIONS

Financial Implications

9.1 The assumptions as contained in the TMS have been used to inform the Capital Financing budget as contained and detailed in the MTFS.

Legal Implications

9.2 Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2017, which clarifies the requirements of the Minimum Revenue Provision guidance.

Equalities Implications

9.3 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- The Prudential Code for Capital Finance in Local Authorities –2017 Edition, CIPFA; and
- Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition, CIPFA

11. APPENDICES

11.1 *Appendix 1 - Treasury Management Strategy 2019/20 to 2023/24 - Including: Minimum Revenue Provision Policy 2018/19 and 2019/20*

This page is intentionally left blank

Appendix 1

PETERBOROUGH CITY COUNCIL

Treasury Management Strategy 2019/20 to 2023/24

Including:
Minimum Revenue Provision Policy 2018/19 and 2019/20

1. Introduction

1.1. Background

1.1.1. The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2. The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

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

1.1.4. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.1.5. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

1.1.6. CIPFA defines treasury management as:

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

1.1.7. Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.

1.2. Reporting Requirements

1.2.1. Capital Strategy

1.2.2. The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019/20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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

1.2.3. The aim of this Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.4. This Capital Strategy is reported separately from the Treasury Management Strategy Statement and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The Capital Strategy will show:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- for non-loan type investments, the cost against the current market value;
- the risks associated with each activity.

1.2.5. Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.2.6. Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.2.7. If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the Capital Strategy.

1.3. Treasury Management Reporting

1.3.1. The council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

1.3.2. **Prudential and Treasury Indicators and Treasury Strategy** - The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a MRP policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

1.3.3. **A Mid-Year Treasury Management Report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

1.3.4. **An Annual Treasury Report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3.5. **Scrutiny**

1.3.6. The above reports are required to be adequately scrutinised and this role is undertaken by the Audit Committee, Cabinet and full Council.

1.4. **Treasury Management Strategy for 2019/20**

1.4.1. The strategy for 2019/20 covers:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the MRP policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

1.4.2. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code 2017, the MHCLG MRP Guidance, the CIPFA Treasury Management Code 2017, and the MHCLG Investment Guidance.

1.5. **Training**

1.5.1. The CIPFA Code requires the responsible officer to ensure that Council members with responsibility for treasury management receive adequate training in treasury management. This requirement is reviewed annual as part of the annual Performance Development Review (PDR) and monthly supervisions. This requirement also applies to Council members responsible for scrutiny.

1.6. **Treasury Management Advisors**

1.6.1. The Council uses Link Asset Services (previously Capita Asset Services) as its external treasury management advisors who have a contract until September 2021.

1.6.2. The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon external advisors.

1.6.3. The Council also recognises that there is value in employing external providers of treasury management services in order to access specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

1.6.4. The scope of investments within the Council's operations may in the near future include both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers. The Council uses NPS Group in relation to this activity, and other specialist advisers will be engaged depending upon requirements.

1.7. Treasury Management Policy Statement

1.7.1. The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2017 guidance.

1.7.2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

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

1.7.4. Investments using the above definition cover all financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework.

1.7.5. The Council's high level policies for borrowing and investments are set out below.

- to invest available cash balances with a number of high quality investment counterparties over a spread of maturity dates in accordance with the Council's lending list;
- to reduce the revenue cost of the Council's debt in the medium term by obtaining financing at the cheapest rate possible;
- to seek to reschedule or repay debt at the optimum time**.**

1.8. The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer must do the following:

- recommend clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submit regular treasury management policy reports;
- submit budgets and budget variations;
- receive and reviewing management information reports;
- review the performance of the treasury management function;

- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long-term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority. This is done by regular training presentations to the Audit Committee;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above. This is done by regular attendance at course and conferences and joint working with Link Asset Services;
- creation of Treasury Management Practices (TMPs) which specifically deal with how non treasury investments will be carried out and managed, to include the following -
    - Risk management TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken to the various committees;
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

2. Capital Prudential Indicators 2019/20 to 2023/24

2.1. The Council's capital programme is the key driver of the treasury management activity. The output of the capital programme is reflected in the prudential indicators which are designed to assist member's overview and confirm the capital programme.

2.2. **Indicator 1** – Capital Expenditure – this Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following four financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement'

Capital Expenditure	**2017/18 Actual £m**	**2018/19 Est £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
People and Communities	32.9	38.8	33.9	20.1	21.7	22.4	6.5
Invest to Save / Commercial Activities / Cost Avoidance Schemes	13.6	19.8	37.6	30.9	20.1	10.0	0.1
Resources	5.1	17.7	5.4	5.4	5.9	3.5	3.5
Growth and Regeneration	28.7	44.8	37.2	29.2	37.7	33.1	31.0
Total	**80.3**	**121.1**	**114.1**	**85.6**	**85.4**	**69.0**	**41.1**
Financed by:							
Capital receipts	1.1	1.5	23.2	15.0	-	-	-
Capital grants contributions	36.5	42.3	26.8	29.8	28.1	32.5	16.9
Net financing requirement	**42.7**	**77.3**	**64.1**	**40.8**	**57.3**	**36.5**	**24.2**
Total	**80.3**	**121.1**	**114.1**	**85.6**	**85.4**	**69.0**	**41.1**

2.3. The capital receipts shown in the tables for future years relate to the following:

- 2018/19 - Local Authority Mortgage Scheme (LAMS) capital loan - £1m and Axiom Housing Association Loan Repayment - £0.5m
- 2019/20 - ECS Peterborough 1LLP – capital loan - £23.2m
- 2020/21 - Hotel – capital loan - £15m

2.4. The Invest to Save / Commercial Activities / Cost Avoidance schemes are included in total capital expenditure and the funding resources to be used. However, these schemes will either generate income or generate savings on revenue budgets elsewhere in the Council's services. Therefore the borrowing costs associated with these projects will have a minimal impact on the Council's MTFS position.

2.5. **Indicator 2** – Capital Financing Requirement (CFR) – the CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.6. The CFR does not increase indefinitely, as the MRP is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.7. The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next five financial years for Council approval:

Capital Financing Requirement	2017/18 Actual £m	2018/19 Est £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
CFR brought forward	509.8	540.1	606.3	654.5	678.3	719.4	739.0
Borrowing / Repayment	16.7	49.0	10.6	3.8	21.1	9.6	7.0
Invest to Save	13.6	1.5	17.6	-	-	-	-
Commercial Activities	-	-	20.0	20.0	20.0	10.0	-
Lease Liability	-	15.7	-	-	-	-	-
CFR carried forward	540.1	606.3	654.5	678.3	719.4	739.0	746.0
Movement in CFR	**30.4**	**66.2**	**48.2**	**23.8**	**41.1**	**19.6**	**7.0**
Net financing requirement	42.7	77.3	64.1	40.8	57.3	36.5	24.3
Less MRP & other financing	(12.3)	(11.1)	(15.9)	(17.0)	(16.2)	(16.9)	(17.3)
Movement in CFR	**30.4**	**66.2**	**48.2**	**23.8**	**41.1**	**19.6**	**7.0**

2.8. **Indicator 3** – Actual and estimates of the ratio of financing costs to net revenue budget. This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e. the net interest cost and the provision to repay debt.

Ratio of Gross Financing Costs to Net Revenue Budget	2017/18 Actual £m	2018/19 Est £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Total Ratio	3.7%	6.4%	8.9%	9.5%	9.4%	9.4%	9.4%

3. Minimum Revenue Provision (MRP) Policy Statement

3.1. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, equipment, etc. Such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual MRP.

3.2. MHCLG Regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to Councils to calculate this revenue charge and the Council must satisfy itself that the provision is prudent.

3.3. A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2019 the total overpayments was £3.8m and this will be fully utilised per the 2018/19 MTFS.

3.4. Councils are allowed by statute to use capital receipts for the repayment of any borrowing previously incurred. The application of capital receipts to repay debt would reduce the level of MRP chargeable to revenue, but statutory guidance does not address how such a reduction should be calculated. When the Council uses its capital receipts to redeem borrowing, the value of the MRP which would otherwise have been set aside for that year will be reduced by the amounts which have instead been repaid from capital receipts. This results in a prudent level of MRP, as there will be no reduction in the overall level of funding set aside to redeem debt.

3.5. The Council previously participated in the Local Authority Mortgage Scheme (LAMS) to support first time buyers through the provision of an indemnity. Such deposits were treated as capital expenditure, as a loan to a third party. The associated deposits have now matured, and the funds have been returned to the Council and have been classed as a capital receipt which has reduced the CFR. The second advance of £1m was returned in July 2018 and the indemnity of £0.8m remains in place for a fixed five year period or until the individual mortgage advances have been repaid.

3.6. Repayments for the PFI scheme and finance leases are applied as MRP, and the associated amounts are included in these Prudential Indicators.

3.7. Below is a table summarising the MRP Policy.

Capital Expenditure Incurred	**MRP Policy Update 2018/19 & 2019/20**
Expenditure funded by unsupported borrowing reflected within the debt liability after the 31 March 2010	Asset Life, annuity method – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project. If capital receipts have been used to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the amounts which have instead been repaid from capital receipts. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Acting Corporate Director Resources, taking into account forecasts for future expenditure and the generation of further receipts. The same process will apply for S106, POIS and CIL receipts.
Private Finance Initiative (PFI) - Finance Lease	Use the annuity method of calculation over the remaining asset life
Other Finance Leases	Charged in relation to asset life on the annuity method
Secured Loans to third parties repaid in bullet form.	No MRP will be charged each year as reliance can be placed on the capital receipt that will be generated when the loan is repaid or, in the event of a default, the realisation of the security. If realisation of the security does not equate to the original loaned amount the Council will recognise the associated impairment and will charge MRP for the outstanding loan amount over the next MTFS periods.

4. Current Treasury Position

4.1. The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

4.2. The overall treasury management portfolio as at 31 March 2018 and for the position as at 18 January 2019 are shown in the following table for both borrowing and investment.

Treasury Portfolio	Actual 31.03.18 £'000	Actual 31.03.18 %	Current 18.01.19 £'000	Current 18.01.19 %
Treasury Investments				
Banks	5,000	56	2,500	14
Local Authorities	-	-	-	-
DMADF (HM Treasury)	-	-	6,000	32
Money Market Funds	4,000	44	10,000	54
Total Treasury Investments	**9,000**	**100**	**18,500**	**100**
Treasury External Borrowing				
Local Authorities	(72,500)	17	(50,500)	12
PWLB	(329,587)	79	(359,587)	84
LOBOs	(17,500)	4	(17,500)	4
Total External Borrowing	**(419,587)**	**100**	**(427,587)**	**100**
Net Treasury Investments/(Borrowing)	**(410,587)**		**(409,087)**	

4.3. **Indicator 4 -** The Council's treasury position at 31 March 2019, with estimates for future years, is summarised below. The table below shows the actual external borrowing (Gross Debt) against the CFR

Gross debt & capital financing requirement	2017/18 Actual £m	2018/19 Est £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
External Borrowing							
Market Borrowing	395.4	419.6	470.1	518.3	542.1	583.2	602.9
Repayment of borrowing	(18.8)	(22.0)	(28.0)	(17.5)	(9.5)	(7.1)	-
Expected change in borrowing	43.0	72.5	76.3	41.3	50.6	26.8	7.0
Other long-term liabilities	35.1	52.6	52.0	51.4	50.7	49.9	49.1
Gross Debt at 31 March	**454.7**	**522.7**	**570.4**	**593.5**	**633.9**	**652.8**	**659.0**
CFR	540.1	606.3	654.5	678.3	719.4	739.0	746.1
% of Gross Debt to CFR	**84.2%**	**86.2%**	**87.1%**	**87.5%**	**88.1%**	**88.3%**	**88.3%**

4.4. Based on the prudential indicators there are a number of key measures to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its total borrowing does not, except in the short-term, exceed the total of the CFR in the year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

4.5. The Acting Corporate Director: Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals in this Medium Term Financial Strategy (MTFS).

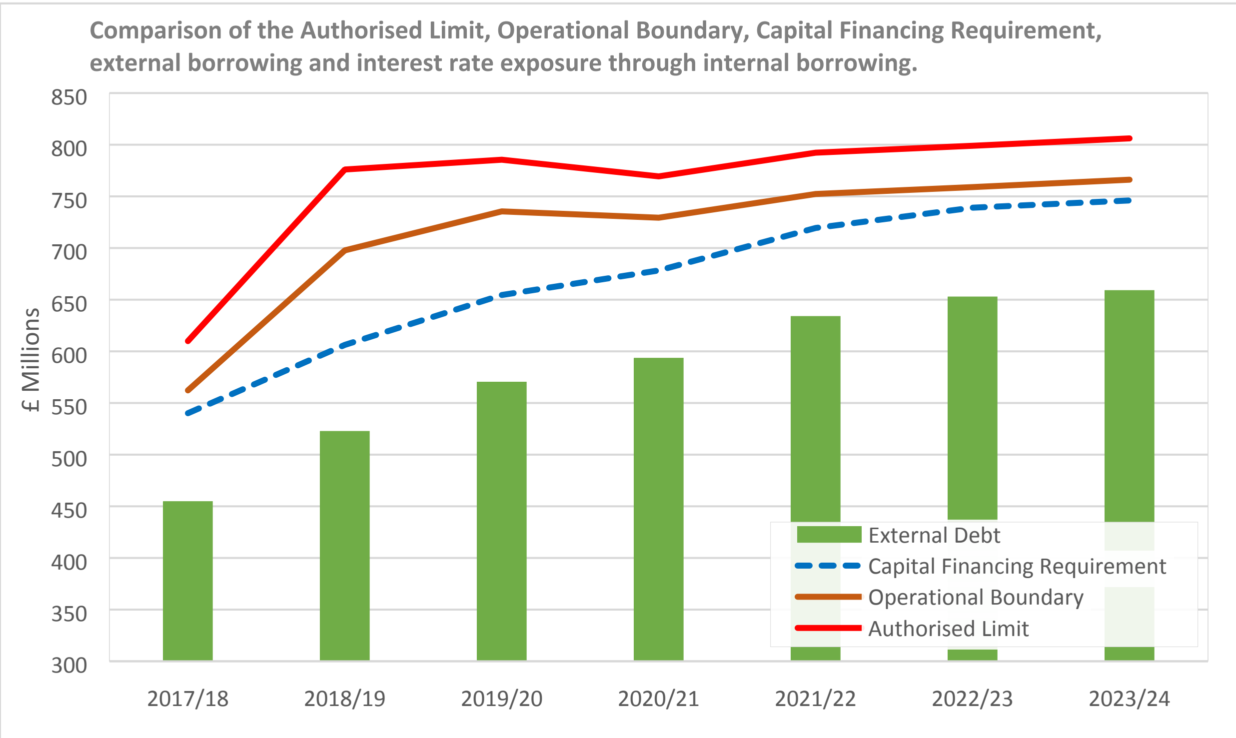
4.6. **Indicator 5** - The Operational Boundary - external borrowing is not normally expected to exceed this limit. If the operational boundary was exceeded this would be reported immediately to the members of the Audit Committee with a full report taken to the next committee meeting. In the current year it has not been exceeded. The Operational Boundary is set out below:

Operational Boundary	2017/18 Actual £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	419.6	573.1	618.6	617.3	675.0	682.4	686.0
Other long-term liabilities	35.1	52.6	52.0	51.4	50.7	49.9	49.1
Total	**454.7**	**625.7**	**670.6**	**668.7**	**725.7**	**732.3**	**735.1**

4.7. **Indicator 6** - The Authorised Limit for external borrowing - this represents a limit beyond which external borrowing is prohibited. This limit is set and revised by full Council.

Authorised Limit	2017/18 Actual £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	419.6	723.4	733.5	718.0	741.6	749.1	757.0
Other long-term liabilities	35.1	52.6	52.0	51.4	50.7	49.9	49.1
Total	**454.7**	**776.0**	**785.5**	**769.4**	**792.3**	**799.0**	**806.1**

4.8. This is a statutory limit determined under section 3 (1) of the Local Government Act 2003. Government under sections 4(1) and 4(2) may limit either the total of all Council borrowing, or those of a specific Council, although this power has not yet been exercised.



12

5. Prospects for Interest Rates

5.1. The Council utilises the treasury services of Link Asset Services and part of their service is to assist the Council to formulate a view on interest rates to assist with borrowing and investment decisions.

5.2. The Link Asset Services forecast for bank base rate (as at November 2018) and PWLB new borrowing (as at November 2018) is as follows (note that the PWLB Borrowing Rate includes the Certainty Rate adjustment):

Interest Rate (All rates shown as %)	Bank Rate View	5yr PWLB Rate	10yr PWLB Rate	25yr PWLB Rate	50yr PWLB Rate	Budget Assumption
Dec-18	0.75	2.00	2.50	2.90	2.70	2.70
Mar 19	0.75	2.10	2.50	2.90	2.70	
Jun 19	1.00	2.20	2.60	3.00	2.80	2.90
Sep 19	1.00	2.20	2.70	3.10	2.90	
Dec 19	1.00	2.30	2.70	3.10	2.90	
Mar 20	1.25	2.30	2.80	3.20	3.00	
Jun 20	1.25	2.40	2.90	3.30	3.10	3.15
Sep 20	1.25	2.50	2.90	3.30	3.10	
Dec 20	1.50	2.50	3.00	3.40	3.20	
Mar 21	1.50	2.60	3.00	3.40	3.20	
Jun 21	1.75	2.60	3.10	3.50	3.30	3.35
Sep 21	1.75	2.70	3.10	3.50	3.30	
Dec 21	1.75	2.80	3.20	3.60	3.40	
Mar 22	2.00	2.80	3.20	3.60	3.40	

5.3. The Council successfully applied to be one of the principal local authorities that would qualify for the Certainty Rate, during the period 1 November 2018 to 31 October 2019. This results in the Council being able to benefit from reduced interest rates on PWLB loans by 20 basis points (0.20%). The Council is assuming that there will be a similar scheme in place when this scheme expires. The Council will submit a new application to ensure it qualifies.

5.4. The MTFS assumes borrowing is taken at the 50 year period with an average taken across the quarters for that year but then adjusted with a range of borrowing periods and associated interest rates. The Chief Finance Officer believes this prudent as it mitigates some of the risk of PWLB rate rise.

5.5. The interest rate forecasts provided by Link Asset Services in paragraph 5.2 are predicated on an assumption of an agreement being reached on Brexit between the UK and the EU. In the event of an orderly non-agreement exit, Link Asset Services think it is likely that the Bank of England would take action to cut Bank Rate from 0.75% in order to help economic growth deal with the adverse effects of this situation. This is also likely to cause short to medium term gilt yields to fall. If there was a disorderly Brexit, then any cut in Bank Rate would be likely to last for a longer period and also depress short and medium gilt yields correspondingly. It is also possible that the government could act to protect economic growth by implementing fiscal stimulus.

5.6. The balance of risks to the UK:

- the overall balance of risks to economic growth in the UK is probably neutral.
- the balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

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

5.8. Link Asset Services interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- The flow of positive economic statistics since the end of the first quarter of 2018 has shown that pessimism was overdone about the poor growth in quarter 1 when adverse weather caused a temporary downward blip. Quarter 1 at 0.1% growth in GDP was followed by a return to 0.4% in quarter 2 and by a strong performance in quarter 3 of +0.6%. However, growth in quarter 4 is expected to weaken significantly.

- At their November quarterly Inflation Report meeting, the MPC repeated their well-worn phrase that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary of contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time, but declined to give a medium term forecast. However, with so much uncertainty around Brexit, they warned that the next move could be up or down, even if there was a disorderly Brexit. While it would be expected that Bank Rate could be cut if there was a significant fall in GDP growth as a result of a disorderly Brexit, so as to provide a stimulus to growth, they warned they could also raise Bank Rate in the same scenario if there was a boost to inflation from a devaluation of sterling, increases in import prices and more expensive goods produced in the UK replacing cheaper goods previously imported, and so on. In addition, the Chancellor could potentially provide fiscal stimulus to support economic growth, though at the cost of increasing the budget deficit above currently projected levels.

- It is unlikely that the MPC would increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. Getting parliamentary approval for a Brexit agreement on both sides of the Channel will take well into spring 2019. However, in view of the hawkish stance of the MPC at their November meeting, the next increase in Bank Rate is now forecast to be in May 2019, (on the assumption that a Brexit deal is agreed by both the UK and the EU). The following increases are then forecast to be in February and November 2020 before ending up at 2.0% in February 2022.

- Inflation. The Consumer Price Index (CPI) measure of inflation has been falling from a peak of 3.1% in November 2017 to 2.1% in December 2018. In the November Bank of England quarterly Inflation Report, inflation was forecast to still be marginally above its 2% inflation target two years ahead, (at about 2.1%), given a scenario of minimal increases in Bank Rate.

- As for the labour market figures in October, unemployment at 4.1% was marginally above a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 3.3%, (3 month average regular pay, excluding bonuses). This meant that in real terms, (i.e. wage rates less CPI inflation), earnings are currently growing by about 1.2%, the highest level since 2009. This increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC was right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy.

- In the political arena, the Brexit deal put forward by the Conservative minority government was defeated on 15 January. It is unclear at the time of writing, how this situation will move forward. (Officers are likely to need to verbally update members as events are constantly evolving.) However, our central position is that Prime Minister May's government will endure, despite various setbacks, along the route to reaching an orderly Brexit though the risks are increasing that it may not be possible to get full agreement by the UK and EU before 29 March 2019, in which case this withdrawal date is likely to be pushed back to a new date. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary and fiscal policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

6. Investment and Borrowing Rates

6.1. Investment returns are likely to remain low during 2019/20 but will be on a rising trend over the next few years.

6.2. Borrowing interest rates increased sharply after the result of the general election in June 2017 and then also after the September 2017 MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little change in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

6.3. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/20 treasury operations. The Acting Corporate Director: Resources will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.4. There will remain a cost of carry to any new long-term borrowing that temporarily increases cash balances. This revenue cost is the difference between borrowing costs and investment returns.

7. Borrowing Strategy

7.1. The Council is currently maintaining an under-borrowed position, where the CFR balance is greater than gross debt, see Indicator 2, and chart on page 11. This is in line with the agreed strategy that the Council's cash balances be used to fund capital expenditure before additional borrowing is undertaken. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

7.2. The capital programme consists of three main types of capital projects:

- Invest to Save – Self Funding Schemes
- Specific Schemes – eg School Extensions

- Rolling Capital Projects eg Enhancing current assets

7.3. Any borrowing decisions will be reported to the appropriate decision making body at the next available opportunity.

7.4. The MTFS is based on the following borrowing strategy for the next three years. The borrowing strategy is under constant review throughout the year monitoring changes in interest rates and borrowing opportunities. The proposed strategy for 2019/20 financial year is:

a) To consider the rescheduling (early redemption and replacement) of loans to maximise interest rate savings and possible redemption discounts.

b) Significant risk of a sharp fall in long and short term rates may arise. This might be due to a marked increase of risks around relapse into recession or of risks of deflation. In this case long-term borrowings will be postponed, and potential rescheduling from fixed rate funding into short-term borrowing will be considered.

c) Significant risk of a much sharper rise in long and short-term rates than currently forecast may arise. This may arise due to a greater than expected increase in world economic activity or a sudden increase in inflation risks. In this case the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

d) Loans will primarily be arranged from the PWLB and other Local Authorities.

e) To maintain an appropriate balance between PWLB, Local Authority and other market debt in the debt portfolio and a balance in the maturity profile of debt.

f) To give full consideration to other debt instruments e.g. Local Authority Bonds as an alternative to PWLB borrowing. Due regard will be given to money laundering regulations. The Council is monitoring the development of the scheme and may participate if this proves beneficial.

8. New Borrowing Approaches to Be Considered

8.1. To achieve a more even spread of loan maturities so that there is not an exceptional borrowing requirement in any future year. Rebalancing the current uneven profile will potentially allow interest savings given the current yield curve. Currently under 10 year money and over 35 year money is historically at a low interest cost.

8.2. Maturing long-term debt is replaced by new borrowing. To achieve long-term financial sustainability the Council should aim to reduce its overall debt and the associated financing costs including interest. A high value of outstanding debt represents a financial risk because of potential interest rate changes.

8.3. The use of Capital receipts or S106 receipts to make MRP is a one-off revenue saving. Using these funds in this way means they are not available to fund Capital assets and reduce the overall borrowing requirement.

8.4. Interest rates are liable to change. In the event of significant changes the Council seeks to avoid an increased revenue cost on its capital financing charges.

8.5. The Treasury Management Strategy uses the planned Capital Programme to calculate the borrowing requirement. Typically the Council does not spend at the planned level in any financial year.

8.6. Link Asset Services have a product that will allow the Council to borrow from the market at current interest rates with a small premium but not draw down the funds until they are required - ‘forward borrow’.

9. Treasury Debt Prudential Indicators

9.1. There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

9.2. **Indicator 7 –** Upper limit on fixed interest rate exposure. This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

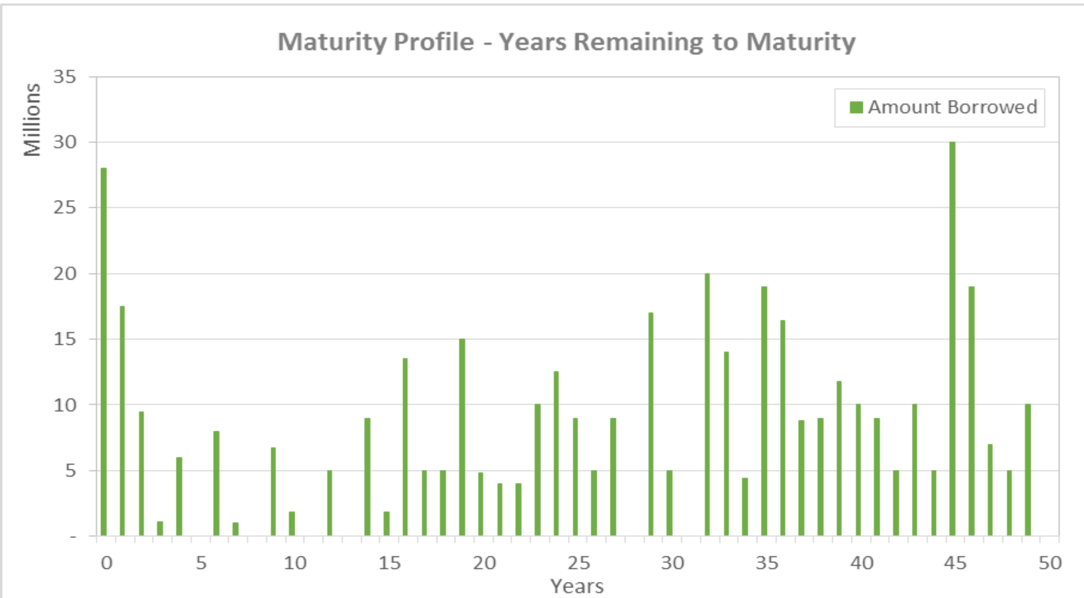
9.3. **Indicator 8 -** Upper limit on variable rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Interest Rate Exposure (Upper Limits)	2017/18 Actual £m	2018/19 Est £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
(7) Limits on fixed interest rate net debt	419.6	761.0	777.3	735.8	792.7	756.1	729.7
% of fixed interest rate exposure	100%	100%	100%	100%	100%	100%	100%
(8) Limits on variable interest rate on net debt	-	190.3	194.3	184.0	198.2	189.0	182.4
% of variable interest rate exposure	0%	25%	25%	25%	25%	25%	25%

9.4. **Indicator 9 -** Maturity structure of borrowing. These gross limits are set to reduce the Council's immediate exposure to large fixed rate sums falling due for refinancing.

Maturity Structure of borrowing	Upper Limit	As at 18 January 2019
Under 12 months	40%	7%
12 months to 2 years	40%	6%
2 years to 5 years	80%	2%
5 years to 10 years	80%	4%
10 years and above	100%	82%

9.5. The following chart shows the Council's debt maturity profile as at 18 January 2019:



17

10. Policy on Borrowing in Advance of Need (Future Capital Expenditure)

10.1. The Council will not borrow more than it requires, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. However, at any time the Council may obtain a loan or other financing at what are considered advantageous terms in anticipation of future capital expenditure. The money borrowed will be invested temporarily. The Council may also borrow in the day-to-day management of its cash flow operations or as an alternative to redeeming higher yielding investments.

10.2. The Council will ensure there is a clear link between the capital programme across the future years and the maturity profile of the existing debt portfolio which supports the need to take funding in advance of capital expenditure.

10.3. The Council will ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and factored into the MTFS.

10.4. Consideration will be given to the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11. Debt Rescheduling on Existing Debt Portfolio

11.1. Short-term borrowing rates are forecast to be considerably cheaper than longer term fixed interest rates. There may be potential to generate savings by switching existing long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the cost of debt repayment (premiums incurred). Debt rescheduling will only be carried out on the existing debt portfolio. Future borrowing will be carried out as per this strategy and over shorter periods of time.

12. Investment Strategy Principles

12.1. The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

12.2. The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

12.3. The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

13. Investment Counterparty Selection Criteria and Financial Investment Strategy

13.1. As the Council has run down its cash balances, surplus cash will be generated from cash flow movements e.g. a grant received in advance of spend or from borrowing in advance of need. Therefore investment activity will be kept to a minimum.

13.2. However, where it is necessary for investments to be undertaken in order to manage the Council's cash flows, the Council's primary principle is for the security of its investments. After this main principle the Council will ensure that:

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

13.3. The Acting Corporate Director: Resources will maintain a counterparty list in compliance with the set out below. Any revision of the criteria will be submitted to Council for approval as necessary.

13.4. The Councils minimum criteria will apply to the lowest rating for any institution according to the type of investment account being used. For instance, the credit rating criteria for the use of the Council's call accounts and Money Market Funds, which are used for short-term investments only, will use the Short-Term credit ratings in the table shown within 13.5. If an institution is rated by the three credit agencies and two meet the Council's criteria and the other one does not, the institution will fall outside the lending criteria. This complies with a CIPFA Treasury Management Panel recommendation in March 2009 and the CIPFA Treasury Management Code of Practice.

13.5. In order to minimise the risk to investing, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The Council uses the creditworthiness service provided by Link Asset Services which uses ratings from all three rating agencies, Fitch, Moody's and Standard and Poor's, as well as Credit Default Swap (CDS) spreads. Link Asset Services monitors ratings on a real time basis and notifies clients immediately on any rating changes or possible downgrades. Minimum Credit Ratings Criteria – further explanations are given in Annex 1.

Minimum Credit Ratings for Group 2 Banks		
Agency	**Short-Term**	**Long-Term**
Fitch	F1	A
Moody's	P-1	Aa
Standard & Poor's	A-1	A

13.6. All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three rating agencies by Link Asset Services

13.7. The Council does not place sole reliance on the use of Link Asset Service's advice as the Council uses internal expertise and knowledge to make decisions. Market data, market information, information on government support for banks and the credit ratings of that government support are also considered when making treasury decisions.

13.8. The criteria for providing a pool of high quality investment counterparties (both Specified and Non-Specified investments), and is shown in the order of use by the Council, all of the following are subject to continuous credit rating reviews:

- Money Market Funds
- UK Government (including gilts and the Debt Management Account Deposit Facility (DMADF)).
- Bank of Scotland call account (part of the Lloyds Banking Group).
- UK Local Authorities.

13.9. The Council also uses Barclays Bank, the Council's own banker. If Barclays fall below the criterion in 13.5 then the following strategy will be followed:

- with regard to the three credit rating agencies, if one reduces its rating but the other two remain the same or improve, the Council will reduce the maximum of £15m in the call account to £5m and a keep a low balance in the current account.
- if two or more credit rating agencies reduce their ratings below the criteria in 13.5 the Council will still require to use the Barclays accounts for transactional purposes, so maximum balance of £500k will be left overnight in the current account to prevent the account becoming overdrawn and incurring overdraft fees.
- Seek advice from Link Asset Services

13.10. The above action applies to Barclays only due to its status as the Council's banking provider. Use of other bank accounts would be subject to criteria set out in the point 13.5. The above approach to Barclay's Bank has been developed following consideration that the Council needs banking facilities to process daily banking transactions, and such activity presents a lower risk profile compared to investment activity the significant impact, resource requirement, and risk exposure of changing bank provider the possible state and stability of the banking sector and viable alternative suppliers.

- Banks Group 1 - Part nationalised UK banks - Lloyds Banking Group Plc. (Bank of Scotland and Lloyds) and Royal Bank of Scotland Group Plc. (National Westminster Bank, The Royal Bank of Scotland and Ulster Bank Ltd). These banks can be included if they continue to be part nationalised and / or they meet the ratings in 14.6.
- Banks Group 2 – good credit quality - the Council will only use banks which are UK banks and have the minimum credit ratings criteria relating to the type of investment being undertaken.
- Building Societies – if they meet the ratings above
- Money Market Funds - AAA rated by Fitch
- Bill Payment Service – The Council currently has a contract with Santander UK who collect payments of Council Tax through the post office via various methods of payment such as Paypoint. The funds that are collected are transferred to the Council daily thus minimising the risk of Santander UK holding the Council's cash. This arrangement for the bill payment service falls outside the investment criteria for investments therefore any downgrade of Santander UK will not affect this service. However this arrangement will be closely monitored to ensure funds continue to be transferred daily.

13.11. The Council's lending list will comprise of the institutions that meet the investment criteria above. Each counterparty on the list is assigned a counterparty limit as per the table in Annex 1. Counterparties that no longer meet the investment criteria due to a credit rating downgrade will be removed from the list and any changes will be approved by Council. Approval will also be required if any new counterparties are added to the lending list.

13.12. Link Asset Services approach to assessing creditworthiness of institutions is by combining credit ratings, credit watches and credit outlooks to produce a colour coding system. The Council will use counterparties within the following maximum maturity periods, in order to mitigate the risk of investing in these institutions:

Link Asset Services Banding	Description
Blue	1 year (only applies to nationalised / semi nationalised UK banks)
Orange	1 year
Red	6 months
Green	3 months
No colour	The Council will not invest with these institutions

13.13. The proposed criteria for Specified and Non-Specified investments are shown in Annex 1 for approval.

13.14. **Indicator 11** - Upper limit for total principal sums invested for over 365 days excluding loans. This limit is set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment, and is based on the availability of funds after each year-end and up-dates are reported to the Audit Committee at midyear.

Overall limit for sums invested over 365 days	2017/18 Actual £m	2018/19 Est £m	2019/20 Est £m	2020/21 Est £m	2021/22 Est £m	2022/23 Est £m	2023/24 Est £m
Principal sums invested 365 days	0.0	0.0	10.0	10.0	10.0	10.0	10.0

14. Loans Made to Third Parties

14.1. The Council makes secured loans to third parties to advance the Council's strategic interests.

14.2. Loans are only made after the Council's formal decision making process has been followed. This includes formal approval by the Acting Corporate Director: Resources.

14.3. As part of the formal decision to make the loan, the security for the loan will be assessed as to its adequacy in the event of the third party defaulting on repayment.

14.4. The Council have approved the secured capital loans to third parties which are set about in the following table.

Third Party Details	Current Loan Advanced	Maximum Exposure
Longhurst Housing Association (previously Axiom)	Capital Loan £6.7m	£30.0m
ECS Peterborough 1 LLP	Capital Loan £23.2m	£23.5m
Affordable Housing	Nil	Not Agreed
Hotel Loan	Nil	£15.0m

14.5. Individual loan agreements provide for the recovery of the capital loan in the event of a default.

14.6. An unsecured loan to Peterborough Limited, a Council wholly own company, of £1.5m is due to be advanced at the end of the 2018/19 financial year for a period of five years.

14.7. Further unsecured loans to Council owned Local Authority Trading Companies (LATCo's) only may require to be issued during the financial year and will only be issued in accordance with the governance set out in point 14.2 above.

15. Non-financial Investments

15.1. The Council does currently not hold any non-financial investments whose purpose is to generate revenue to support core services. For further information see the Acquisitions Policy.

16. Treasury Management Scheme of Delegation

16.1. The following is a list of the main tasks involved in treasury management and who in the Council is responsible for them:

Full Council / Audit Committee

- Receiving and reviewing reports on treasury management policies, practices and activities.
- Approval of the Annual Strategy.

Audit Committee / S151 Officer (Acting Corporate Director: Resources)

- Approval of / amendments to the Council's adopted clauses, Treasury Management Policy Statement and Treasury Management Practices.
- Budget consideration and approval.
- Approval of the division of responsibilities.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Section 151 Officer (Acting Corporate Director: Resources) / Service Director Financial Services / Head of Corporate Finance

- Reviewing the Treasury Management Policy and procedures and making recommendations to the responsible body.
- Recommending clauses, treasury management policy/practices and making recommendations to the responsible body.
- Submitting regular treasury management reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service advisors

Specified Investment Credit Criteria and Limits
Specified Investment:

- Offer high perceived security such as placements with Central Government Agencies, Local Authorities or with organisations that have strong credit ratings
- They offer high liquidity i.e. short-term or easy access to funds
- Are denominated in £ sterling
- Have maturity dates of no more than 1 year
- For an institution scheme to qualify as a 'Specified Investment' it must have a minimum rating (see Section 14.6)

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Deposit accounts with regulated UK Banks and UK Building Societies	Repayable on call, without notice	Minimum of two short-term rating criteria	100	15
Money Market Funds repayable on call, no notice	Call	Minimum rating – AAA (Fitch)	50	10
Debt Management Agency Deposit Facility	6 months currently	UK Government backed	N/A	75
Term Deposits UK Government & Local Authorities	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term Deposits & Certificates of Deposit Banks Group 1	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	75
UK Government & Local Authority Stock Issues	Maturities of up to 1 year	Sovereign risk high security not credit rated	100	20
Term deposits & Certificates of Deposit Banks Group 2	6 months	Minimum of three short-term rating criteria	50	10
Forward Term Deposits with Regulated UK Banks	Maturities of up to 1 year	Minimum of three short-term rating criteria	100	15

Non-specified Investment Credit Criteria and Limits

- With the same institutions classified as "specified" investments but have maturity dates in excess of one year, or
- Are offered by organisations that are not credit rated or the credit rating does not meet the criteria set out above
- In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time
- If the Council decide to use these investments then Indicator 11 will need to be revised

Investment Type	Maximum Maturity Period	Minimum Credit Criteria	Collective Limit £m	Individual Limit £m
Term deposits with UK Government & Local Authorities	1-5 years	Sovereign risk high security not credit rated	20	20
Term deposits & Certificates of Deposit with Banks Group 1	1-5 years (tradable)	F1(Fitch – short-term) AAA (long-term)	10	10
UK Government & Local Authority Stock Issues	1-10 years (tradable)	Sovereign risk high security not credit rated	10	10
Term deposits & Certificates of Deposit with Banks Group 2	1-5 years (tradable)	F1 (Fitch-short-term) A (long--term)	20	10
Deposit accounts with regulated UK building societies	1 – 5 years	F1 (Fitch short-term) A (long-term)	5	5
Term deposits UK building societies no formal credit rating	Up to 1 year	Financial position assessed by Acting Corporate Director: Resources.	5	5
Bonds issued by financial institution guaranteed by UK Govt	1-10 years (tradable)	UK Govt backed AAA (Fitch, S&P etc.)	5	5

In the current economic climate the Council has run down its cash balances as an alternative to borrowing and investments have been made short-term and the Council would not consider using investments that fall under the 'Non-Specified' Investments category at this time.

Explanation of Credit Ratings

Agency	Short-Term	Long-Term
Fitch	F1-Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; a "+" may be added to denote any exceptionally strong credit feature.	A-High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
Moody's	P-1-superior ability to repay short-term debt obligations	Aa-high quality and are subject to very low credit risk
Standard & Poor's	A-1-The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.	A-more susceptible to the adverse effects of changes in circumstances and economic conditions. However the obligor's capacity to meet its financial commitment on the obligation is still strong.

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 7
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton, Resources portfolio holder	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director: Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

2019/20 CAPITAL STRATEGY

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter, Acting Corporate Director: Resources	**Deadline date:** Cabinet 25 February 2019

Audit Committee is asked to

1. To review and approve the 2019/20 Capital Strategy before it is approved as part of the Medium Term Financial Strategy (MTFS) at Full Council in March 2019.

1. ORIGIN OF REPORT

1.1 The Capital Strategy is required by the Local Government Act 2003 and the CIPFA Prudential Code 2017. The Capital Strategy supports the strategic priorities of the Council. The Capital Strategy is reviewed annually and ensures the Council has a comprehensive approach to investment decisions.

1.2 The Capital Strategy is approved by Council as part of the MTFS. Members are required to review and approve the strategy to ensure compliance with best practice.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide the Capital Strategy 2019/20 - 2023/24 to Audit Committee for approval before it is included in the MTFS.

2.2 This is in accordance with the Committees' Terms of Reference – 2.2.1.15. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	25 February 2019
Date for relevant Council meeting	6 March 2019	Date for submission to Government Dept. *(Please specify which Government Dept.)*	

4. BACKGROUND AND KEY ISSUES

4.1 The principles of the Capital Strategy as detailed in Section 1 of the strategy are to:

- Manage the revenue impact of decisions;
- Optimise the availability of Asset Investment funding where that funding supports the priorities for Peterborough;
- Ensure effective pre and post project appraisal;
- Performance manage the Capital programme.

4.2 The following provides an overview of the key sections of the strategy and its contents:

- Section 2 - sets out the aims of the Strategy.
- Section 3 - emphasises adopting a deliverable and sustainable capital programme.
- Section 4 - explains how the Capital Programme is managed and particularly the role of the Capital Review Group and the VERTO system.
- Section 5 - provides the key areas of asset investment in each Directorate are set out. The Capital Programme is attached to the Strategy as an Appendix 2 to this report.
- Sections 6 - summarise how the capital programme is funded and the application of the Community Infrastructure Levy (CIL), considers innovative funding opportunities, and stresses the role of capital receipts in funding the Capital Programme.
- Section 7 - emphasises the role of proactive and effective procurement in delivering the Capital Strategy.

4.3 The Disabled Facility Grant section of the Capital Strategy has been updated since the submission of this report to Cabinet for 4 February 2019 but is considered to be a minor change.

5. CONSULTATION

5.1 This Strategy will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report and Strategy are presented to the Committee to provide the opportunity to review and approve the approach being applied in the capital strategy in advance of it being presented to Full Council in March 2019. It is in line with best practice for Audit Committee to consider this strategy prior to full approval by Council.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Strategy is required under the Local Government Act 2003.

9. IMPLICATIONS

Financial Implications

9.1 The assumptions as contained in this strategy have been used to inform the Capital Financing budget as contained and detailed in the MTFS.

Legal Implications

9.2 The Strategy is required under the Local Government Act 2003.

Equalities Implications

9.3 *None*

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- Local Government Act 2003
- MHCLG Statutory Guidance on Capital Strategies 2018
- CIPFA Prudential Code 2017

11. APPENDICES

11.1 Appendix 1 - Capital Strategy - 2019 – 2024
Appendix 2 - Capital Strategy - Capital Programme

This page is intentionally left blank

PETERBOROUGH CITY COUNCIL

Appendix L – Capital Strategy, Programme and Disposals

Capital Strategy

2019 – 2024

Contents Page

1 Introduction and Strategic Priorities and Principles

1.1 The Capital Strategy (Asset Investment Strategy) outlines how Peterborough City Council (PCC) will look to make asset investment and manage its asset investment resources to help achieve the strategic priorities of the Council. It is good practice that the Capital Strategy and Asset Management Plans are regularly reviewed and revised to meet the changing priorities and circumstances. The Council's Capital Strategy is reviewed on an annual basis to reflect the changing needs and priorities of the residents.

1.2 The CIPFA Prudential Code 2017 states that in order to demonstrate the the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability the Council is required to produce an annual Capital Strategy.

1.3 The Capital Strategy is intended to give a high level of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial stability

1.4 The Strategy is an integral part of the Medium Term Financial Strategy (MTFS) and intrinsically linked with the Asset Management Plan (AMP) (Appendix M) and the Treasury Management Strategy (TMS) (Appendix K) of the Council and should be read in conjunction with these documents.

1.5 Over the period of the MTFS, the Council needs Asset Investment to deliver its priorities. In order to achieve this, it recognises the need to deliver efficiencies, seek additional funding and periodically review both the consumption of the Asset Investment resources and stated priorities. It ensures this happens through the four core principles below:

1.6 **Principle 1 –** Managing the impact of investment decisions on revenue budgets

- Ensuring Asset Investment decisions do not place any unnecessary pressure on the MTFS or Council Tax, and they are also within the Council's Prudential Indicators (see the Prudential Code and Treasury Management Strategy and Minimum Revenue Provision Policy).
- Promoting Asset Investment which enables invest to save outcomes.
- Making sure assets yield maximum return, through effective ongoing asset management, consistent with levels of investment. (See AMP).

1.7 **Principle 2 –** Optimise the availability of Asset Investment funding where that funding supports the priorities for Peterborough

- Disposal of surplus assets (including asset transfer to community organisations where appropriate) and reinvestment.
- Effective working relationships with potential funders.
- Listening to and supporting effective partnering arrangements.
- Having clear policies for the consumption of any reserves.

1.8 **Principle 3 –** Ensure effective pre and post project appraisal

- Ensuring a system of competition exists for project approval.
- Building into project appraisal recognition of environmental sustainability.
- Fully considering project risk.
- Carefully considering value for money and efficiency of every project.

1.9 **Principle 4** – Performance manage the Asset Investment programme

- Integrating the Asset Investment programme with the Verto project management system, Infrastructure Planning systems/processes e.g. Infrastructure Delivery Schedule (IDS) and other service plans.
- Ensuring the Asset Investment schemes use appropriate project management tools.
- Ensuring responsibility for the delivery of the Asset Investment programme is clearly defined.

2 Aims of the Strategy

2.1 The specific aims of this strategy are to ensure:

- Physical assets and related resources are efficiently and effectively used to support the Council's priorities. (See the Asset Management Plan (AMP) at Appendix M of the Medium Term Financial Plan (MTFS)) These inputs when reviewed against the outputs from asset investment schemes will demonstrate value for money;
- Issues related to property and other assets are fully reflected in the Council's planning, for example, ensuring adequate funds for maintenance are available;
- Stakeholders can understand the Council's Asset Investment decisions and the management of its asset investment projects;
- Adequate provision is made for delivering corporate priorities and demonstrated through effective resource allocation;
- Invest to save projects are encouraged;
- The Council works within the Prudential Code framework and demonstrates robust and linked asset investment and treasury management; (see the Prudential Code and Treasury Management Strategy and Minimum Revenue Provision Policy at Appendix K of the MTFS);
- Asset management plans are reviewed to identify surplus assets which can move through a disposal process to generate new Asset Investment and/or revenue resources; (see AMP);
- Asset investment spending plans are affordable, financially prudent, sustainable and integrated with the MTFS;
- Support for our partners by maximising the potential for joint working and match funding, where this secures better outcomes than could be achieved in isolation.

3 Strategic Context

3.1 Sustainable Community Strategy (SCS)

- An influence for the need of asset investment is the major growth aspirations of the Council. Growth requires investment in infrastructure, and the Council plays a major role in securing and providing such investment. The context for the growth ambition is Peterborough's SCS which sets ambitious plans for a 'bigger and better Peterborough', including the delivery of 'substantial and truly sustainable growth'
- Like the MTFS the Capital Strategy is driven by the SCS, which sets out a vision and overall strategy for the future of the city and surrounding villages

and rural areas, covering the period 2008 - 2021. It reflects both the agenda for growth and the clear desire to ensure that Peterborough grows in the right way, so that economic and population growth leads to genuine improvements in key areas, particularly those where Peterborough currently has specific problems or issues. It takes account of both national and local improvement priorities that are established through effective consultation with residents and partners.

3.2 **Peterborough Planning Policy Framework**

To facilitate and coordinate this growth, the City Council has a fully adopted statutory planning policy framework, or 'Local Plan', which is a set of planning policy documents to guide growth. The key planning policy documents are:

- The Peterborough Core Strategy Development Plan Document (DPD), which sets the headline growth targets (25,500 dwellings, 20,000 new jobs) and sustainable development policy – adopted 2011
- The Site Allocations DPD, which allocates sites and identifies on a map the precise locations for new development – adopted 2012
- Minerals and Waste Core Strategy and Site Allocations Documents – adopted 2011 and 2012 respectively
- Planning Policies DPD - adopted 2012
- City Centre Development Plan – adopted December 2014.

Having these up to date plans in place puts the Council in a good position to encourage and guide public and private investment decisions. The Council also undertook a review of its Local Plan. In January 2016 the Council consulted on the Preliminary Draft Local Plan and subject to Council approval, public consultation on the Further Draft Local Plan. The Council submitted the Local Plan to the Secretary of State on 26 March 2018. The Council is currently consulting on the proposed main modifications to the submission which closes on 20th February 2019.

The major growth identified in the above policy documents will require substantial funding for the infrastructure requirements which such growth generates (on top of funding required to maintain our existing infrastructure). The sources of such funding are wide ranging, including government grants, private sector investment and our own corporate resources. It should also be noted that this growth will also in turn generate additional funding which will offset some of the investment cost, such as increases in Council Tax revenues from additional homes built, additional New Homes Bonus grant from government, and through the new funding arrangements surrounding Business Rates where local authorities are able to keep an element relating to growth.

- To coordinate the infrastructure requirements associated with growth, the Council prepares an Infrastructure Delivery Schedule (IDS)1. The IDS is intended to be refreshed and approved regularly by Cabinet and a refresh was prepared for approval by Cabinet in November 2016. The IDS is a 'live' schedule of the entire infrastructure needed to support sustainable growth in Peterborough, with an indication of when such infrastructure is needed and how much it might cost. The IDS is linked into the Council's project management system (Verto). A variety of funding sources will then be used to pay for the items on the IDS, in a prioritised way, including from:

- Developer Contributions received from S106 Planning Obligations and Community Infrastructure Levy (CIL) Charging Schedule. CIL has now replaced Section 106 planning obligations for many forms of infrastructure funding, although Section 106 agreements can still be used for site-specific mitigation measures and for affordable housing provision. The Developer Contributions already accumulated by the Council from Section 106 Planning Obligations will be continue to be allocated through the IDS.
- Government and Other Grants.
- City Council's own Asset Investment.

3.3 Commissioning Led Council and Principles

What is a commissioning led council?

This means that the Council will deliver better outcomes for customers through identifying the most efficient, effective and economic models of service delivery.

This may mean the Council continuing to deliver services on its own, or directly through other agencies and organisations or as a partnership between the Council and other organisations. This will provide a range of different abilities, skills and knowledge to enable targeted services to be delivered in the right place at the right time.

A commissioning approach offers significant benefits to local residents and businesses alike. Services will be delivered in more efficient ways, stimulating local enterprise by creating new markets in the provision of local services, and an increased emphasis on the scrutiny of those services.

3.4 Commissioning Principles

- Demand management - We will prioritise the commissioning of services and solutions that will prevent or delay escalating support and service needs.
- Efficient and effective - We will take an evidence based approach to commissioning services and solutions that demonstrate efficient and effective use of resources. Services and solutions will be commissioned on the basis of best value.
- Return on investment - We will commission on the basis of a clear, whole-life costed benefits realisation for service users, PCC and other stakeholders. This will include analysis of the value of social and environmental outcomes of commissioning activities as well as financial outcomes.
- Market Development - We will develop the market with providers and partners to ensure that strategic commissioning activity across health and social care is coordinated and best value and outcomes are delivered.
- Statutory duties - We will ensure PCC complies with its legal duties within the statutory legislative and policy framework.
- Political - Commissioning activity will take account of and be sensitive to the national and local political context. Engagement with elected members will be carried out throughout the commissioning process.
- Collaborative commissioning - We will work to commission services and co-produce solutions with strategic partners where this best delivers PCC outcomes and objectives.

4 Capital Programme Governance and Project Management

4.1 The Council now have a Capital Review Group (CRG)

4.2 The CRG Terms of Reference

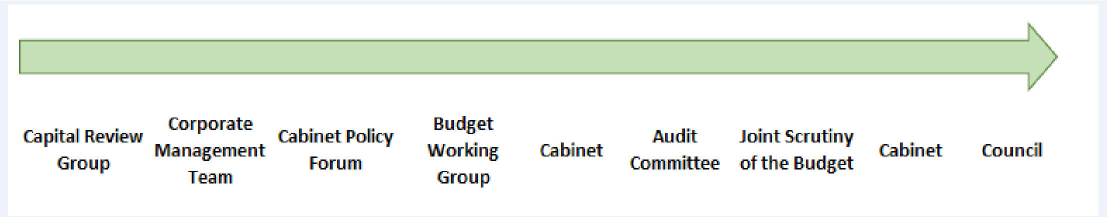
Objective

- A Capital Review Group (CRG), led by officers to review the councils capital programme with a view to recommending new projects and amendments to the programme to the Corporate Management Team (CMT). This will include consideration for the financial implications, the impact and requirement for the recommendations.
- These will be recommended and considered as part of the budget process for setting the Medium Term Financial Strategy (MTFS).

Purpose

- To Review the Councils Capital Programme, including the following:
- Review new Capital Programme Project Proposals submitted to the CRG by project leads
- Review the regular progress monitoring of the Capital Programme. Including reviewing any change in the scope of projects, timescales and financial implication.
- To Ensure all projects are input and monitored through Verto
- To Ensure the correct governance approval route is recognised and completed
- To monitor the progress against the capital receipts target included within the MTFS
- To advise CMT, CPF, BWG Cabinet and Council on the capital Programme
- To review all Virements

4.3 All new proposed capital projects have to go through the following Approvals Process before it can be included into the Asset Investment Programme. This will ensure that the governance is adhered to and all risks and rewards are addressed at all governance levels.



4.4 To manage the capital programme the Council operates a project management system (Verto). Option appraisals and feasibility studies are required to support and justify a business case for projects. The Programme Management Team are responsible for co-ordinating and monitoring this process. The longer term property and revenue implications (i.e. whole-life considerations) are part of this process which is consistent with the principles set down in the Prudential Code for Asset Investment Finance in Local Authorities.

4.5 Project officers monitor the implementation of the Capital Programme on a regular basis with reports being submitted monthly to Verto. Heads of Service or project leads offer regular updates which are reported to Department Management Teams.

4.6 The Capital Programme as a whole (both expenditure and income) is reported to CMT at least on a quarterly basis. These reports sent to CMT contains an overview of the current position and provides CMT with the information required to ensure that the capital programme is sustainable in the long term through revenue support by the Council or its partners and that use of capital programme resources reflects what was agreed in the production of the Council's MTFS.

5 Key Areas of Council Asset Investment

5.1 The Council's Capital Programme for 2019/20 to 2023/24 totals £395.3m and is summarised in 8.3. Individual schemes are itemised in Appendix G.

5.2 The following is a summary of the key elements of the strategy by service area.

People and Communities Directorate

5.3 Adult Social Care

Adult Social Care is still going through a major transformation which will focus on increasing prevention, reducing dependency and increasing personal choice. The Capital Strategy over the next few years needs to reflect the implications of the transformation and also take into account the additional responsibilities arising from the Care Bill.

Areas where investment will be required in this context are as follows:

- Extra Care housing is an area where development is needed as an alternative to more expensive residential care. Additional investment in Extra Care is required as part of the Older Person's Accommodation Strategy.
- The provision of supported housing within Peterborough for people with learning disabilities or mental health difficulties will continue to be a requirement. It is intended that such housing will be provided by social housing landlords and private sector landlords. However, funding may be required in order to alter existing properties to make them fit for their new purpose of providing supported housing.
- Investment in aids and adaptations and assistive technology is essential in delivering cost effective services which support people to remain living at home. This will include investment for mental health services aimed to decrease social exclusion, encourage healthy lifestyles and support mental health recovery.
- The Care Act and Better Care Fund bring some significant requirements around IT and technology. As a Local Authority we need to be able to offer interactive information and advice to the public, we also need to enable self-assessment and in the long term a customer view of their record. We also need to undertake joint assessments and share care plans with health colleagues, which requires our systems to talk to each other. In addition we need to be able to increase our efficiencies by creating assessment and

support planning tools that can be completed in real time with our service users.

- The strategy as presented is in the context of a developing service relating to the Transformation of Social Care and the implications of the emerging Care Act Bill and future integration with health, so will need to be kept under constant review.

5.4 **Community Infrastructure**

- Community Infrastructure incorporates community centres, sports facilities, open space, affordable housing, and ensuring safe, warm and affordable housing in the private sector and other community infrastructure related items for the period 2016-2026. Funding for community infrastructure needs primarily come forward via new developments as part of the S106/POIS/CIL.

- During the first 30 years of the contract governing the Large Scale Voluntary Transfer of the Council's housing stock to Cross Keys Homes (CKH) in October 2004, the Council receives part of the sale proceeds under the Preserved Right to Buy (Council tenants transferred to CKH retain the right-to-buy) on an agreed basis. As part of a budget approval decision by Full Council for 2016/17 that agreed to the creation of a housing Joint Venture , it was also agreed that the funds accumulated from these Right to Buy receipts would be directed to the housing joint Venture to build new affordable homes in Peterborough.

- A significant percentage of new affordable housing provision will continue to come forward via developers as part of S106 planning agreements. The Council's current planning policy aims to secure 30% of all new housing (on eligible sites) to be affordable homes, subject to negotiation with developers. The delivery of affordable housing varies each year according to national funding allocations, local funding and planning permissions approved.

  - Affordable Houses completed over the last few years are as follows;

    2012/13 – 276 Houses

    2013/14 – 162 Houses

    2014/15 – 492 Houses

    2015/16 -167 Houses

    2016/17 – 129 Houses

    2017/18 – 120 Houses

- For 2018/19, current projections indicate that152 new affordable homes should be completed.

- The emerging Local Plan proposes a target of 942 dwellings per year of all types of housing.

- In 2015 PCC commissioned the Building Research Establishment (BRE) to undertake an Integrated Dwelling Level Stock Modelling Report on the private sector housing stock. This modelling exercise also included Energy Performance Certificate (EPC), Land & Property Gazateer (LLPG) and vacant property data provided by the Council. The headline results of this report are:

- The estimated number of dwellings with HHSRS Category 1 hazards in Peterborough's private sector stock is 7,952. The estimated average cost of mitigating hazards per dwelling is £3,548 resulting in the total cost of mitigating all hazards within those dwellings as £28,215,236
- 7.3% (4,821) of all private sector dwellings and 8.8% (1,454) of private rented dwellings in Peterborough are estimated to have an Energy Performance Certificate (EPC) rating below band E
- In Peterborough's private sector stock there is an estimated 13,374 dwellings with un-insulated cavity walls and 9,652 dwellings with less than 100mm of loft insulation
- It is estimated that poor housing conditions are responsible for over 631 harmful events requiring medical treatment every year. The estimated cost to the NHS of treating accidents and ill health caused by these hazards is £2.1 million each year. If the wider costs to society are considered, the total costs are estimated to be £5.2 million each year. If these hazards are mitigated then the total annual savings to society are estimated to be £4.9 million, including £1.9 million of savings to the NHS.
- The stock modelling report is being recommissioned through the BRE during 2019 to update the position on category 1 hazards, adapted properties and EPCs over the next five years. It is hoped that it will also include public health data so that the health of the residents of the city can be shown with the condition of the properties they live in. Therefore enabling targeted prevention work.

- Disabled Facility Grants provides statutory funding to older and disabled people in owner occupied, private rented and registered provider properties to help them make changes to their home environment. Facilities can include the installation of such adaptations as level access showers, Stairlifts and suitable ground floor wheelchair accessible rooms in order for them to remain living in their own homes for longer and therefore reduce or delay the need for the cost of care and entry into high cost placements such as residential or nursing care.
- The Care Act 2014 focuses on prevention. Guidance states "Local authorities must provide or arrange services, resources or facilities that maximises independence for those already with such needs, for example interventions such as rehabilitation/reablement services, e.g. community equipment services and adaptations." The guidance goes onto state "Integrated services built around an individual's needs are often best met within the home. The suitability of living accommodation is a core component of an individual's wellbeing and when developing integrated services, local authorities should consider the central role of housing within integration. The Council's Home Service Delivery Team has achieved this by bringing together the teams of reablement, therapy services, Technology enabled care, care and repair and housing programmes which provides services to the residents of Peterborough to keep them living at home independently and safely for as long as possible.
- In 2014 the Disabled Facility Grant allocation became part of the Better Care Fund with the aim to provide more joined-up and customer focused services

to reduce hospital admissions and expensive care packages and enable people to return from hospital more quickly. In recognition of the rising need for adaptations, central government funding for the DFG has been increased from £220 million to £394 million in 2016/2017 and it is projected to increase to over £500 million by 2019/2020.

- In December 2018 there were 528 empty properties in Peterborough, which have been empty for six months or more. There are approximately 3,100 households are on the Council's Housing Register awaiting suitable accommodation. There is continued high demand from homeless households in Peterborough and this has meant a continued high demand on temporary accommodation and in particular high cost bed & breakfast accommodation. This clearly demonstrates the continued need for a supply of affordable housing in the city and the waste of housing resource the long term empty properties represents. The option of offering Empty Homes Assistance to owners in order to fund refurbishment costs is currently being explored. It is proposed that where assistance is provided to bring properties up to a letable standard the properties are placed into the council's private leasing scheme and are allocated to families in housing need with the Empty Home Assistance being recouped from the rental income throughout the period of the lease.

- Future Community Infrastructure will be delivered through a principle of 'co-located' facilities providing flexible use of space as a community hub which will incorporate multiple needs for service provision such as health and wellbeing, police/emergency services, community, sport and leisure facilities, learning and skills, libraries etc. The revised approach is intended to provide greater consistency and innovative approaches to providing infrastructure which reduce cost whilst ensuring well designed, quality places to live and work.

- Evidence for community infrastructure requirements will be captured via community needs assessments, Parish or Community Group Plans and/or Neighbourhood Plans.

- The Council is committed to working with the civil society sector to assist successful community asset transfers in Peterborough that will result in successful, vibrant and inclusive community managed assets that are sustainable in the long term.

- The Green Open Space Strategy is jointly lead by Amey and PCC through joint working. Any improvements and developments are delivered though input from the statutory planning document and an annual external H&S assement of our play provision.

- The Council recognises that there is a need within the city to provide adequate amenities to meet the needs of the Traveller and Gypsy community. Within Peterborough there are two permanent Traveller and Gypsy sites located at Norwood Lane and Oxney Road.

- The Council continues to see a high number of unauthorised Traveller encampments in the City and have developed and implemented expedient processes in order to minimise the effect of these encampments on the residents and businesses in the City. The Emergency Stopping Place for

Travellers will be improved in the coming months to provide a suitable safe space to move unauthorised encampments onto, where those encampments are on vulnerable or high risk sites.

- The council has worked in partnership with 8 other Local Authorities to prepare an up to date Gypsy, Traveller and Travelling Showpeople's Accommodation Needs Assessment. The assessment takes into account the definition of Gypsies and Travellers as provided in the revised national Planning Policy for Traveller Sites which came into force in August 2015. This states that households who have ceased travelling permanently, will no longer meet the definition of a Traveller for the purposes of assessing accommodation needs in a Gypsy and Traveller Accommodation Assessment. To inform the assessment a survey was undertaken which attempted to interview all known Gypsy and Traveller households in the study area. Based on the findings from the survey, and applying the updated planning definition, the assessment identified no additional 'known need' for Gypsy and Traveller sites in Peterborough or Travelling Showpeople sites and no 'known need' for Transit sites. However, the assessment also took into account the potential accommodation needs of the number of households that did not participate in the survey, but may still meet the new planning definition. This 'unknown need' results in a potential need for up to 16 pitches between 2016 and 2036 in Peterborough. Local authorities are not required to identify pitches to meet this 'unknown need' but can use the information to inform policy development. Therefore while the emerging Local Plan does not identify specific land for the development of Gypsy and Traveller sites to meet this potential 'unknown need' the proposed policy sets outs the criteria that the Council will apply when considering individual planning applications for Gypsy and Traveller sites from households that meet the new planning definition.

Culture and Leisure

- Peterborough's projected growth places greater challenges on its cultural services than at any time in the city's past. Not only will population growth lead to increases in demand, but the increasing variety of demographics across the city will change the nature of that demand. The Council has recognised this, and the need to respond to current challenges, and its commitment to protecting and enhancing cultural and leisure services, both now and in the future.
- Cultural Services within the city face significant challenges which relate to growth and the re-development of existing facilities to meet changing customer expectations.
- The Council is working closely with cultural partners and Arts Council England to develop a new culture strategy, informed by providers and residents. In time, this will help to inform the decisions we make about future cultural asset needs.
- Additionally, the Council will shortly publish its Active Lifestyles Strategy which sets out options and opportunities for consideration to support improved outcomes.

5.5 Children's Social Care and Services

The Council is responsible for ensuring there are sufficient school places within its area to meet the needs of the population. The Council is responsible for providing transport where children have to access schools which are some distance from their home, often as a result of a shortage of school places.

The Council has some clear objectives in terms of school place planning:

- Local places for local children with the aim to meet parental preferences for catchment schools.
- Offering a range of different schools for all parts of the community including community schools, foundation schools, trust schools, faith schools and academies.
- High quality places for people to learn that encourage high levels of achievement.
- Avoiding significant changes to catchment areas
- Limited and temporary use only of mobile accommodation.

However, there are a number of factors that make it more difficult for the Council to meet these objectives.

- There has been exceptional growth in the number of children living in Peterborough in recent years due to a number of issues:
- Peterborough remains one of the fastest growing city in the UK. In particular at present new housing developments at Hampton East, Stanground and Paston Reserve are the main areas in the city with the greatest housing growth. The Council monitors the construction build out very closely with the housing developers on each of these sites so as to best assess the dates to open the new schools.
- Peterborough's birth rate has been one of the highest in England. Between 2006 and 2012 the number of births increased every year when it reached its peak. Between 2012 to 2017 the number of births per year has fluctuated but within a range of 3,000 to 3,200 each year.

As at the October 2018 School Census there were 21,637 children on roll in the primary schools. As an illustration of growth in 2006 2,165 4 years old entered education. In most recent years this number has varied between 3,000 and 3,100.

As at the October 2018 School Census there were 12,597 children on roll in secondary school in years 7 - 11. There are598 more children on roll in year 7 than year 11 which illustrates the growth in recent years.

The quality of the City's schools continues to attract students from other local authorities. Peterborough remains a net importer of children overall which means the City has more children coming into it from outside the boundaries than Peterborough children studying at schools outside the boundaries.

Since 2011 the Council has received £57m in Basic Need funding for increasing school places. More recently it received £14.7m for investment in 2018/19 and the Council is due to receive £6.3m in 19/20 and £1.6m in 2020/21.

At present the following Free School bids to the Education and Skills Funding Agency (ESFA) exist for new schools in the city:

Free School Programme Wave 12:

- Paston Reserve Primary. This is an approved new school for 420 pupils with an anticipated opening date of September 2021.
- Hampton Lakes Primary School - This new school will open in temporary accommodation at Hampton College Primary in September 2019 and is planned to open in their new school buildings from September 2020 for 420 pupils.

Free School Programme Wave 13:

- Applications are presently being considered by the ESFA for the Paston Reserve Secondary School and the 2nd Hampton East Primary school, both subject to approval with a target date for opening of September 2022.

The Council is working closely with ESFA to finalise the grant for the build of first Hampton East primary school to compliment the Hampton Gardens Secondary which opened in September 2018. The primary school, to be known as Hampton Lakes is due to open in September 2020 in its new building but will open with one form of entry into reception year in September 2019 in the existing Hampton College Primary school.

Overall, the city has sufficient school places based on its projections for children starting at primary schools. Limited places in certain parts of the city is the main priority, hence recent expansions at Oakdale, Woodston and Parnwell primary schools where demand exists. Additionally the Council is monitoring the impact of growth in Hampton where demand for places in year is a significant pressure and the rural areas in particular from housing growth in Eye and in Barnack and Helpston.

The impact of the significant growth in primary school age children has put pressure on the Council's secondary schools too. Hence, expansion projects have been completed at Ormiston Bushfield Academy and Nene Park Academy to increase their capacity by 2 forms of entry from September 2018. Jack Hunt School has also expanded by 1 form of entry from September 2018 pending completion of its new and expanded facilities from September 2019. It is also proposed that Ken Stimpson School will be expanded by 2 forms of entry from September 2019 in temporary accommodation until their new facilities are built ready for September 2020. Additional capacity is also required and the Council's objective is to achieve this through the build of the proposed new secondary school at Paston Reserve which is presently being considered by the ESFA as part of the Wave 13 Free School programme.

The Council will continue to monitor very closely the demographic trends in the city along with the growth in housing developments to ensure that it can continue to fulfil its statutory duty to provide sufficient school places.

5.6 School Places

The Schools Organisational Plan is issued to Education Scrutiny in March each year the list below which reflects the Education Capital Programme represents projects presently in feasibility, in various stages of pre-construction design and on site under construction

Scheme	Description	Expected Year of Opening	Additional places created
Jack Hunt	1 FE expansion	September 2019	150
Woodston Primary	1 FE expansion	September 2019	210
Oakdale Primary	1 FE expansion	September 2019	210
Hampton Lakes Primary	New two FE primary	September 2020	420
Ken Stimpson Secondary	2 FE expansion	September 2020	300
Hampton Primary No 2	New 2 FE primary school	September 2022	420
Paston Reserve Primary School	A new two FE primary school to support new development	September 2022	420
Paston Reserve Secondary	8 FE new school	September 2022	1,500
Heltwate Special School	In feasibility-options being considered	TBC	
Marshfields Special School	In feasibility-options being considered	TBC	
John Clare Primary School	In feasibility-options being considered	TBC	
Eye Primary School	Feasibility complete-on hold pending housing development	TBC	
Great Haddon Primary School	Three primary schools are planned under Section 106 agreement	TBC*	1,260
Great Haddon Secondary School	7 FE planned under S106 agreement	TBC*	1,050 plus 6th form

* subject to housing development

Growth and Regeneration Directorate

5.7 **Delivery of Growth Schemes**

- Through its Planning Policy Framework, the City Council is translating the Sustainable Community Strategy into a series of land allocations and planning policies to guide public and private investment decisions. The various documents making up the Framework identify and programme new growth which will require funding for the infrastructure requirements it generates. This sits alongside developer contributions and community infrastructure levy mechanisms for securing the necessary contributions towards funding and maintaining this infrastructure.

- The City Centre Development Plan2 adopted in December 2014 is a key driver in helping the city centre become more vibrant, dynamic and diverse. Offering a high quality built environment, employment, and learning and leisure opportunities by encouraging new investment into the city.
- Improving the city centre began in earnest with the completion of the first phase of a revitalised public realm in Cathedral Square and the nearby St John's Square. This gave a much-needed face lift to a key part of the city centre, helping Peterborough to better compete regionally, and has been continued with major improvements in Long Causeway, Cowgate and Wheel Yard. Work is now underway to update the public realm in Lower Bridge Street and further improvements are scheduled to commence at Bishops Road in the coming months.
- The Peterborough Long Term Transport Strategy identified the infrastructure required to meet the demand for travel resulting from the growth agenda. Increased investment in sustainable travel infrastructure coupled with a programme of highway infrastructure improvements has been identified and is set out in the Peterborough Infrastructure Delivery Plan (IDP) and associated schedule (IDS). The fourth Peterborough Local Transport Plan (LTP4) was adopted in April 2016 and sets out the Long Term Transport Strategy (LTTS) for the area to 2026 and a more detailed programme of works to 2021.
- The Council is increasingly working with partners in joint ventures to actively drive the delivery of growth and regeneration in the city. Building on the success of the Peterborough Investment Partnership (which in its first year of operation obtained planning consent for a landmark scheme on Fletton Quays), the Council is creating a new joint venture with Cross Keys Homes to drive the delivery of housing.
- The Council's increasingly commercial and active role in delivery (which includes a willingness to leverage its own assets and covenant as appropriate) is a key facilitator for bringing sites forward, and remains a pillar-stone for delivering Peterborough's growth agenda. It will take this active role in bringing North Westgate forward, using its unique position to support land assembly on this historically challenging site that the market has failed to bring forward

5.8 **Street Lighting**

- Street Lighting - It is proposed to replace the remaining existing street lighting to utilise LED lighting across the Peterborough network, while maintaining and or improving the required lighting levels. Currently over 7,000 street lights have been replaced to the new more efficient and effective LED luminaires across the Peterborough administrative area since January 2012. The existing Asset Investment scheme for lighting replacement over the next ten years will be re-profiled to refurbish the network within a three year timeframe. The total Asset Investment project costs increased by £3.6m, but accelerating the programme will enable the Council to bring forward energy efficiency savings of around £10m over the next 20 years.

5.9 **Transport**

- Transport incorporates new roads, bus and railway stations, street lighting, footways/cycle ways and other transport related infrastructure items for the period 2019/24.
- To provide the context, the fourth Peterborough Local Transport Plan (LTP4) was adopted in April 2016 and sets out the Peterborough Long Term Transport Strategy (LTTS) for the area to 2026 and a more detailed programme of works to 2021. The LTTS identifies the infrastructure required to meet the demand for travel resulting from the growth agenda. Increased investment in sustainable travel infrastructure coupled with a programme of highway infrastructure improvements has been identified and a programme of works is set out in the transport element of the IDS.
- The transport Asset Investment programme, as reflected in the IDS, takes account of the following goals:
    - Drive growth, regeneration and economic development
    - Improve educational attainment and skills
    - Safeguard vulnerable children and adults
    - Implement the Environment Capital agenda
    - Support Peterborough's culture and leisure trust Vivacity
    - Keep all our communities safe, cohesive and healthy
    - Achieve the best health and wellbeing for the city
- LTP4 sets out how the forecast increased demand to travel will be met by a combination of increased use of sustainable travel and a programme of targeted highway infrastructure improvement and Asset Investment maintenance works.
- The Council awarded as of 1st October 2013 a new 10 Year Highway Services contract, which can be extendable by a further 10 years. This contract gives the authority more flexibility in meeting its strategic objectives and goals in an efficient and effective manner.
- The Council is progressing with the Department for Transport's incentive fund requirements to ensure it maximises the LTP maintenance block allocation to maintain the existing highway infrastructure. In order to determine the level of funding, each local highway authority in England (excluding London) is required on an annual basis to compile a report answering 22 questions with 3 assessment bands. Currently, Peterborough City Council is a band one but hopes to progress to band 2 for 2017/18 by undertaking a number of work streams as well as further investment in asset surveys.
- The Council has experienced a reduction in transport Asset Investment allocations through a reduction in Government LTP allocations in 2011/12 partly as a result of the cessation of Primary Route Network (PRN) structures funding. Since 2015/16, there have been further reductions in transport Asset Investment allocations as a proportion of this funding has been given to the LEPs. Funding for Major Schemes is now primarily delivered through the Greater Cambridgeshire Greater Peterborough Local Enterprise Partnership (GCGP LEP). Peterborough City Council will concentrate on

promoting and delivering projects that enhance the economic wellbeing of Peterborough.

- The Combined Authority of Cambridgeshire and Peterborough will channel certain other funding streams and the main source initially is the Local Transport Plan capital grant (both the maintenance and integrated transport elements). The Combined Authority will allocate these finds in line with its transport plan to the highways authorities.

5.10 **Regeneration**

- Peterborough is a growing city which expanded rapidly as a 'New Town' in the 1970s and continues to grow to the present day. The city has the third fastest growing by population in the country and its population is expected to rise to around 237,000 by 2031 – an increase of 28% from 2013. This rate of growth will create challenges as well as opportunities: for example, despite the fourth highest housing stock growth nation-wide, housing demand increasingly outstrips supply. (Last year, the average time for a house to sell in the city was 13 days – the fastest in the country.)
- It is against this background that the Council is evolving its role in driving growth: a change that has accelerated as the benefits of its approach have become clear. This change in approach is guided by series of core principles:
  - The Council should not just be a facilitator of growth but should take an active role in delivering growth wherever necessary
  - Times of financial constraint mean the Council needs to tap into new sources of income beyond government grant finance to drive regeneration and economic development
  - The Council should extend its existing partner arrangements and enter new ones where both parties have synergies that can drive growth effectively and at pace.

Over recent years the Council has taken an increasingly hands-on and commercial approach to regeneration. Its work on Fletton Quays, following the establishment of the Peterborough Investment Partnership in January 2015, has seen a long-term underused and derelict brownfield site taken successfully through the planning process to the point where physical transformation is now well underway. Over the next two years this site will be transformed, with new offices and residential developments along a revitalised riverside promenade.

In November 2016 the Council set up a housing joint venture company with Cross Keys Homes called Medesham Homes that is working to deliver various types and tenures of housing across the city, helping meet the needs of a growing population. The Council has also earmarked £15m over the next three years to support land assembly for the delivery of regeneration in the North Westgate area, which - like Fletton Quays before it - has stalled as a development opportunity, and will require the Council to become more directly involved in delivery. In early 2016, the Council entered into a joint venture with Norse Property Services, which will bring new and extended property capabilities and capacity to the Council.

As well as equipping itself with these new mechanisms for delivery, the Council is reviewing its approach to its land and property assets, both current and future. Where it can identify assets of strategic growth importance - such as some parts of North Westgate - it will make efforts to assemble such assets to help secure Peterborough's future economic strength; where assets offer strong investment returns, the Council will, in addition, actively examine acquisitions that can help diversify its income streams and support service delivery.

In addition to such interventions the Council will continue to explore how by taking an active - and far more wide-ranging - view of growth, and its own role in the delivery of growth, it can achieve both direct and indirect social and economic benefits for the people of Peterborough.

5.11 **Strategic Property**

- The Council keeps its property portfolio under constant review; ensuring assets are held only for identified operational, growth or investment purposes. (See Appendix M Asset Management Plan for more detail) Co-location and further portfolio rationalisation are expected to improve overall efficiency of the operational portfolio and will be used to contribute to the overall growth of Peterborough.
- The Council has now successfully moved its back office functions to the a new office development on Fletton Quays releasing Bayard Place and parts of the Town Hall to be utilised for Investment purposes after business case approval.
- Overall the Council aims to dispose of surplus assets and use the capital receipts raised to support other initiatives. A ‘best consideration’ approach may be applied where the site is in a key growth area. Work is ongoing to identify further sites that are suitable for disposal, recommendations take into account issues such as holding costs, fitness for purpose, alternative use and financial returns. Annex 2 of this report has more detail about the assets that have been identified and suitable for disposal.

5.12 **LATCo**

- The council has brought back the existing services provided by Amey. Within these services there is a range of equipment and facilities used. The capital strategy will need to include future plans on how this equipment is kept fit for purpose and complies with legislative requirements.

Resources Directorate

5.13 **Information and Communication Technology – ICT**

- ICT is critical to the efficient delivery of Council Services. The present ICT programme concentrates on the upgrade and migration of core systems like Framework I and Liquid Logic onto environments where joint work with Cambridgeshire County Council is possible through similar processes leading to operational efficiencies. The other significant part of the programme is future proofed (Infrastructure and Applications ie Windows 365) to enable staff to take advantage of technology to drive service efficiencies and deliver a better service to our customers.

5.14 **Invest to Save**

- The Capital Programme contains funding for Invest to Save schemes. This budget is included on the basis that any projects funded via this budget will deliver savings to the Council, for example renewable energy schemes. Business cases for future proposals are required to demonstrate how the cost of borrowing will be covered, e.g. through income generation, etc. Therefore, each scheme will be self-financing so that Invest to Save schemes will have no overall impact against the Council's bottom line.
- The following set of principles are applied in assessment of such schemes:
  - Each project needs to complete the Council's standard full business case. This includes the required officer evaluation and approvals as for all business cases.
  - Schemes should deliver savings that improve the financial position of the Council as presented in this MTFS.
  - Schemes will also be considered that maintain the MTFS position (ie neither improve nor worsen the position), but contribute towards delivery of service improvements, or contribute to achievement of Council priorities.
  - The MTFS assumes that payback from schemes commence in the same year the project starts. If this is not the case, proposals will need the following additional analysis in the business case:
    - A full net present value (NPV) analysis
    - An outline of how the finance will be covered across financial years if schemes are not cost neutral within each financial year
  - Proposals will need to be subject to the Council's decision making requirements, e.g. any schemes above £500k will be subject to a Cabinet Member Decision Notice (CMDN) approved by the Cabinet Member for Resources and relevant portfolio holder.
  - And update on schemes is included in future financial reports to Cabinet during the year.

  Schemes are not approved and budget is not allocated until all of the above are in place.

Invest to Save Current Schemes:

- The Council is continuing to investigate further ways it can support the development of housing and other projects - further details of this will be brought forward should the option be financially beneficial to the council. Any projects will comply with the terms and conditions outlined to obtain invest to save funding.

5.15 **Renewable Energy / Energy Efficiency**

- Energy Performance Contracts - The Council entered into an Energy Performance framework agreement (EnPC) with Honeywell Control Systems ("Honeywell") in June 2013 by which energy efficiency improvements can be made to Council properties and property belonging to other local authorities.
- Empower Solar Panel Scheme - The Council entered into a partnership with social enterprise Empower Community Management LLP to deliver solar

panels on private properties in the city, and to finance such schemes outside the city.

- The Council's loan to Empower is fully secured over the solar rooftop assets of Empower Community Services Peterborough 1 and those assets are now fully operational and receiving Feed in Tariff, indexed each year by RPI to the year 2032-7. The Council continues to receive income from the loan at a commercial rate of interest.

- A refinance process is currently being undertaken by Empower with long term renewable finance funders in order that the Council's loan can be repaid

- **Green Leases –** In August 2014 the Council agreed to issue a memorandum of understanding to all existing tenants of Council owned buildings (and new tenants as they enter into leases) to ensure that it was explicitly clear that the Council would not prohibit a tenant from undertaking any works that would improve the energy performance of a building. In addition to this the Council committed to carrying out a review to identify which of the council's assets have a low energy efficiency rating and are likely to be rented out now or at some point in the future. This includes an assessment of the potential loss of income that may be felt if these properties become un-rentable in the future, alongside a potential schedule for invest to save works that would prevent this as appropriate

- **Energy Recovery Facility (ERF) -** In February 2013 Peterborough City Council signed a contract with Viridor, to build and operate a new 'energy from waste' facility (known as an Energy Recovery Facility) in the City. The plant is now operational, and will offer a more environmentally friendly and lower-cost alternative to burying the City's waste in landfills.

  The energy from waste facility will save over 10,000 tonnes of CO2 equivalent every year compared to sending the City's waste to landfill. The facility is close to the power station in Fengate, and is designed to meet the City's needs for the next 30 years. The facility will burn any waste that cannot be recycled to ash and in so doing allow significant energy to be captured from an otherwise wasted resource. In doing so, the weight of rubbish needing to be sent to landfill will be reduced by more than 93 per cent. The remaining ash can also be recycled, for example as aggregate for building roads, diverting potentially 100 per cent from landfill.

  The facility will also harness the energy released in the process to generate around 53,000 megawatt hours of electricity, which can generate savings. This is enough electricity to power approximately 15 per cent of the homes in Peterborough for a year.

- In order to maximise the potential of the Councils investment in the ERF it is investigating a number of schemes aimed at improving the income the facility generates from energy production as well as improving its environmental benefits.

  A plan for the development of Combined Heat and Power (CHP) at the facility is under development with the heat created feeding into a number of proposed developments over a period of a number of years. The key element of the CHP development is to consider securing of long term offtake arrangements for the heat generated by the ERF, hence the growth and regeneration team are working closely with resources on this project. Producing heat and power at the facility improves its efficiency as well as improving its carbon reduction performance.

A second project is examining the opportunities to develop private electrical connections to large commercial and industrial users in order to maximise the facilities potential to generate power considering the existing constraints within the local electricity distribution network. In addition options to manipulate the facilities output to match specific grid requirements of peak generation, rapid response and frequency management are being examined to add additional value to the Councils investment.

6 Sources of Asset Investment Funding

6.1 A summary of the sources of Asset Investment funding is shown in 8.3.

6.2 External sources arise from the Council's aims, together with partners, to maximise opportunities for funding from any source, including European and Government Grants and applications for National Lottery funding for schemes. Corporate resources can consist of Asset Investment receipts and borrowing. Under the Prudential Code for Asset Investment Finance, the Council has the ability to borrow money. To do this, the Council must be able to show that any borrowing is affordable, prudent and sustainable, see the Treasury Management, Prudential Code and Minimum Revenue Provision Strategy.

6.3 The Council is required to pay the Homes and Communities Agency (HCA) a percentage of gross Asset Investment receipts from sales of Community Related Assets (CRA) transferred to it from the Peterborough Development Corporation. From August 2018, this is 38% (diminishing annually by 2%). Although this represents a significant loss of opportunity for the Council, the HCA is encouraged to reinvest the receipt back into Peterborough. The Council is currently awaiting consultation from the HCA regarding the policy surrounding these arrangements.

6.4 Developers are required to contribute resources to ensure appropriate infrastructure comes forward alongside growth. Some of this contribution is made directly by the developer, such as the provision of new community facilities as part of a development scheme. Developers also commonly contribute financially to the Council, so that the Council can pool contributions to deliver infrastructure. This process is through the Council's adopted Community Infrastructure Levy. Legislation requires the Council to hand over a proportion of any CIL money it receives to the parish council (the neighbourhood proportion) in which the development is located (if it is in a parished area) or to discuss with the local community how to spend that proportion locally (if the development is in an un-parished area). The proportion to be handed over depends upon whether there is or is not a statutory neighbourhood development plan in place. The Council will also retain a proportion of CIL receipts for administration of the charge. Provisionally, the Council has agreed that the remaining CIL receipts are to be split via the thematic areas outlined below (though it is important to note that such thematic areas will receive other funding via other sources in addition to the CIL)

6.5 **Neighbourhood Proportion**

	Proportion of CIL to be allocated where development has taken place
Parishes / neighbourhoods without a neighbourhood plan	*15% - capped at £100 per Council tax dwelling*
Parishes / neighbourhoods with an adopted neighbourhood plan	*25% - uncapped*

Remaining CIL receipts - Proposed funding split by infrastructure theme

Transport and Communications	30%
Education and Learning	40%
Community and Leisure	10%
Emergency services / health and well-being	10%
Environment	10%

6.6 **Alternative Financing Arrangements**

- The Council has actively investigated public/private partnerships (PPP) and other innovative financing arrangements in relation to a range of Asset Investment projects. Examples include:-
    - Close collaborative working with our private sector contractor within the Environment, Transport and Engineering service to investigate ways of making significant savings and providing increased value for money. A new contract, contracts or contract extensions has been procured to cover these work areas and commenced in October 2013.
    - Partnership arrangements with various Registered Social Landlords for the provision of affordable housing.
    - Alternative structures for the development of key sites within Peterborough including the establishment of joint ventures.

6.7 **Capital Receipts**

- A Capital receipt is an amount of money exceeding £10,000, which is generated from the sale of an asset. The need to generate Capital receipts is a fundamental part of the Asset Management Plan. The rationalisation of the asset portfolio has benefits such as reducing revenue costs that relate to surplus assets and also releases assets for disposal. Capital receipts are an important funding source for the Council.
- The Council takes a holistic approach to funding its Asset Investment programme and will adapt its approach based on overall financial circumstances and the needs of particular services. An outcome of this approach is to treat all Capital receipts as a corporate resource; enabling investment to be directed towards those schemes or projects with the highest corporate priority and to ensure the Council achieves value for money from its Capital receipts. This means that individual services are not reliant on their ability to generate Capital receipts.
- The timing and value of asset sales is the most volatile element of funding, especially in the current financial climate. As a result, the Corporate Director Growth and Regeneration closely monitors progress on asset disposal. Any in year shortfalls could potentially need to be met from increased corporate resources.
- The Government has announced proposals to enable Councils to use Asset Investment receipts more flexibly to support transformation and help meet the financial challenges councils face. The Council has agreed to use receipts flexibly to help meet costs of the minimum revenue provision. Further detail is included within the Treasury Management Strategy report in the MTFS.

7 Procurement Strategy

7.1 Delivery of the majority of the Capital Programme is commissioned from external providers. The Council will either use a tender process, or use some of the following frameworks for the major contracts that it has in place for example:

- Skanska – for highways works
- Keir – for major school development works

A new Procurement Strategy is in the process of being completed for approval by the new Strategy Commissioning Board in April 2019.

7.2 The Councils approach is governed by its Procurement Strategy. This five year strategy sets out how the Council intends to purchase goods, works or services from third parties that:

- contribute towards achieving the Council's priorities (para 7.8) and aligns to the seven commissioning principles the Council has adopted to become a Commissioning Led Council (7.9);
- supports Peterborough's Sustainable Community Strategy[3] and ambition to become the UK's Environment Capital, to substantially improve the quality of life of the people of Peterborough and to raise the profile and reputation of the City as a leading city in environmental matters and a great place in which to live, visit and work;
- complies with the legislative requirements for procurement; and
- meets the challenge within local government and the wider public sector to spend within its means. The Council has already seen its government funding cut by £55m (80%) over the previous six years, with this downward trend set to continue over the next four years.

7.3 The Council spends in excess of £200 million per year on procuring works, goods and services through a variety of procurement and contracting arrangements covering a wide and diverse spectrum of council functions. For example, this includes buying stationery, energy, insurance, home to school transport for eligible pupils, care packages for eligible adults and children in social care, services from our strategic partners such as building maintenance and highway maintenance, to major IT systems and construction projects. The majority of the Asset Investment Expenditure incurred is undertaken by the Council's partner organisations.

7.4 This strategy will align to the Council's Customer Strategy[4] which is fundamental in the understanding of our customer and business needs that will shape the way we deliver our services as a Commissioning Led Council.

7.5 The outcomes of this strategy will be to:

- Undertake procurement that achieves the Council's Strategic Priorities and being a Commissioning Led Council;
- Achieve agreed efficiencies, effectiveness and economies of scale that demonstrates value for money for the residents, partner organisations, businesses and other interested parties, taking into account environmental,

[3] https://www.peterborough.gov.uk/council/strategies-polices-and-plans/strategic-priorities/
[4] https://www.peterborough.gov.uk/council/strategies-polices-and-plans/customer-service-strategy/

social and economic impacts and whole life costs when procuring products and services;
- Achieve improved business processes that streamline how the council interacts with its supply chain including through maximising digital technology; and
- Promote and supports small medium enterprises including community groups and local businesses

7.6 Monitoring arrangements

Progress and monitoring of the procurement strategy outcomes will be done in the following ways:

- Regular monitoring as part of a programme of works through the council's Strategic Procurement Board, a cross representative group of officers that are involved in procurement, legal, finance and commissioning activity.
- The corporate management team to receive monitoring reports of the Strategic Procurement Board
- An annual performance report is scheduled to go Cabinet members in March 2019.

8 Conclusion

8.1 The Capital Strategy demonstrates and sets the framework for how the Councils capital programme supports its strategic priorities. The Capital Strategy is subject to continuous review and has been prepared in collaboration with other services to ensure it's consistent with the MTFS, which itself has been reviewed and updated. Any revenue implications from the Capital Strategy have been built into the MTFS.

8.2 The Council has implemented and continues to implement changes to its core business and culture to ensure that limited funding is prioritised and effectively targeted to deliver the objectives, through reviewing the current programme for efficiencies in procurement and rationalisation of programmes.

8.3 **Summary Capital Programme**

Capital Expenditure	**2017/18 Actual £m**	**2018/19 Est £m**	**2019/20 Est £m**	**2020/21 Est £m**	**2021/22 Est £m**	**2022/23 Est £m**	**2023/24 Est £m**
People and Communities	32.9	38.8	33.9	20.1	21.7	22.4	6.5
Invest to Save / Commercial Activities / Cost Avoidance Schemes	13.6	19.8	37.6	30.9	20.1	10.1	0.1
Resources	5.1	17.7	5.4	5.4	5.9	3.5	3.5
Growth and Regeneration	28.7	44.8	37.2	29.2	37.7	33.1	31.0
Total	**80.3**	**121.1**	**114.1**	**85.6**	**85.4**	**69.0**	**41.1**
Financed by:							
Capital receipts	1.1	1.5	23.2	15.0	-	-	-
Capital grants contributions	36.5	42.3	26.8	29.8	28.1	32.5	16.9
Net financing requirement	**42.7**	**77.3**	**64.1**	**40.8**	**57.3**	**36.5**	**24.2**
Total	**80.3**	**121.1**	**114.1**	**85.6**	**85.4**	**69.0**	**41.1**

8.4 **Summary of Fixed Asset Values as at 31st March 2018**

Fixed Asset Values	**Gross book £000**	**Depreciation £000**	**Net book value £000**
Land & buildings	420,680	(18,900)	401,780
Vehicles, plant & equipment	40,286	(20,491)	19,795
Infrastructure assets	283,821	(119,366)	164,455
Community assets	901		901
Heritage assets	688		688
Investment properties	21,797		21,797
Surplus assets	1,135	(104)	1,031
Assets Under Construction	14,865		14,865
Total	**784,173**	**(158,861)**	**625,312**

(These values follow recommended practice for presenting accounts and are not indicative values for insurance purposes nor do they reflect potential disposal values

Annex Two

Asset Investment Receipts Summary from 2019 to 2021

Property Description	2019/20	2020/21
Substations	*	
Orton Bowling Green	*	
Dickens Street Car Park	*	
Bungalow	*	
SteamHouse Farm / Yard and Buildings at Alkramian	*	
Chauffeurs Cottage	*	
5 Royce Road	*	
POSH	*	
165a Cromwell Road	*	
Church Street Thorney Assets - Library and Community rooms		
Tenterhill/Thistle Drive	*	
Land at Stanground Academy	*	
Land at Angus Court	*	
London Road (gravel car park)	*	
Land at Fleet - Fletton	*	
3 allotments	*	
Peterscourt	*	
Land at Gostwick	*	
Land at Caxton Court	*	
Land at City Clinic - Wellington Street	*	
Land at Play area Smithfield	*	
New England Complex	*	
Plot 7 Fletton Quays		*
Land at Fengate South		*
Land at Bishops Road Car Park		*
Wellington Street Car Park		*
Wirrina Car Park		*

Properties Under Consideration for Disposal

441 Lincoln Road
Food Hall & Market
CRA Windfall land
Paston CRA land
Herlington Centre
Royce Road Ground Rents
Northminster House Ground Rent
Ivatt Way Ground Rents
Laxton Square
Saville Road Estate
Saville Road Ground Rents
Westwood 7 Industrial Ground Rent
Alfric Square

Appendix 1 –Capital Programme Schemes 2019/20- 2023/24

Project	2019/20	2020/21	2021/22	2022/23	2023/24	2019/20 Funding		2020/21 Funding		2021/22 Funding		2022/23 Funding		2023/24 Funding	
	Budget	Budget	Budget	Budget	Budget	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Maintenance On Schools	1,200	1,200	1,200	1,200	1,200	-	1,200	-	1,200	-	1,200	-	1,200	-	1,200
Staffing Costs (0.5% Of Capital)	170	180	190	200	210	170	-	180	-	190	-	200	-	210	-
Mobiles Purchase/Lease	500	500	500	500	500	500	-	500	-	500	-	500	-	500	-
Heltwate School	5,000	-	-	-	-	5,000	-	-	-	-	-	-	-	-	-
Barnack Primary School	180	-	-	-	-	-	180	-	-	-	-	-	-	-	-
Schools Direct Spend	458	458	458	458	458	-	458	-	458	-	458	-	458	-	458
Jack Hunt Expansion	1,553	-	-	-	-	1,100	453	-	-	-	-	-	-	-	-
PFI Condition Works	200	200	200	200	200	200	-	200	-	200	-	200	-	200	-
Future Primary MTFS	100	100	100	100	100	100	-	100	-	100	-	100	-	100	-
Carillion Works (Phoenix and Gladstone)	150	-	-	-	-	150	-	-	-	-	-	-	-	-	-
Paston Reserve Secondary	100	6,860	13,000	5,839	-	100	-	5,283	1,577	1,900	11,100	-	5,839	-	-
Paston Reserve Primary	100	6,326	1,770	-	-	86	14	-	6,326	-	1,770	-	-	-	-
Hampton Lakes Primary No 1 of 2	6,000	-	-	-	-	198	5,803	-	-	-	-	-	-	-	-
Woodston Phase 2	2,400	-	-	-	-	2,400	-	-	-	-	-	-	-	-	-
Ken Stimpson Expansion	8,179	-	-	-	-	1,876	6,303	-	-	-	-	-	-	-	-
Marshfields Expansion	2,869	-	-	-	-	2,869	-	-	-	-	-	-	-	-	-
John Clare Expansion	70	-	-	-	-	17	53	-	-	-	-	-	-	-	-
Great Haddon	-	500	500	10,000	-	-	-	-	500	-	500	-	10,000	-	-
Aids And Adaptations	380	420	455	490	525	380	-	420	-	455	-	490	-	525	-
Assistive Technology	150	150	150	150	150	150	-	150	-	150	-	150	-	150	-
Acquisition of Whitworth Mill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Day Opportunities	95	-	-	-	-	95	-	-	-	-	-	-	-	-	-
Disabled Facilities Grant	2,190	2,200	2,200	2,200	2,200	767	1,423	700	1,500	700	1,500	700	1,500	700	1,500
Repair Assistance	30	10	10	10	10	30	-	10	-	10	-	10	-	10	-
Repair Assistance (Care And Repair)	1,450	1,010	1,010	1,010	1,010	1,450	-	1,010	-	1,010	-	1,010	-	1,010	-
System Changes	406	-	-	-	-	406	-	-	-	-	-	-	-	-	-
Total for People & Communities	**33,931**	**20,114**	**21,743**	**22,357**	**6,563**	**18,044**	**15,887**	**8,553**	**11,561**	**5,215**	**16,528**	**3,360**	**18,997**	**3,405**	**3,158**
City Fibre Project	200	-	-	-	-	200	-	-	-	-	-	-	-	-	-
Telephony Service	1,000	-	-	-	-	1,000	-	-	-	-	-	-	-	-	-
Housing Acquisition	-	10,000	-	-	-	-	-	-	10,000	-	-	-	-	-	-
Better Care Fund Property	799	800	-	-	-	799	-	800	-	-	-	-	-	-	-
Hotel Loan	14,200	-	-	-	-	14,200	-	-	-	-	-	-	-	-	-
Homeless 50	1,400	75	75	75	75	1,400	-	75	-	75	-	75	-	75	-
MTFS - Property Acquisition	20,000	20,000	20,000	10,000	-	20,000	-	20,000	-	20,000	-	10,000	-	-	-
Total for Invest To Save	**37,599**	**30,875**	**20,075**	**10,075**	**75**	**37,599**	**-**	**20,875**	**10,000**	**20,075**	**-**	**10,075**	**-**	**75**	**-**
Corp Grant Match Funding Bid	1,000	1,000	-	-	-	1,000	-	1,000	-	-	-	-	-	-	-
Cremator Relining	-	35	73	-	-	-	-	35	-	73	-	-	-	-	-
Capital School Reserve	800	800	800	-	-	800	-	800	-	800	-	-	-	-	-
ICT Projects	3,600	3,500	5,000	3,500	3,500	3,600	-	3,500	-	5,000	-	3,500	-	3,500	-
MTFS - Mausoleum Building Costs	47	49	-	-	-	47	-	49	-	-	-	-	-	-	-
Total for Resources	**5,447**	**5,384**	**5,873**	**3,500**	**3,500**	**5,447**	**-**	**5,384**	**-**	**5,873**	**-**	**3,500**	**-**	**3,500**	**-**
Strategic Property Portfolio	3,469	1,690	1,424	1,500	1,500	3,469	-	1,690	-	1,424	-	1,500	-	1,500	-
Wheelie Bins	160	160	160	160	160	160	-	160	-	160	-	160	-	160	-
Off Street Car Parks - Structural Works And Resurfacing	100	100	100	100	100	100	-	100	-	100	-	100	-	100	-

Project	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000	2019/20 Funding Corp. Res. £000	2019/20 Funding 3rd Party Inc. £000	2020/21 Funding Corp. Res. £000	2020/21 Funding 3rd Party Inc. £000	2021/22 Funding Corp. Res. £000	2021/22 Funding 3rd Party Inc. £000	2022/23 Funding Corp. Res. £000	2022/23 Funding 3rd Party Inc. £000	2023/24 Funding Corp. Res. £000	2023/24 Funding 3rd Party Inc. £000
Leisure Trust Property	700	350	350	350	350	700	-	350	-	350	-	350	-	350	-
Cost Of Disposals	250	250	500	-	-	250	-	250	-	500	-	-	-	-	-
Play Areas Improvement Programme	185	185	185	185	185	185	-	185	-	185	-	185	-	185	-
Werrington Car Park	-	-	-177	-	-	-	-	-	-	-	-177	-	-	-	-
Lawson Avenue	32	-	-	-	-	-	32	-	-	-	-	-	-	-	-
North Westgate Development	3,000	5,000	5,000	-	-	3,000	-	5,000	-	5,000	-	-	-	-	-
South Town Hall Works	-	34	376	166	155	-	-	34	-	376	-	166	-	155	-
North Town Hall Works	2,534	-	-	-	-	2,534	-	-	-	-	-	-	-	-	-
Central Town Hall Works	200	-	-	-	-	200	-	-	-	-	-	-	-	-	-
Key Theatre Catering Provision	290	-	-	-	-	290	-	-	-	-	-	-	-	-	-
Childrens Play Area	500	-	-	-	-	500	-	-	-	-	-	-	-	-	-
Central Library Refurbishment and Community Hub Development	350	-	-	-	-	350	-	-	-	-	-	-	-	-	-
Events and Conference Centre	-	-	1,200	-	-	-	-	-	-	1,200	-	-	-	-	-
MTFS - Operation Can Do	-	2,000	4,568	-	-	-	-	2,000	-	4,568	-	-	-	-	-
MTFS Footway Slab Replacement Programme	230	230	230	230	230	230	-	230	-	230	-	230	-	230	-
Corporate Growth Area - Capital Pot Funding	500	500	500	500	500	500	-	500	-	500	-	500	-	500	-
Affordable Housing	-	-	700	-	-	-	-	-	-	700	-	-	-	-	-
Roads And Bridges	330	330	330	330	330	330	-	330	-	330	-	330	-	330	-
Highways	3,921	3,921	3,921	3,921	3,921	555	3,366	555	3,366	555	3,366	555	3,366	555	3,366
Surface Treatments	630	630	630	630	630	630	-	630	-	630	-	630	-	630	-
Nene Bridge Bearings	1,000	1,850	-	-	-	1,000	-	1,850	-	-	-	-	-	-	-
Crescent Bridge Refurbishment	109	-	-	-	500	35	74	-	-	-	-	-	-	500	-
Integrated Transport Programme	1,407	1,407	1,407	1,407	1,407	-	1,407	-	1,407	-	1,407	-	1,407	-	1,407
Continuation of Public Realm - MTFS	56	-	2,200	2,000	2,000	56	-	-	-	2,200	-	2,000	-	2,000	-
Intelligent Transport Systems Infrastructure	250	-	-	250	250	250	-	-	-	-	-	250	-	250	-
Refurbishment of Traffic Signal Sites Nearing End of Life	100	100	100	120	120	100	-	100	-	100	-	120	-	120	-
Strategic Network Review	150	-	-	150	-	150	-	-	-	-	-	150	-	-	-
Eastern Industries Access Phase 1 - Parnwell Way	-	5,000	-	-	-	-	-	1,500	3,500	-	-	-	-	-	-
A1260 Nene Parkway Junction 15 improvements	-	-	-	7,500	-	-	-	-	-	-	-	2,250	5,250	-	-
A16 Norwood Duelling	-	-	-	-	5,000	-	-	-	-	-	-	-	-	1,500	3,500
University Access	-	-	5,000	5,000	-	-	-	-	-	1,500	3,500	1,500	3,500	-	-
Rail Station Western Access	-	-	-	-	3,000	-	-	-	-	-	-	-	-	1,000	2,000
A1260 Nene Thorpe Bridge / Nene Parkway	-	-	-	2,500	2,500	-	-	-	-	-	-	2,500	-	2,500	-
A15 Paston Parkway APV Baker Footbridge	-	-	-	150	750	-	-	-	-	-	-	150	-	750	-
A1260 Nene Parkway Longthorpe Footbridge	-	-	-	250	2,500	-	-	-	-	-	-	250	-	-	2,500
Extreme Weather Network Improvements	750	750	750	750	750	750	-	750	-	750	-	750	-	750	-
Match Funding to Secure External Bid Funding	1,000	1,000	1,000	1,000	1,000	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-
Parkway Drainage Improvement Programme	-	-	-	250	900	-	-	-	-	-	-	250	-	-	900
Street Lighting Cables and Feeder Pillar Upgrade	500	500	500	500	500	500	-	500	-	500	-	500	-	500	-
A47/AA15 Lincoln Road Junction 18 Improvements	4,350	-	-	-	-	1,250	3,100	-	-	-	-	-	-	-	-
Highways Capitalisation	250	250	250	250	250	250	-	250	-	250	-	250	-	250	-
A1139 Frank Perkins Parkway (River Nene Bridge to JCT8)	250	-	-	-	-	250	-	-	-	-	-	-	-	-	-
Street Lighting LED Project	606	-	-	-	-	606	-	-	-	-	-	-	-	-	-
Lolham Bridge No3 Refurbishment	31	-	-	-	-	31	-	-	-	-	-	-	-	-	-
Werrington Brook	20	-	-	-	20	-	20	-	-	-	-	-	-	-	20
A605 Oundle Road improvement scheme (between Lynch Wood and Alwalton) NPIF	1,212	-	-	-	-	717	495	-	-	-	-	-	-	-	-
Parkways Five Year Maintenance programme	1,650	1,500	1,500	1,500	-	1,650	-	1,500	-	1,500	-	1,500	-	-	-

Project	2019/20	2020/21	2021/22	2022/23	2023/24	2019/20 Funding		2020/21 Funding		2021/22 Funding		2022/23 Funding		2023/24 Funding	
	Budget	Budget	Budget	Budget	Budget	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.	Corp. Res.	3rd Party Inc.
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
A605 Whittlesey Access Phase 2 – Stanground Access	4,450	-	-	-	-	2,100	2,350	-	-	-	-	-	-	-	-
A1260 Nene Parkway Improvement Jn 32 to Jn 3 (Fletton Parkway)	60	-	5,000	-	-	-	60	-	-	1,500	3,500	-	-	-	-
MTFS - Street Signage	50	50	50	50	50	50	-	50	-	50	-	50	-	50	-
Westwood Footbridge Pier Top Concrete Refurb	35	-	-	-	-	-	35	-	-	-	-	-	-	-	-
MTFS - Safety Fencing Network	1,400	1,400	-	1,400	1,400	1,400	-	1,400	-	-	-	1,400	-	1,400	-
MTFS - City Market Flooring	90	-	-	-	-	90	-	-	-	-	-	-	-	-	-
Total for Growth & Regeneration	**37,157**	**29,187**	**37,754**	**33,099**	**30,958**	**26,218**	**10,939**	**20,914**	**8,273**	**26,158**	**11,596**	**19,576**	**13,523**	**17,265**	**13,693**
Total Asset Investment Programme	**114,134**	**85,560**	**85,445**	**69,031**	**41,096**	**87,308**	**26,826**	**55,726**	**29,834**	**57,321**	**28,124**	**36,511**	**32,520**	**24,245**	**16,851**

AUDIT COMMITTEE	AGENDA ITEM No. 8
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton, Resources portfolio holder	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director: Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

ASSET INVESTMENT ACQUISITION STRATEGY AND ASSET MANAGEMENT PLAN

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter, Acting Corporate Director: Resources	**Deadline date:** Cabinet 25 February 2019

Audit Committee is asked to:

1. To review and approve the Asset Acquisition and Asset Management Plan before they are approved as part of the Medium Term Financial Strategy (MTFS) at Full Council in March 2019.

1. ORIGIN OF REPORT

1.1 The Acting Corporate Director of Resources is responsible for the update of these plans and their inclusion each year in the Medium Term Financial Strategy (MTFS).

2. PURPOSE AND REASON FOR REPORT

2.1 The Asset Investment Acquisition Strategy and Asset Management Plan set out how the Council ensures its assets are properly maintained and the rules by which the Council can purchase assets in the future. These strategies are updated on a yearly basis as part of the Medium Term Financial Strategy (MTFS). This report gives the committee the time to comment on the draft updates to be included in the 2019/20 MTFS papers.

2.2 This is in accordance with the Committees' Terms of Reference – 2.2.1.15. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

2.3 This report sets out how the Council will maintain its existing assets and purchase new assets in order to fulfil service and corporate and service objectives.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**YES**	If yes, date for Cabinet meeting	25 February 2019
Date for relevant Council meeting	6 March 2019	Date for submission to Government Dept. *(Please specify which Government Dept.)*	

4. BACKGROUND AND KEY ISSUES

4.1 The Asset Acquisition Strategy and Asset Management plans set out how the Council ensures its assets are properly maintained and the rules by which the Council can purchase assets in the future.

4.2 These strategies are updated on a yearly basis as part of the Medium Term Financial Strategy (MTFS). This report gives the committee the time to comment on the draft updates to be included in the 2019/20 MTFS papers. These plans have been previously considered by Growth, Environment and Resources Scrutiny Committee on 9 January 2019.

4.3 There have been changes in legislation in terms of how Council's can purchase assets following the significant resources that have been invested in Property by a number of Councils. The acquisition paper takes account of the latest government guidance.

4.4 **Asset Management Plan (AMP)**

4.4.1 Peterborough City Council has a continued commitment to creating vibrant local communities with a strong local economy and good provision of infrastructure, housing and employment. Buildings are important in creating a sense of place and the property assets which the council owns make a contribution to creating sustainable communities within Peterborough. This presents the Council with the challenge of reviewing its property portfolio to ensure that it is optimised in terms of its resources and so that it can contribute to community needs and the Council's budget. The AMP describes the Council's asset management policy and practice.

4.4.2 The AMP identifies the key strategic policy and resource influences affecting the Council and sets parameters for asset management over the medium term. The plan has a five year horizon with annual reporting on progress.

4.4.3 The AMP defines how the Council:

- Integrates property decisions with wider Council policy;
- Enhances the financial value from its property holdings;
- Maintains and improves its assets;
- Drives efficiencies within the portfolio;
- Supports the Council's aspirations as an environmental city;
- Listens and responds to its residents' evolving needs.

4.4.4 The Council owns a diverse property portfolio. These properties are:

- Operational – those supporting direct service provision;
- Investment – those producing a positive financial return;
- Surplus – property no longer used in service provision which are sublet or vacant;
- Strategic land or property with growth and regeneration potential.

4.4.5 This diverse property estate is spread throughout its administrative area. The bulk of the estate is operational property used for direct delivery of services for which the Council has a statutory or discretionary responsibility and is predominantly freehold. The broad dimensions of the portfolio are:

- The portfolio comprises 1,741 land and property assets;
- £3.8m rent generated per annum;
- Is worth £425.5m in terms of book value (this excludes the asset categories: infrastructure assets; vehicles, plant and equipment; asset under construction);
- Incurs running costs of £18.8m per annum;

4.4.6 The AMP includes within its appendices further detail on:

- Appendix A - Service Strategies and Property Portfolio Implications

- Appendix B – How the Council is consistency with ‘Best Practice’
- Appendix C – Asset Management Policies and Partnerships
- Appendix D – A summary of the present Property Portfolio
- Appendix E - The process the Council would follow to let surplus Office Accommodation space.

4.5 **Asset Investment Acquisition Strategy**

4.5.1 The Asset Investment Acquisition Strategy is updated to take account of both:

- the changes to legislation around how and where Councils can invest funds in Property, and,
- ensuring there is a framework within which commercial investment decisions can be made quickly - as long as investment rules are adhered to.

4.5.2 The Strategy sets out the rationale of Property as an investment class including:

- Defining Property as an asset class;
- Setting out different approaches to property investments;
- Setting out the differences between Investment and Strategic decisions;
- Setting out the relationship between risk and return.

An overall context is given to this asset class including the national and local market outlooks.

4.5.3 The requirements of an effective property portfolio is then set out including:

- Operating principles and governance arrangements;
- Day to day management (including performance measures);
- Acquisition, Review & Disposal Criteria.

4.5.4 This framework gives the council the rules within which it can look to acquire property as part of commercial and operational requirements as well as the Governance arrangements required to ensure these decisions can be made quickly.

5. CONSULTATION

5.1 These plans will undergo a full consultation and go through the scrutiny process as it forms part of the Annual MTFS.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report and Strategy are presented to the Committee to provide the opportunity to review and approve the approach being applied in the Asset Acquisition Strategy and Asset Management plans in advance of it being presented to Full Council in March 2019. It is in line with best practice for Audit Committee to consider these strategies prior to full approval by Council.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 These strategies have to be updated on a yearly basis. This report is part of that update process.

9. IMPLICATIONS

Financial Implications

9.1 The assumptions as contained in this strategy have been used to inform the Capital Financing budget as contained and detailed in the MTFS.

The financial implications from these plans feed into

- The five year capital programme

- The asset disposal programme
- The asset acquisition programme

Legal Implications

9.2 There is the requirement to publish these reports and run them though the full scrutiny process on a yearly basis.

Equalities Implications

9.3 The Council's property strategy includes equalities access and associated legislative requirements.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1
- 2018/19 Asset Management Plan
- 2018/19 Asset Acquisition Strategy

11. APPENDICES

11.1
- Appendix 1 - 2019/20 Asset Management Plan
- Appendix 2 - 2019/20 Investment Acquisition Strategy

Peterborough City Council

Asset Management Plan

January 2019

Contents

Foreword

Peterborough City Council has a continued commitment to creating vibrant local communities with a strong local economy and good provision of infrastructure, housing and employment. Buildings are important in creating a sense of place and the property assets which the council owns make a contribution to creating sustainable communities within Peterborough. This presents the Council with the challenge of reviewing its property portfolio to ensure that it is optimised in terms of its resources and so that it can contribute to community needs and the Council's budget. This document describes the Council's asset management policy and practice.

Executive Summary

The current operating context for public services is challenging and those challenges are exacerbated by demographic changes and financial pressures due to diminishing central government funding. Peterborough is a rapidly growing city which puts pressure on demand for housing, infrastructure, employment opportunities and council services.

The Council has a vision for a bigger and better Peterborough – for improving quality of life in its communities and creating a sustainable thriving place to live, work and visit. It also has aspirations to be the environmental capital of the UK. Accordingly, the asset management plan must have a continued focus on using property to support growth, inward investment and financial security whilst having a positive impact on the environment.

The Council and their joint venture partners need to be clear about their objectives for operational, investment, surplus and strategic assets. Any deficiency in resources required to manage the portfolio needs to be identified.

There should be a financial assessment of surplus assets to ensure that they are making contribution either from a financial or community perspective. Where they are not, the Council can consider refurbishment, redevelopment or disposal. Buildings need to be reviewed to understand whether operational costs can be mitigated. In some cases there will be synergies between environmental objectives and cost reduction. Efficient use of services such as sharing buildings between Council services should be considered. Efficient asset management can help to optimise property's contribution to the revenue budget and meet the Council's growth and regeneration priorities.

1 Introduction

1.1 Purpose & Scope of AMP

This Asset Management Plan (AMP) identifies the key strategic policy and resource influences affecting the Council and sets parameters for asset management over the medium term. The plan has a 5-year horizon with annual reporting on progress.

The AMP is to define how the Council:

- Integrates property decisions with wider Council policy
- Enhances the financial value from its property holdings
- Maintains and improves its assets
- Drives efficiencies within the portfolio
- Supports the Council's aspirations as an environmental city
- Listens and responds to its residents' evolving needs

1.2 Overview of the Portfolio

The Council owns a diverse property portfolio. These properties are:

- Operational – those supporting direct service provision
- Investment – those producing a positive financial return
- Surplus – property no longer used in service provision which are sublet or vacant
- Strategic land or property with growth and regeneration potential

1.3 Links to Other Plans

The AMP is aligned with a number of wider supporting policies, corporate and service strategies which are listed in appendix A.

2 Strategic Context & Direction

2.1 Influences for Change

National

At a national level there is a drive to promote sustainable communities and an aspiration to create vibrant, attractive places to live and work. Current policy has a strong emphasis upon encouraging community participation and place-shaping with a view to the Council and community working together to improve the character of an area.

The government's localism agenda has a focus on decentralisation – moving resources and decision-making towards individuals, communities and councils. Voluntary groups, social enterprises and parish councils now have a 'community right' to challenge local authorities over their services. New rights mean communities can ask councils to list certain assets as being of value to the community. Where a listed asset comes up for sale, communities have the right to bid for it.

Under Community Asset Transfer (CAT) initiatives there is also potential for the transfer of management, sometimes ownership of council property to community organisations in order to achieve a social, economic or environmental benefit.

There is a strong drive for partnership working - a policy exemplified by the One Public Estate (OPE) initiative. OPE is an established national programme coordinated by the Cabinet Office and the Local Government Association. Its objective is to encourage public sector partnerships and a strategic approach to asset management. By bringing national and local government together and supplying the necessary expertise, OPE has been able to achieve tangible results and is now working with over 300 councils. Their main aims and outcomes have been:

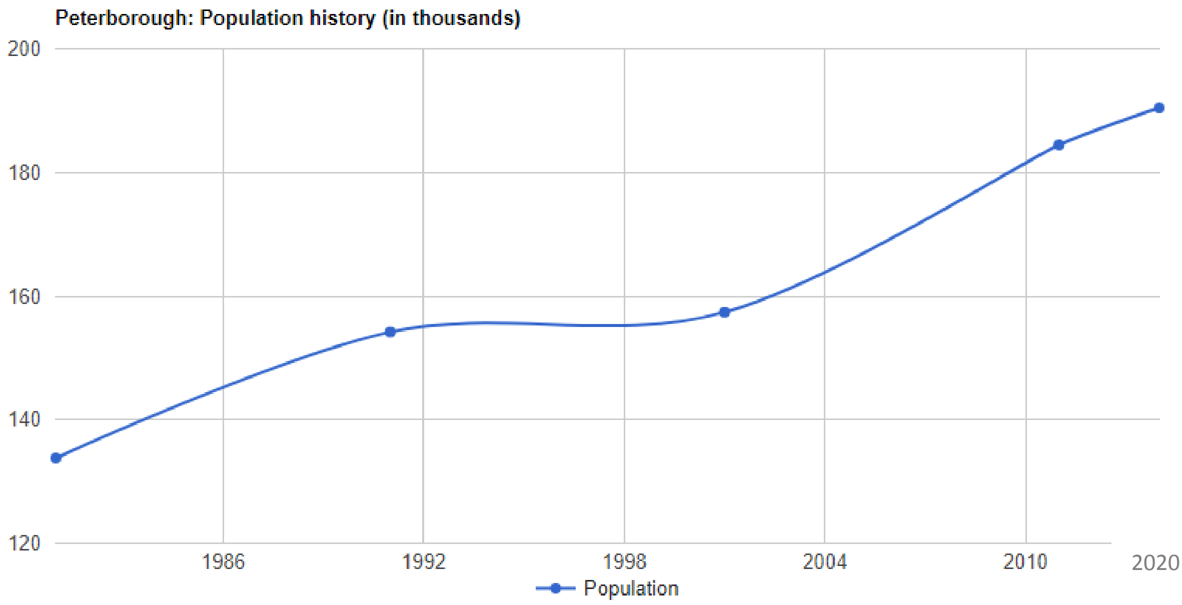
- Driving local growth and job creation
- Creating efficiencies and reducing cost
- Releasing capital to reinvest in communities
- Sharing best practice in asset management
- Using dedicated local teams to work on specific projects
- Freeing up sites to promote the building of new homes

Regional

Under the government's devolution agenda, the Cambridgeshire & Peterborough Combined Authority was created in March 2017; the Combined Authority has a directly elected mayor and more discretion on how services are provided. It has new powers and access to funding for new homes and infrastructure. The Council is part of the Local Enterprise Partnership (LEP) that covers Greater Cambridgeshire and Greater Peterborough. The LEP's role is to provide a broad vision for the area to explore ways of building infrastructure and to encourage the development of local skills.

Local

Peterborough has seen a period of sustained population growth with population for the Council's administrative area estimated to be c.200,000 in 2018 and 204,000 by 2020 (source - Office of National Statistics).



Whilst the number of migrants has contributed to this growth, the city also enjoys one of the highest birth rates and lowest death rates in the country. The area's proximity to London and good transport links continue to act as a draw to the area. This growth requires investment in infrastructure, especially housing and increases demand on essential services.

2.2 Council & Service Priorities

The key priorities underpinning the Council's vision are:

- Growth, regeneration and economic development of the city to bring new investment and jobs; supporting people into work and off benefits
- Improving educational attainment by developing university provision and employment opportunities
- Safeguarding vulnerable children and adults
- Pursuing the Environment Capital agenda to position Peterborough as a leading city in environmental standards

- Supporting Vivacity (Peterborough's culture and leisure trust) to deliver arts and culture

- Keeping our communities safe, cohesive and healthy

There are a range of corporate strategies to which the Council's property portfolio must align.

The most significant of these are highlighted briefly below.

- **People & Communities Strategy** – The Council will develop new models of service delivery working with constrained financial resources. The focus will be upon targeting services and moving further towards a commissioning model. There is a need to adapt service delivery with fewer services being provided directly by the Council, increasing 'shared services' provided by partner agencies and more use of community / voluntary resources. The Council will retain a regulatory role but it is likely to employ fewer staff in the future.

- **UK's Environmental Capital** – The Council has a vision to be a sustainable city. Its aspirations are encapsulated in '*Creating the UK's Environmental Capital: Action Plan'*.

  This sets targets out themes which include:

  - Reducing carbon emissions
  - Sustainable water management
  - Protection of wildlife
  - Use of sustainable materials
  - Sustainable food production
  - Sustainable waste management
  - Sustainable transport solutions
  - Heritage preservation

All of these will impact how the Council manages and uses its property portfolio.

2.3 Service Strategies & Partnerships

There are a range of existing service strategies and partnerships which directly affect properties which the AMP addresses. These are shown in appendix B.

2.4 Resource Context

The Council's budget is set within a national context of continuing funding cuts and PCC is itself facing a significant funding gap. To meet this challenging environment it will need to operate more commercially and pursue efficiency savings wherever possible. Where there is no commercial, community or strategic case for retaining property, assets will be disposed of; the proceeds of which will be used to support the revenue budget. Within the operational portfolio there is a need to reduce cost through more efficient utilisation, sharing between services and use of energy.

2.5 Challenges in the Portfolio

A number of challenges have been identified in the portfolio which need to be addressed.

- Ageing Portfolio – The operational portfolio is ageing and thus has increasing maintenance and repair needs. There is a need to identify and agree Planned Preventative Maintenance (PPM) programmes and if appropriate dispose of assets which are a drain on resources. The capital expenditure budget for the portfolio is significant and for 2019 is circa £1.75 million.

- 'Portfolio Intelligence' and data management. The council has robust data from managing the property portfolio however it needs to ensure the information is collated to provide the necessary high level reporting. That will allow oversight of the portfolio and ensure strategic opportunities are maximised.

- Asset Management – A clear role for the Council's joint venture Estates and Strategic Asset Services Partner NPS Property Consultants is key to delivery of the actions identified in this AMP, as are clarity of roles within the Council's client function.

2.6 Strategic Direction

The context outlined suggests a requirement for asset management to focus on using property to support growth, inward investment and financial security. Going forward, there are specific objectives for the various elements of the portfolio.

For example:

- Operational portfolio.
  - Focus on core council assets
  - Increase sharing between services
  - Promote agile working
  - Use planned preventative maintenance to spread cost
  - Reduce energy use
  - Support provision of integrated public services with partners to create multi-agency service facilities

- Surplus portfolio:
    - Refurbish property where there is potential to create long term income and transfer the asset to a dedicated investment portfolio
    - Dispose of assets that are a drain on the Council's resources and where retention does not present a wider community or strategic benefit

- Strategic land and property
    - Keep reviewing opportunities to meet growth and regeneration objectives, and potential opportunities to create income.

There are a number of actions required to respond to the challenges identified above. Given the Council's resource constraints it will need to determine the relative priority of each action and analyse the cost / benefit.

Key Actions

- Set out schedule of properties with status showing suitability for retention, disposal or review
- Review potential for shared use
- Establish an asset management forum at director level; meet quarterly with NPS to review portfolio
- Approve Investment Acquisition Strategy
- Clarify roles within 'intelligent client' and NPS Peterborough
- Review forthcoming lease events of the 54 leased properties and identify areas for cost reduction
- Review fire insurance valuations on a rolling programme to ensure costs & risks are managed
- Develop planned maintenance strategy for 'core' retained
- Finalise the Community Asset Transfer strategy for remaining community buildings
- Develop plan for strategic sites

2.7 Making it Happen – A Framework for Action

NATIONAL

- Public Sector Spending Constraints
- Public Service Reform
- Socio-economic & Demographic Changes
- Sustainable Communities place-shaping
- Localism & decentralisation
- Partnership Working and One Public Estate

Regional

- Devolution Combined Authority
- Population Growth
- Infrastructure Pressures
- Skills Development & Employment
- Cambridgeshire Peterborough Combined Authority

LOCAL (Corporate & Council Wide)

- Bigger & better Peterborough
- Long term Sustainability
- Commissioning' service delivery model
- Sustainable Communities ' place shaping
- Customer Service Strategy (digital access)
- Smart Cities – Peterborough DNA

Vision: to create a bigger and better Peterborough that grows sustainably

Improves the quality of life for all its residents and ensures that all communities benefit from the growth and the opportunity it brings

Creates a thriving regional community of villages and market towns; a healthy, safe and exciting place to live, work and visit; aspires to be the environmental capital of the UK

Using property to support growth, inward investment and financial security

Enhancing Portfolio Value

Invest in operational portfolio to ensure fit for purpose buildings; dispose of assets which are a drain on resources. Improve the energy efficiency of the portfolio and reduce running costs.

Partnership Working

Working with public and private sector partners to transform service delivery and reduce operating costs. Review operational assets and seek opportunities to promote integrated public services.

All Portfolios

- Establish Asset Management Forum at Director / Head of Service Level
- Approve investment strategy
- Complete H & S organisational responsibilities flow and implement
- Implement EPC & DEC requirements
- Review rates saving opportunities
- Review lease events for leased portfolio
- Review fire insurance valuations to ensure costs & risks are managed

Operational Portfolio

- Review operational assets to categorise
- Develop planned maintenance programme for 'core' retained assets
- Ensure current occupiers directorate are included on Technology Forge
- Finalise the Community Asset Transfer Strategy

Surplus Portfolio

- Maximise revenue and consider refurbishment and / or disposal
- Review strategic assets and categorise

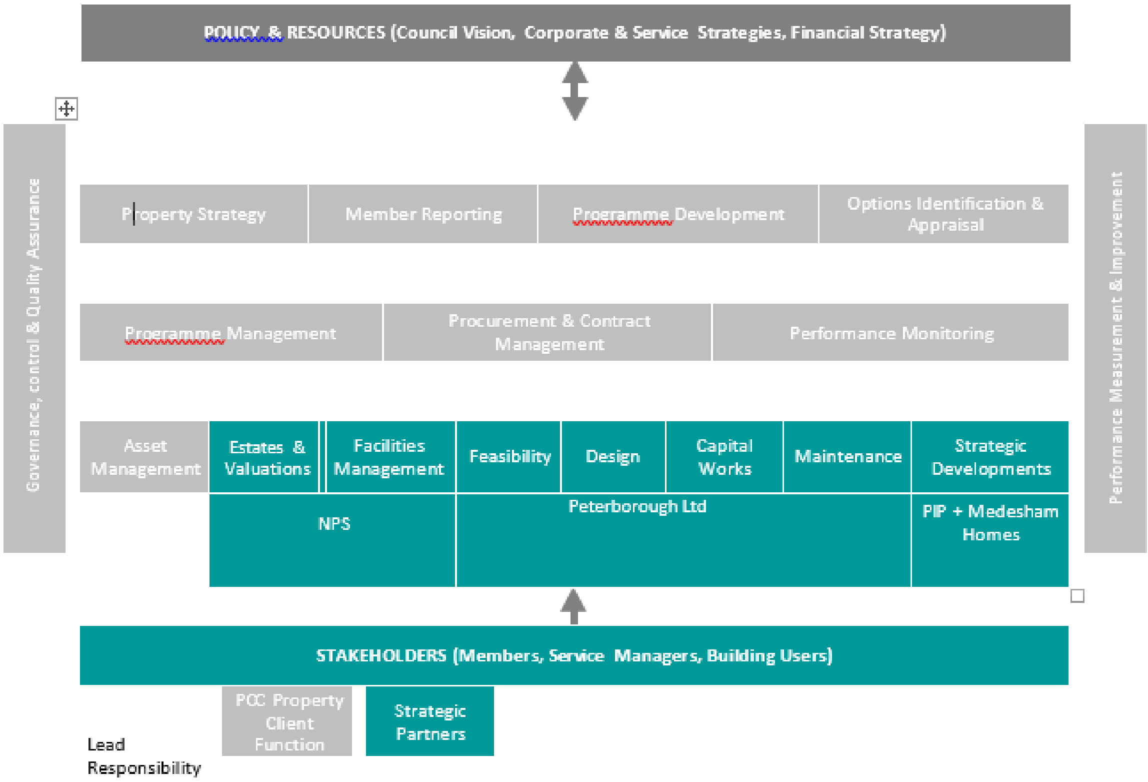
nps group

3 Asset Management Policy & Practice

3.1 Organisational Arrangements

The main professional property services are conducted through NPS Peterborough Ltd for the broad range of estates and valuation services and Peterborough Ltd carry out design, capital works, facilities and property maintenance. The Peterborough Investment Partnership (PIP) – a 50/50 joint venture with the private sector established in December 2014, supports growth and regeneration through the development of strategic sites. Medesham Homes and Cross Key Homes work with PCC to deliver social housing. The Council also has partnerships with Skanska for highways work and Vivacity for culture and leisure services.

The Council's operating model is shown in the diagram below.



3.2 Governance & Decision Making

The Cabinet Member for Resources has the lead political role for property matters and acting under delegated powers reports on property issues. The Cabinet or the Cabinet member acting with the Corporate Property Officer (CPO) are responsible for decisions on acquisitions, use and disposal of assets and for ensuring asset management policy and actions are consistent with the Council's corporate strategies and objectives.

The prioritisation of projects in the capital programme is undertaken as part of the budget setting process. The responsibility for service buildings and their operating budgets lies with service departments. Service managers can place orders directly with strategic partners, without necessarily involving property staff and this may mean at times works can be placed without appropriate professional advice. Client managers within the Council oversee the specific contracts and budgets for the various joint ventures that underpin the delivery of the Council's property activities. This approach will be reviewed.

3.3 Consistency with 'Best Practice'

The Council working with East of England LGA undertook a 'health check' of its asset management governance arrangements, processes and practice in 2013; with a further analysis of asset management services in 2015. This review acknowledged the Council's areas of good practice and innovation in asset management but also identified some areas of risk where further development work was required. The Council has made progress in addressing the identified deficiencies. Appendix C provides a review of the Council's existing practices against 'best practice' in asset management as a reference point to help clarify further development according to the Council's priorities and resources.

3.4 Supporting Policies & Procedures

This AMP is amplified by a range of further property policies and procedures. These are referenced through Appendix A.

4 The Property Portfolio

4.1 Summary dimensions of the portfolio

The Council has a diverse property estate spread throughout its administrative area. The bulk of the estate is operational property used for direct delivery of services for which the Council has a statutory or discretionary responsibility and is predominantly freehold.

The broad dimensions of the portfolio are:

- The portfolio comprises 1741 land and property assets
- £3.8m rent generated per annum
- Is worth £425.5 M in terms of book value (*December 2018)*
- Incurs running costs of 18.8m per annum

4.2 Tenure & Use

The portfolio is predominantly in freehold ownership. There are 54 leasehold buildings currently and these will be reviewed to identify what opportunities there may be to terminate leases in order to reduce the running cost of the portfolio.

4.3 Condition & Fitness for Purpose

It is important to survey and record the condition of the building stock in order to be aware of immediate health and safety issues in the portfolio, risks and liabilities to the Council, its service delivery obligations and statutory requirements. It is also an important element of 'Best Practice' within current asset management guidance. Currently the Council's maintenance spend is directed predominantly to reactive maintenance. An important aim of the asset management strategy should be to formalise a maintenance programme with a view to reducing reactive maintenance costs. Regular review of property can reveal whether or not a property is fit for purpose or is in need of refurbishment or even replacement.

A backlog summary is given in Appendix D.

4.4 Value, Cost & Income

The objective should be to minimise property expenditure in order to release revenue for service priorities. Property running costs for the entire portfolio are £18.8 M (2017/18), whilst the Council's utilities costs for 2017/2018 were £4.6 M.

The asset value of the portfolio is £425.5M. The asset value is a 'notional value' required for capital accounting purpose and reported on the Council's Balance Sheet through the annual statement of the accounts. It does not necessarily represent the achievable market value of the portfolio. See Assets Investment Receipts Summary at the end of this report for further details about the capital receipts figures expected in 2018/19 and 2019/20.

Profile of Capital Receipts (£m)							
Achieved					Expected		
13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
£1.489	£1.769	£1.027	£5,978	£12.738	£2.922	£4.319	Nil

4.5 Sustainability & Energy

Energy use in buildings is becoming increasingly important, as organisations lead by example in reducing carbon emissions to meet the UK's national target of reducing carbon emissions by 80% by 2050. The Council also has an aspiration to reduce its carbon emissions and the energy efficiency of Council buildings is important as these represent a significant element of the Council carbon emissions. The Council has entered into an Energy Performance Framework agreement with Honeywell Control Systems with the intention to make energy efficiency improvements to Council properties; with the potential of widening the scheme to other local authorities and partners.

4.6 Statutory Compliance

Ensuring the portfolio conforms to statutory obligations is a high priority of the Council. Failure to do so may expose Council staff and clients to health and safety risks or expose the Council to financial risks. The statutory obligations for the portfolio and related professional services are varied and subject to continued revision and therefore need to be monitored closely.

- Asbestos Management - Asbestos surveys of all properties have been undertaken. Asbestos removal work is carried out on a reactive basis as and when required for refurbishment or demolition.

- Display Energy Certificates (DECs) and Energy Performance Certificates (EPCs). Ensuring these are kept up to date and property meets the necessary legislative requirements.

- Water Safety – water management testing (including legionella) is under taken on a systematic basis in accordance with legislative requirements.

- Fire Safety – Fire Risk Assessments are undertaken within the Council's corporate buildings to identify risks, issues and whether mitigation is required. Remedial works to address issues identified from the surveys are undertaken as required.

5 Performance & Monitoring

5.1 Measurement of Portfolio Performance

The Council could adopt a simple reporting approach which is based on each of the principle asset types:

- Asset types
  - Operational
  - Investment
  - Surplus
  - Strategic

These will concentrate on a small number of indicators chosen to review each portfolio which will provide a framework for the management of each portfolio.

5.2 Review Arrangements

The AMP will be reported upon annually to Cabinet and updated periodically with progress reported to Cabinet through the Corporate Property Officer. These will concentrate on the progress of the specific Key Actions identified in the AMP.

Appendix A – Asset Management Policies and Partnerships

Strategies & Policies

- Asset Management Plan
- Investment Strategy
- Capital Strategy
- Community Asset Transfer Policy
- Farms Estate Strategy
- Disposals Strategy
- Service asset strategies (to be improved)
- Carbon Reduction strategy
- Protocols, Procedures & Partnerships
- Skanska Highways Partnership
- NPS Peterborough Partnership
- Cross-Keys Housing Joint Venture Partnership
- PiP – Peterborough Investment Partnership

Appendix B - Service Strategies and Portfolio Implications

Asset Type	Number Of Assets	Existing & Future Perspectives of the Portfolio
Operational Assets		
Car Parks	12	The Council has 12 designated paying car parking sites, the majority of which as surface car parks. There is a need to review the car parks to assess car parking capacity against current and future demand and to identify whether individual car parking sites may have some strategic development potential.
Offices		The development of a modern work environment for the Council has been completed, along with strategic partners in the form of a new 90k square foot office scheme at Fletton Quays. This is the largest office built in the city for over 20 years. The Council have taken a new long term lease, using its covenant strength to support regeneration of this part of the city. The office forms a key part of the 17 acre regeneration site adjoining the river, south of the city centre. In addition, it will include a 160 bed hotel, 400 residential units (mainly apartments) a further 60,000 sq. ft. of offices, a 410 space multi-storey car park and 90 space surface car park (now complete), new retail units and Listed goods shed which become a distillery and visitor centre. This will be complemented by new public realm works including riverside walkways, new public square and improved cycle routes.
Libraries	10	The Council has recently reviewed its library service and implemented Open+ technology enabled facilities which will allow libraries to stay open for longer hours. Libraries are open for a set number of staffed hours with additional hours operating on a self-service basis. The mobile & library at home service has not changed. The Open+ technology is designed to allow libraries to stay open for longer. The future direction for the library service is to encourage greater and more innovative use of the library facilities to promote neighbourhood based multiuse facilities. Reductions in the existing number of libraries are not anticipated.

Community Assets

Community assets are those properties in the Council's ownership which have a community use or from which a community based activity or service is delivered. The Community Asset Transfer Strategy aims to encourage retention of local facilities without the use of Council funds, increase effectiveness of community assets through local community management and to explore innovative ways to enhance existing community facilities. The Strategy sets out the Council's objectives for community assets and the process and criteria around the transfer of assets to community bodies.

Farms

- The Council has developed a strategy for its Rural Estate which is focussed on retaining it as a viable land holding, providing opportunities for new entrants into farming, farm amalgamations to create larger more financial sustainable holdings and service provision for environmental and educational objectives.
- An annual Action Plan is drawn up from the Management Strategy with input from councillors, Country Land and Business Association and the tenants themselves to explain in practical terms how the Strategy will be delivered each year, and where amalgamations and capital expenditure will be targeted.
- Repairs are proactive rather than reactive, with an emphasis on drainage schemes – this in term supports more robust rents.
- Capital receipts are generated from the disposal of small areas of garden extension land, and realising the potential of old buildings unfit for agriculture which can be converted under Class Q (of permitted development regulations) to residential dwellings.

Strategic Assets

The focus of developing the Strategic portfolio is to retain market awareness of potential opportunities and to intervene where there are strategic opportunities to support the regeneration of the city.

Appendix C - Consistency with Best Practice; key themes and requirements

Roles & Responsibilities	Current corporate asset management plan	Running cost performance known	Statement of data needs & priorities
The council has a designated corporate property function	AMP linked to corporate objectives	Statutory obligations met	Processes to ensure data quality
There is Corporate Property Officer with defined responsibilities	Asset management integrated with service planning	Targets set for running costs	Organisational focus for data management
Corporate Property Officer reports to a strategic committee	Key areas for change in the portfolio defined	Suitability of buildings assessed	Information easily available to users (cost, suitability etc)
Cross-service forum established on property matters	Commercial portfolio strategy identified	Satisfaction with buildings measured	Non-core data available
Property occupiers / users role defined	**Capital programme management**	**Review of need, utilisation and cost**	Property IT systems periodically reviewed
Group to oversee development of AM practice & AMP	Option appraisal / prioritisation / whole life costings	Profile of capital receipts	**Performance management**
Cabinet member lead on property matters	Outcome targets for capital spend	Systematic review programme	Reporting on national performance indicators
Decision making and consultation	Processes for identifying projects	Criteria to challenge retention	Portfolio performance reported to members
Clearly defined decision making processes on property matters	Projects assessed using an agreed methodology	Incentives to release property	KPIs related to defined property objectives
Consultation process on the AMP	Authority-wide group to oversee programme	Identification of under-utilisation	Agreed targets for KPIs
Views of service users & occupiers sought	Process for post-project evaluation	Specific organisational focus on property review	Comparisons made with others
Public consultation on property matters	Projects completed on time & to budget	Disposal processes monitored	Local KPIs in place
Full member reporting	**Managing properties in use**	Shared use of buildings promoted	Improvement plan (informed by performance data)
Partnership Working	Maintenance backlog know and reported to members	Framework for assessing performance of the portfolio	**Data management**
Integrated approach to assets with other agencies	Periodic assessment of building condition	Identifying property needs	Inventory & core data available
Policy on community asset transfer	Maintenance spend prioritised	Defined aims & objectives for asset management	

Appendix D – Summary of Property Portfolio

Portfolio	Sub-Portfolio	Type / Use	Number
Operational	Operational (excl. Schools)	Car parks Children's Centres Day centres Depots / stores Libraries Sports Centres Play centres Pools Public Conveniences Residential homes Waste / Infill sites Youth Centres	
	Operational (Schools)		
	Administrative	Offices	
	Community assets	Allotments Cemeteries Community Centres Community related asset land Open Spaces (incl Section 120) Recreation grounds Community Use	
			744
Investment	Industrial Public House Retail Farms Estate		
		Farms / Agricultural land	**156**
Growth		Options to PIP Dev Partner	**3**
Miscellaneous		Former housing land Land	
			838

Summary of Repair Backlog (£000s)

Condition	Total Value	%	Category	Total Value	%
A-Good	£292.	0.63	Urgent	£2,812	6.05
B-Satisfactory	£8,831	18.99	Essential	£11,331	24.37
C-Poor	£28,37	61.02	Desirable	£23,370	50.25
D-Bad	£9,004	19.36			
	£46,505			**£37,513**	

Note: The backlog figures are based on the assumption that all properties in the portfolio have a useful life of at least 10 years if all works are progressed as scheduled and do not allow for inflation. These assumptions may not be applicable to the existing portfolio and financial budgeting.

Peterborough City Council

Investment Acquisition Strategy

November 2018

Contents

Executive Summary

Under the Local Government Act 2003 and the Localism Act 2011 Local authorities have extensive statutory powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs. On this basis land and property can be acquired, developed or sold.

Local authorities have well established policies and procedures in place for their estate management activities. These do not however include a specific policy governing land and property acquisition, albeit there are a number of policy documents governing more generic capital investment within the public sector. Property investment may be for income generation, for strategic purposes or where there are wider community and economic benefits that can be achieved. This can be achieved by investing and/or developing property within their existing ownership, whether for onward sale or income generation. With the changing climate for local government finance and significant budget pressures in the foreseeable future, local authorities are embracing a more innovative, commercial and entrepreneurial approach to closing the budget gap and the development of a property investment portfolio is one element of this approach.

This strategy sets out the principles, approach and governance for a new enabling policy covering the selective acquisition of property assets within Peterborough and its immediate environs. This approach will have a range of benefits including the generation of income to support Peterborough City Council's revenue budget. The strategy identifies an approach based on the direct ownership and management of property assets, to enable the Council to acquire or redevelop property.

All such acquisitions will be subject to robust appraisal and undertaken in accordance with agreed governance procedures. The regulatory environment and best practice around local authorities investing in property is changing. The Council will need to be aware of this, take a balanced approach to risk and ensure appropriate review and performance arrangements are in place. The strategy sets out the rationale for acquiring properties and the criteria upon which asset selection will be based and reviewed. It also identifies the nature of risk associated with property investment and how the Council can mitigate it. The procedures, criteria and metrics presented through this strategy will be subject to annual review.

Of critical importance in adopting the strategy will be the need for a single point of accountability for the development of an investment portfolio. Equally important is, the ability to intervene in the market in a swift manner, subject to robust business case appraisal and governance, and taking a long term perspective of the portfolio (10 year+).

1.0 Introduction

1.1 The Importance & Nature of Property

Property is a multi-faceted and multi-purpose resource which is used to deliver a broad range of services within the public sector. It can both consume and generate cash. Increasingly it is being recognised in having strategic importance over the long term in supporting community prosperity and vibrancy. It is proposed that the Council holds different property assets for different purposes. In simple terms these fall within four distinct categories. An operational portfolio for service delivery, a surplus portfolio, an investment portfolio (principally for generating income or capital growth) and a strategic portfolio for assets to support corporate priorities such as regeneration and meeting housing need. The operational portfolio consumes cash, the investment portfolio generates cash and the strategic portfolio has long term 'latent value.'

The Council has a vision for a 'bigger and better Peterborough' that grows in the right way - improving quality of life for all its people and communities and creating a sustainable and thriving sub-regional centre which is an exciting place to live in, work and visit; and which is the environmental capital of the UK. How the Council uses its property assets will be a critical underpinning element in meeting this vision. As revenue budget pressures continue to impact on the Council so it will increasingly need to take a strategic perspective on its property assets. To do this means recognising and developing two key dimensions of property – its ability to generate cash (income or capital) and its ability to support wider strategic priorities, such as regeneration and meeting housing demand. Both are important and point to the need to grow and develop the investment and strategic property portfolios. This strategy focusses on the development of the Council's investment and strategic portfolios, and in particular the rationale for acquisition to grow these portfolios.

1.2 The Scope & Purpose of the Strategy

The Council is focussed on investing in property to enhance its financial resilience, safeguard services and to meet regeneration objectives. Adopting a commercial approach will ensure that investment returns, capital growth and long term latent value can be used to meet those objectives.

This strategy is designed to define a broad direction for developing the Council's investment and strategic property portfolios over the long term in order to ensure they are optimised to support the Council's vision for the city. The strategy is not a static document but rather part of a process designed to promote discussion about the nature of, and future direction for the management of the Council's investment and strategic property assets.

The strategy is a practical tool that will:

- Provide a rationale for developing the investment and strategic portfolios.
- Set out governance arrangements covering management of the portfolios.
- Define key objectives and operating principles for day to day management.
- Identify how investment decisions are made (acquisition & review criteria).
- Define an approach to managing risk across its asset holdings.
- Define how the financial viability of the portfolio will be sustained.
- Identify how the performance of the portfolio will be measured.

The strategy takes a medium term planning horizon of over 5 years plus but will be reviewed on an annual basis.

2.0 The Rationale for an Investment Portfolio

2.1 Property as an Investment Class

The Council's approach to investment is to obtain the optimum return while maintaining a proper level of security and liquidity. Property is one of several asset classes the Council can invest in. Other assets will include cash, fixed interest securities (bonds) and shares. An overall approach is required which ensures a degree of diversification in order to balance risk; with cash (held in savings accounts) and bonds having the lowest risk profile, followed by property. The Council needs to periodically review its balance across these asset classes and take a judgement on return versus risk.

2.2 The Legal Framework

Councils have the legal power to acquire and hold both commercial and residential property for investment purposes. Historically commercial property could be acquired and operated directly by councils, providing that the clear purpose was investment. If the purpose was to undertake a trading activity, the commercial property would need to be held in a company vehicle. Residential property can be acquired if the assets are being held and operated indirectly through a local authority controlled Special Purpose Vehicle. It can also be held and operated directly where a council has a Housing Revenue Account (HRA). As PCC does not have an existing HRA it may need to reinstate one in order to participate in any significant residential property investment.

Currently local authorities have broadly drawn powers allowing them to invest and to borrow, either for purposes relevant to the performance of any of their functions or generally for the prudent management of their financial affairs (s.1 & s.12 of the Local Government Act 2003).

They have also been able to acquire property either inside or outside of their administrative area to support any of their functions, including their investment functions, or otherwise for the benefit, improvement or development of their area (s.120 of the Local Government Act 1972).

Lastly, they have been able to take any action (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions, which would again include their investment functions (s.111 of the Local Government Act 1972).

Under the general power of competence set out in s.1 of the Localism Act 2011 local authorities have also built and managed investment property. In accordance with this Act, councils have all the necessary powers to purchase assets inside or outside of their administrative area and manage them for investment and commercial gain.

However, revised Statutory Guidance on Local Authority Investments issued in April 2018 by Ministry of Housing Communities & Local Government is directed towards curbing local authorities borrowing to invest in commercial property solely to raise revenue. There is a distinction between authorities who are taking on debt for regeneration and meeting local objectives, and those who borrow purely to get a return on investment.

The guidance contains a number of key points:

- A call for transparency and democratic accountability with regard to local authority investment.
- Councils should prepare a new investment strategy each financial year.
- Investments by local authorities can be classified into two main categories: investments held for treasury management purposes or other investments.
- Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code 2011.
- They should disclose the contribution that these investments make to the objectives of the local authority to support effective treasury management.
- Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making. It is for individual authorities to define the types of contribution that investments can make and a single investment can make more than one type of contribution.
- There is a requirement to prioritise security, liquidity and yield in that order of importance when considering investment strategy

The local authority's reporting should include quantitative indicators that allow councillors and the public to assess a council's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return received. Where investments are funded by borrowing, indicators should reflect the additional debt servicing costs.

This guidance will be supported by new advice to be released by the Chartered Institute of Public Finance and Accounting (CIPFA) before the end of the year. CIPFA issued a statement on Borrowing in Advance of need and Investments in Commercial Properties in October 2018. This statement guards against local authorities 'borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.' The statement goes on to say that commercial investments including property must be proportionate to the resources of the authority, otherwise they are unlikely to be consistent with the requirements of the Prudential Code or the Treasury Management Code.

2.3 Approaches to Investing in Property

There are a range of approaches to investing in property assets, from on the one hand investing in a commercial property fund, (or real estate investment trust etc.) and on the other hand owning the physical assets – each with its own advantages and disadvantages. The simple diagram below is intended to provide a framework for developing a strategy based on two broad criteria, ownership and management. The proposed positioning of PCC is shown - which favours both direct ownership and direct management of investment property. This is a considered choice of the Council and the respective pros and cons of this strategy are identified.

Pros & Cons of Direct Ownership & Management of Investment Property	
Pros	Cons
Ownership of property assets	Potential over-reliance on investment property to fund essential services
Achieve direct return	Reliance on own expertise
Control over property decisions	Management time & expense
No fund management costs	Relative lack of liquidity

The advantage of PCC's approach is that it will retain direct ownership of the assets with any returns coming direct to the Council. The Council will also retain control over decision making regarding strategy and management of the portfolio, including flexibility as to when to dispose of assets to generate capital.

With this approach the costs associated with other parties holding and managing properties on the Council's behalf are kept to a minimum. Conversely it requires resources to participate in direct property investment and requires a degree of capacity and expertise to manage the portfolio. There can be staff time (and thus cost) tied-up in managing a portfolio and there is a relative lack of liquidity in comparison with other indirect forms of property investment.

When considering direct ownership and management of property the selection of individual acquisitions becomes a critical factor. There are decisions to be made about the property sector and risks in relation to the broad portfolio asset mix, the risk profile of the tenants and the opportunities in the market. At one end of the scale (lower risk but lower opportunity) is a building already let, with a good lease length and tenant; whilst at the other end is a property coming to the end of its lease which is likely to need upgrading / expenditure prior to re- letting.

Alternatively, there may be freehold property which is untenanted but could be redeveloped, providing greater risk but greater opportunity. PCC's strategy will tend towards low risk investments where the covenant strength of the tenant is strong and where there is a good length of lease. There may occasionally be times where PCC may wish to invest in assets it already owns to get a return which would present a low-moderate risk and moderate opportunity. This issue of asset selection is considered in Section 4.4 and Appendix C

2.4 Benefits from Investing Directly in Property

The range of benefits that can arise from investing in property assets are more than simple financial returns, although this will be the prime objective of the portfolio. The table below summarises the range of benefits that can be realised and the combination of these need to be borne in mind when managing the portfolio. The relative priority given to these benefits needs to be considered when deciding on the key objectives.

Benefits from Investing Directly in Property

Direct Returns	Income
	Capital growth
Multiplier Effects	Supporting growth of key local industries
	Improving confidence in local economy
	Supporting the local planning framework
Indirect Returns	Local job creation
	Increase in NDR (Business Rates)
Strategic Advantages	Key site assembly
	Long term strategic perspective

2.5 Difference between Investment & Strategic Acquisitions

Acquisition opportunities often arise unexpectedly and it is important to be quick to mobilise in order to take advantage of them when they occur. It is therefore important that the Council has an appraisal framework that permits them to respond without delay when opportunities arise, to save time and allow them to compete in a market where competition is fierce and demand outstrips supply. To do this the Council needs to be in a position to assess opportunities in a systematic but timely manner and to understand the nature of the opportunity in terms of its financial or strategic perspective.

A simple scorecard approach to support this initial appraisal is given below. This looks at a set of financial or strategic criteria to determine whether the Council should proceed. It recognises that some assets will be acquired for investment reasons (long term financial returns) whereas other assets will be acquired for strategic reasons (longer term latent value). Some assets will also have a combination of investment and strategic potential.

An initial set of criteria form both financial and non-financial perspectives can be developed to give a simple score to assess whether to proceed. An initial appraisal 'scorecard' is illustrated in Appendix D.

2.6 Risk & Return

At its simplest, a property investment is an investment in land or buildings which has the potential to give the investor a return in the form of rental income and capital growth. Capital growth may come over time by holding the asset and can be maximised through asset management initiatives (for example by re-gearing a lease to obtain a greater length of lease). Risk and return in property investment come both at a market level and from individual asset choice. In practice, property investment can be structured to create a range of different risk / reward profiles from stable bond-like annuity income performance to more volatile equity-like returns. A summary of the main risks and the PCC approach to mitigating these is given in Appendix A.

3.0 Strategic Context for the Strategy

3.1 Overall Context

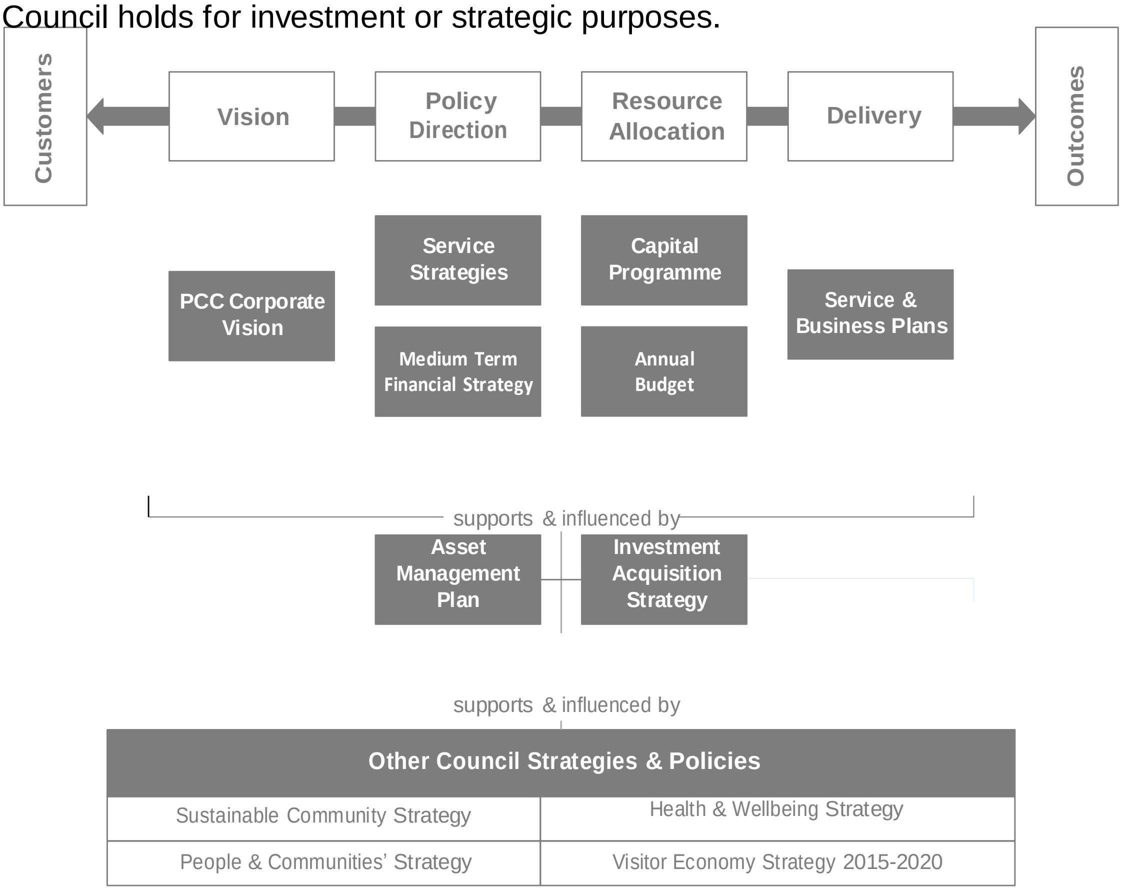
This strategy is set within the context of broader changes in the operating context for local government. The most impactful of these is the move towards a 'self-funding' model for local government as traditional sources of central government funding are reduced (as in the case of the Revenue Support Grant) or possibly withdrawn. This profound change in the funding basis of local government is prompting the need for councils to explore new ways of generating income to support their revenue budgets.

It is also encouraging councils to become more entrepreneurial and to invest in commercial property with a view to generating stable long term income. This strategy is designed to help support the delivery of council services in the future and allow councils to have more influence in shaping the local economy.

3.2 Key Council Strategies & Policies

This property investment strategy does not exist in isolation. It is related to the Council's wider corporate and service strategies and in particular the Council's Medium Term Financial Strategy.

This strategy underpins the overall management of the Council's property portfolio, the broad framework for which is articulated through the Council's Asset Management Plan (AMP). Whereas the AMP sets the context and direction for management of the portfolio as a whole, which includes operational and surplus property, this strategy is focused on the property assets the Council holds for investment or strategic purposes.



3.3 Resource Context

Over the medium term PCC is seeking to address the potential revenue gap from changes to local government through a range actions. There will be a renewed focus on innovation and efficiency with a view to mitigating and

controlling service demand, maximising funding and expanding commercial income.
A key strand of the action will be in placing a greater focus on income generation. This will be reflected in the Acquisition Strategy and AMP, both through leveraging existing commercial property assets and investment acquisition. The Council has agreed an initial capital allocation of £70m in order to grow its portfolio with an emphasis on acquiring income bearing assets or strategic assets which may have long term latent value.

Whilst no specific income target has been set there is an expectation that there will be a significant and sustained growth in income from property as a contribution to bridging an identified funding gap in the Council's revenue budget.

3.4 Market Outlook

3.4.1 National

Commercial property returns tend to be linked to national economic performance and to the relative prosperity of the economy. The short term outlook is therefore likely to be generally a positive one but also potentially turbulent given that the implications of Brexit are not yet clear. How the national economy will perform over the long term cannot be guaranteed.

The investment portfolio does however need to be seen over the longer term, as reactions to short term market changes can distort yields which are likely to be more stable if viewed over a greater timeframe. In this context it will be important to balance a one year budget cycle and any expenditure required for this with the longer term perspective that is required for investment management of either a commercial or residential portfolio.

The changing nature of the economy, globalisation the growth in home-working, automation and the use of artificial intelligence (AI) may yet have unforeseen impacts on the demand for different types of buildings. As businesses strive to become more agile many are seeking shorter lease lengths than was historically the case or regular break options so they can react quickly to change. Increasing use of artificial intelligence and automation will change the demand for commercial space over time. Currently there is a very strong demand for industrial and warehouse space, driven to some extent by a change in consumer shopping habits. The trend for internet shopping is also impacting on demand for more traditional retail space. The outcome of such trends and the speed at which they are developing is ever-changing so a degree of forward thinking is required in terms of the portfolio strategy.

The conventional wisdom of retaining a balanced portfolio (between industrial, office and retail) to mitigate risk is therefore shifting and to optimise overall returns from investment a new portfolio balance may be required. This may also necessitate a greater emphasis on residential development where long term demand has proven to be very stable.

In the current climate with rates of return on cash reserves very low (typically between 0.5% and 2.0%) property still presents an opportunity for better returns and also has a potential for significant capital growth over the long term.

3.4.2 Local

It will be important for the Council to understand the local property market and its outlook over the medium term. This should include the city and its immediate surroundings and also the Cambridge area because of emerging working relationships across the authorities and its strength as a technology centre.

A local market report for Peterborough published in September 2018 by Savills identified a strong demand for residential and commercial property in Peterborough. This demand is being driven by strong population and economic growth in the area. Whilst demand for accommodation is strongest in the commercial and residential sectors, it is strong across all sectors.

The Savills *"Peterborough: A growing city"* report highlights that whilst the area is responding to strong residential demand and a healthy land supply, high levels of development are still required to meet housing need.

Both the adopted and emerging local plan targets for Peterborough are well in excess of 1,200 homes each year.

The largest share of housing supply will be on the city fringe with planning consent granted for 5,300 homes at Great Haddon. The residential market therefore offers a long term investment opportunity for the City Council as this land supply comes on stream.

The industrial market has benefitted from a shift towards online retailers, many of whom have established large distribution centers in the city. Due to strong demand, vacancy rates are at a historic low. Attracted by strong rail and road links, Amazon, Debenhams and Ikea have established large scale distribution centers in Peterborough. At present, there is just one unit of 100,000 sq.ft of industrial space available within a 50 mile radius of Peterborough and the opportunity exists to take advantage of second hand units to undertake refurbishments to bring poor quality stock up to standard. It is a similar picture in the office market with low vacancy rates creating upward pressure on rents.

4.0 Managing the Portfolio

4.1 Aims & Objectives

As this is the Council's first Investment Acquisition Strategy it is important to explicitly state the aims and objectives in developing a property investment portfolio. These are summarised in Appendix B along with basic operating principles for the portfolio. The overall aim has a dual purpose, both to create a financial return and to promote local economic prosperity, however these objectives may sometimes conflict. There is a risk that the pursuit of socio-economic aims through for example supporting job creation, may dilute the purely financial goals. However there should also be many opportunities where these objectives can be aligned.

4.2 Operating Principles & Governance Arrangements

In order to manage the portfolio effectively it is important to have a set of explicit operating principles which include a clear rationale for holding each asset and an understanding of the expectations, (financial or otherwise) for managing it. To do this the Council has a set of basic operating principles as shown in Appendix B and a simple framework for assessing the portfolio in terms of acquisition, performance and disposal.

In practice this will mean making judgements around the acquisition and disposal of assets, the portfolio structure, portfolio mix, holding period for individual assets and the performance of the portfolio. A framework for assessing individual assets and the portfolio as a whole is given in Appendix C.

Acquisitions & Disposals – The management of the portfolio will from time to time require the acquisition and disposal of individual assets. These must be undertaken in accordance with the Council's financial procedures, but will need to be expedited to take advantage of investment opportunities.

Development – the Council will seek to invest in developing commercial property assets or land which is already within their ownership either using internal resource or in partnership with existing suppliers, subject to a robust business case.

Portfolio Structure – the Council will seek to create a balanced investment portfolio that provides long term rental returns and capital growth. A core portfolio of property assets will be sought with a view to diversification in individual assets by sector (industrial, offices and retail), location and risk.

Portfolio Mix – the Council will take an opportunity led approach to investments but seek to maintain a balance between different assets types (office, industrial and retail assets) with a guideline approach of maximum of 50% of any type. Given that the portfolio is relatively small and a single transaction can adjust the balance significantly this is only seen as an initial guideline. The Council will seek to avoid investing in specialist asset types (such as hotel & leisure) or distressed property requiring extensive capital expenditure which would necessitate a higher risk investment strategy.

Holding Period – The Council will determine a 'holding period' for each property at the point of acquisition. This is so that provisions can be made where a property is likely to need refurbishment in the future and to ensure a formal periodic review of the rationale for holding individual assets.

Measuring Performance – Individual assets and the whole portfolio will need to be subject to periodic performance assessment.

A set of clear, simple governance arrangements will be required which will allow speedy intervention in the market whilst also ensuring consistency with financial regulations and robust business case appraisal. An outline of these is given in Appendix E.

4.3 Day to Day Portfolio Management

Effective day to day management of the portfolio is critical to its overall performance. This management needs to happen at both a strategic and operational level.

The key activities include:

At a strategic level:

- Annual refresh of strategy and measurement of performance.
- Effective financial management including rent collection.
- Effective void management and marketing.
- Identifying new investment opportunities.
- Minimise management costs associated with direct ownership.
- Ensure there is a regime of planned maintenance and statutory compliance where PCC manage.

At a property level:

- Preparation of strategies for individual properties.
- Identifying opportunities to add value for example by refurbishing premises or regearing leases.
- Identifying 'marriage value' arising from acquisition of adjoining properties.
- Identifying properties for disposal where performance prospects are poor.
- Ensuring premises are secure and safe and are regularly inspected.

4.4 Acquisition, Review & Disposal Criteria

Appendix C identifies a range of criteria that will be used in the acquisition of properties. The same criteria for selecting acquisitions can also be used for asset review. All assets will be reviewed on a periodic basis to ensure that the criteria in Appendix C are still met and in light of any wider portfolio considerations. It is recommended that a 'holding period' is identified for assets when first acquired which should act as a guide for subsequent disposal. Such an approach allows for the portfolio to be refreshed on a regular basis and promotes a long term perspective for portfolio management. Individual assets identified for disposal will follow the same governance procedures.

4.5 Performance Management

The performance indicators for the portfolio should be based on industry benchmark standards. These should be measured at an individual property and whole portfolio level with indicative targets set for each. A simple set of initial performance measures are presented in Appendix F. This is an evolving framework which will be need to be developed as the portfolio grows, especially given the changing regulatory and best practice environment identified in Section 2.2.

The return on investment (or property yield) is perhaps the single most important performance indicator and this should be judged against IPD (Investment Property Database) which is generally considered to be the most authoritative benchmarking index. Property should be considered as a long term investment and whilst its value can fluctuate in the short term due to specific circumstances, it will tend to provide stable long term returns. A degree of judgement will need to be used in evaluating the portfolio performance which will need to take into consideration the long term perspective.

5.0 Implementation

5.1 Action Plan

The lead officers with accountability for managing the investment portfolio will be the Head of Growth and Regeneration and the Corporate Director of Resources.

Governance: as detailed in Appendix E, the Corporate Property Officer will have delegated authority to approve investments up to a level of £20 million. For opportunities which are in excess of £20m a Cabinet Member Decision Notice would need to be completed.

5.2 Implementation Considerations

Effective and successful management of an investment portfolio requires a combination of skills including, but not restricted to building surveying, valuation, market intelligence, legal, financial and property management. It will also require specific senior officers to be accountable and appropriate capacity to ensure there is adequate focus on the portfolio.

5.3 Monitoring Arrangements

It is important to measure the overall progress in the management of the investment portfolio. Whilst property will be held for the medium to long term, there needs to be monitoring over shorter timescales to measure performance and the impact of any actions, such as building improvements. The portfolio will be kept under review by:-

PCC head of property and financial director. NPS Property Consultants are to advise and seek agreement to decisions on specific actions (e.g. acquisitions or disposals).

An annual report on performance of the portfolio, with the report based on a set of performance indicators as suggested in Appendix E.

Formal review of each asset holding at least every two years using the acquisition and review criteria set out in Appendix C.

Informal leader briefings by the joint venture property team as required.

Appendix A – Summary of Risks and PCC Approach to Mitigation

Risk	PCC Approach to Mitigation
Costs - Abortive costs, including legal costs, survey fees, officer time, may all be incurred in abortive transactions including costs for initial feasibility investigations.	PCC will adopt a 'whole portfolio' view of costs and accept risk associated with occasional abortive costs whilst also undertaking due diligence to reduce the likelihood of these.
Market forces - Fluctuation in demand and supply and in the wider economy may see the value of assets and income rise and fall, with a risk that the Council may not recoup the original amount invested in full.	To limit this risk due diligence will be followed for all transactions. PCC will adopt a 'whole portfolio' and medium term (10 year +) view of its investment to mitigate the potential losses from one individual investment asset.
Competition – Where the local market is very strong (for example Cambridge), there will be increased competitive activity for limited supply of high quality investment property. This means that the Council are likely to be one of several bidders for available assets.	PCC will adopt procedures which will allow them to compete in the market but with appropriate governance procedures covering the necessary delegated authority and decision making.
Liquidity - The process of buying and selling investment property is fairly lengthy (e.g. an investment disposal will usually take between 3 to 6 months from heads of terms to completion), making it a more illiquid than other asset classes such as equities or bonds.	PCC will manage the portfolio by adopting the Institute of Public Finance (IPF)'s best practice advice contained in "Readiness for sale - A guide for streamlining commercial property transactions". Furthermore PCC will identify a recommended 'holding period' for each investment which will be aligned with the strategic aim of long term income.
Opportunity - The availability of property stock for investment in the Council's administrative area may be limited. As the Council seeks to grow the portfolio it may at times be frustrated by a lack of opportunity.	To counter this PCC will seek out as many appropriate opportunities as possible, build relationships and communicate to the market the Council's requirement and ability to perform.

Management - The portfolio may have the risk of void periods or tenants may default on rent payment. Voids create holding and re-letting costs; if they persist for prolonged periods these costs can be significant.	Active portfolio management will be undertaken by PCC during the holding period to anticipate and reduce such risks where possible.
Capacity & Expertise - Management of an investment portfolio requires specific skills, expertise and capacity. Direct ownership and direct management means this can be resource intensive. As the portfolio grows, so the management burden will grow.	This specific issue along with knowledge of the local market opportunities will be critical. PCC will identify a 'lead officer' with appropriate expertise to provide a focus on the investment portfolio.
Reputation - How the Council acts to intervene in the market and deals with day to day management of its properties and tenants will have an impact on the Council's overall reputation.	PCC will seek to adhere to 'best practice' in all its transactions and ensure effective regular liaison with tenants. Reviews of individual assets and the portfolio as a whole will identify any works required to protect or enhance the fabric of buildings which may be needed in order to re-let a void property.
Regulatory Compliance - The Council should ensure it operates within the applicable regulatory framework and regularly takes steps to review that framework.	PCC will act in accordance with appropriate statutes and in line with current financial regulations and 'best practice' including the Chartered Institute of Public Finance and Accounting (CIPFA) Prudential Code, CIPFA's treasury management guidance for local authority funds and the Department for Communities and Local Government (DCLG) statutory guidance on local authority investment.

Appendix B – Summary of Aims, Objectives & Operating Principles

Aim

To acquire and manage investment property (the investment portfolio) in order to support the Council's revenue budget and its priority in ensuring the economic prosperity and well-being of Peterborough.

Objectives

- To acquire property that can provide long term income and capital growth.
- To maximise returns whilst minimising risk through sound property selection and effective governance.
- To prioritise investment towards property that can provide strong stable long term income.
- To maintain and enhance the condition of property to ensure long term income strength and income growth.

Operating Principles

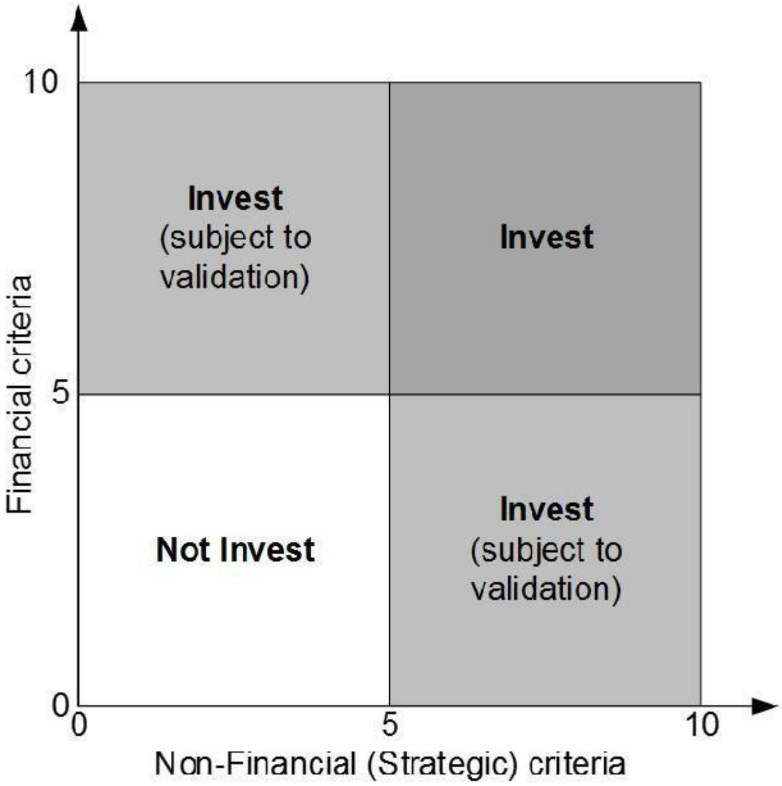
- The Council will retain direct ownership of all its investment property assets.
- The Council will undertake the management of the investment portfolio in-house (as a landlord) or with established suppliers / joint ventures.
- The geographical operating scope of the portfolio will be restricted to Peterborough City Council's administrative area and its immediate surroundings.
- The council will seek to retain a 'balanced' portfolio through its mix of asset types and lease lengths with emphasis on industrial, office and retail uses.
- To minimise management and risk, preference will be for single occupancy investments although multi-let properties may be considered.
- Preference will be for full repairing and insuring (FRI) terms or FRI by way of service charge, meaning that all costs relating to occupation and repairs are borne by the tenant(s) during the lease term.
- There will be an annual portfolio review with an executive summary report to the Audit Committee which will examine the portfolio's performance and allow for strategic decision making.

Appendix C - Acquisition & Review Criteria for Investment Assets

Criteria	Scoring 1 Poor	2 Marginal	3 Acceptable	4 Good	5 Very good	Score
Location	Tertiary	Micro Secondary	Major Secondary	Micro Prime	Major Prime	1-5
Tenancy Strength	Tenants with unstable or poor financial covenant	Multiple tenants with good financial covenant	Multiple tenants with strong financial covenant	Single tenant with good financial covenant	Single Tenant with strong financial covenant	1-5
Tenure	Lease less than 20 years	Lease between 20 & 50 years	Lease between 50 & 125 years	Lease 125 years with option to buy freehold	Freehold	1-5
Lease Length	Less than 2 years or vacant	Between 2 & 4 years	Between 4 & 7 years	Between 7 & 10 years	Greater than 10 years	1-5
Repairing Terms	Landlord	Internal repairing – non recoverable	Internal repairing – partially recoverable	Internal repairing – 100% recoverable	Full repairing & insuring	1-5
Physical Condition	In a poor state of repair with significant liabilities	In a poor condition with some repairs required	In a reasonable condition with limited repairs required	In a good condition with only limited repair issues	Fit for purpose, well maintained with no outstanding repairs	1-5
Note: This is an initial framework which will be updated and refined in use. The exact criteria and scoring approach is subject to review					**Maximum Score**	**30**

Appendix D – Initial Investment Appraisal 'Scorecard'

Financial Criteria	Strategic Criteria
Does the net yield exceed PCC agreed target?	Does the investment support local community vibrancy?
Is the location classified as major prime, micro prime or major secondary?	Will the investment support local job creation or retention?
Is the property freehold or have a lease in excess of 150 years?	Will it facilitate strategic site assembly / increase scope for intervention?
Is the lease an 'operating lease' so all income can be treated as revenue?	Will it support improvement in infrastructure?
Can it be let on full repair & insuring terms or with 100% recovery of internal repairs?	Will it support local place shaping in line with PCC objectives?
Is the occupier's lease length greater than 5 years?	Does it support equity of prosperity & opportunity across Peterborough?
Is there a single tenant with good or strong covenant?	Does it support anti-poverty or deprivation policies?
Does the location reflect good potential for rental growth & high letting prospects	Will it support education, skills or apprenticeship policies?
Does the asset improve the balance of the PCC portfolio (risk management)?	Is it in a specific priority area for regeneration or growth?
Does the asset have good market exit (sales) prospects?	Does it contribute to better balance within and between 'places'?



Appendix E – Governance Arrangements

The Council will acquire assets where it can demonstrate:

- An investment return can be generated
- Value can be added to existing assets held by the Council
- There is a strategic benefit from acquiring the assets.
- A contribution to the maintenance of a balanced commercial property portfolio.

All acquisitions will be assessed through a robust business case and with particular reference to the cost, benefit, impact and risk of the property. How it relates to the Council's corporate objectives and its assessment against the acquisition and review framework (See Appendix C) will also be key. In all cases an independent valuation will be obtained by a member of the Royal Institution of Chartered Surveyors to ensure that the transaction represents market value.

Acquisitions and disposals relating to the commercial portfolio, whilst needing to be consistent with the Council's financial strategy, will need to be completed quickly. This is even more likely to be in the case of acquisition, as securing a good investment will require the ability to respond and act quickly to secure it ahead of the competition.

Acquisitions and disposals will, under the Council's Rules of Financial Governance require consultation with and agreement of the Section 151 Officer. In all cases, they will need to be supported by a financial appraisal setting out all the financial and budgetary implications. Under the Council's practice of delegated authority nominated senior officers along with the Corporate Property Officer can approve acquisitions or disposals subject to a maximum value of £20M. Acquisitions over this value will be identified as 'key decisions' and included in the Council's standard processes around key decisions.

Appendix F – Performance Measures

Indicator	Target	Actual
Rate of Return	5% - 8%	
Revenue Growth (over 5 years)	To be defined	
Capital Growth (over 5 years)	To be defined	
Management & Ownership Costs (as a % of gross income)	To be defined	
Average portfolio score under 'Acquisition & Review Criteria'	20+	

Below is a list of further possible performance indicators that could be used to measure the performance of the portfolio.

Debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*
Investment cover ratio	*The total net income from property investments, compared to the interest expense.*
Loan to value ratio	*The amount of debt compared to the total asset value.*
Target income returns	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*
Benchmarking of returns	*As a measure against other investments and against other council's property portfolios.*
Gross and net income	*The income received from the investment portfolio at a gross level and net level (less costs) over time.*
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*
Vacancy levels and Tenant exposures for nonfinancial investments	*Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.*

References

Local Government Act 2003

Localism Act 2011

CIPFA Prudential Code for Capital Finance In Local Authorities

CIPFA Treasury Management in Public Services Code of Practice

DCLG Statutory Guidance on Local Authority Investment (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003

House of Commons Briefing Paper 16 February 2018; Commercial Property Investment

CIPFA Statement on borrowing to invest by Rob Whiteman and Richard Paver 18 October 2018

AUDIT COMMITTEE	AGENDA ITEM No. 9
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Pete Carpenter - Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Council Seaton. Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel. 384557

EXTERNAL ASSESSMENT OF INTERNAL AUDIT

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	**Deadline date: N/A**

It is recommended that Audit Committee:

1. Note and comment upon the external assessment of the Internal Audit service against the Public Sector Internal Audit Standards

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine report on the development and inspection of the Internal Audit service at Peterborough.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide Members with an update on the external review undertaken in 2018 and the draft / final report.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.9 "*To commission work from internal and external audit.*"

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	N/A

4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 Internal Audit is at the cornerstone of providing assurance to the Council and its stakeholders into the operation of its business.

4.1.2 The service is governed by professional standards and ethics and has to be reviewed externally every 5 years to demonstrate compliance with the Public Sector Internal Audit Standards. We commissioned the London Audit Consortium to undertake this review in 2018 and attached is their assessment of the service.

4.2 APPROACH AND OUTCOMES

4.2.1 The external review process comprised a self-assessment of the internal audit service against each standard, along with the production of supporting evidence which was supplied in advance of the review. The external assessor performed a site visit, reviewed additional information such as audit files, and evaluated the information contained within the self-assessment.

4.2.2 The report has concluded that the internal audit service has been assessed as achieving **FULL** compliance against the comprehensive standards. An achievement in itself bearing in mind that most organisations usually have a couple of areas of partial compliance. Nevertheless, a number of areas have been identified to help support service improvements and strengthen our evidence of compliance. These can be grouped as:

Internal processes. A number of our working arrangements are set out within our Audit Charter or defined as steps within our audit software. With a settled workforce – the last permanent appointment to the team was in 2014 – their understanding and knowledge of the processes have been developed and built on over time with experience etc. Should resources alter, these need to be spelt out. It will also reflect management obligations more clearly e.g. response times.

Operational Arrangements. Changes have been identified in relation to updating job description and the positioning of the annual governance statement within the Council.

Reporting. Our reporting arrangements can be enhanced to link our findings through the Risk Management Board and we will also look to develop separate reports to CMT highlighting key issues which need to be reflected in the annual governance statement as well as action tracking.

Staff Resources and Development. While there are strong arrangements in place for planning and delivery of various audits, the service can strengthen its link between the work required and any skills gaps to complete as well as the actual number of audit days able to be provided. With the changing nature of our work (i.e. more strategic focussed, based on risks rather than compliance etc) our skills need to continue to evolve. This can be reflected in the annual plan highlighted to Audit Committee. This could also consider the level of budgeted resource available for more specialist areas e.g. IT auditing or vacancies. In a similar vein this could highlight the impact of reduced numbers as a result of changes in working arrangements e.g. influx of grant claims needing verification; external works etc.

Quality Assurance and Improvement Programme. The assessment recognised that annual reporting did not always highlight positive in year achievements despite this being evident from the external review. This will be incorporated into the annual audit opinion as service delivery improvements.

4.2.3 Further details / evidence will be included within the Internal Audit Plan 2019 / 2020 report which is scheduled for the March meeting.

5. CONSULTATION

5.1 The draft / final report has been referred to Corporate Management Team for discussion and endorsement.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Audit Committee note and comment on the contents of this report.

7. REASON FOR THE RECOMMENDATION

7.1 To provide members with an insight into the operations of the Internal Audit service and how it operates / performs against national standards.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

9. IMPLICATIONS

Financial Implications

9.1 The report recognises the importance of staff resources and endorses the need for the service to regular review its staffing levels to meet the needs of the organisation and to include appropriate training and continuous professional development.

Legal Implications

9.2 The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk, controls and governance.

Equalities Implications

9.3 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Public Sector Internal Audit Standards

11. APPENDICES

11.1 Appendix A: Peterborough City Council - External Quality Assessment: Draft / Final Report

This page is intentionally left blank

Peterborough City Council

Public Sector Internal Audit Standards

External Quality Assessment

Draft Report v1.0

Report Distribution

For Action:	Director of Audit Group Auditor
For Information:	Chief Finance Officer Audit Committee

Author Derek Corbett, London Audit Consortium Director

Publication Date 22 November 2018

1. Introduction & Background

Along with all other internal audit teams and contractors providing services to the public sector, Peterborough City Council Internal Audit Team is required to demonstrate compliance with the Public Sector Internal Audit Standards.

The Public Sector Internal Audit Standards cover a range of requirements as set out below.

Public Sector Internal Audit Standards	
• Definition of Internal Audit	
• Code of Ethics: Covering Integrity, Confidentiality, Objectivity and Competence	
Attribute Standards	**Performance Standards**
• Purpose, Authority and Responsibility	• Managing the Internal Audit Activity
• Independence and Objectivity	• Nature of Work
• Proficiency and Due Professional Care	• Engagement Planning
• Quality Assurance and Improvement Programme	• Performing the Engagement
	• Communicating Results
	• Monitoring Progress
	• Communicating the Acceptance of Risks

Standard 1300 reinforces the importance of quality assurance in that "The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity". The standards go on to state that:

"*External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:*
- *The form of external assessments.*
- *The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest".*

Further details of the Standards are provided at Appendix A.

London Audit Consortium (LAC) was commissioned to undertake an independent external quality assurance assessment to fulfil the requirements related to Standard 1300. The assessment has been completed by Derek Corbett, CPFA, Managing Director of London Audit Consortium (LAC).
Further details about the assessor and the London Audit Consortium are set out at Appendix B to this report.

Peterborough City Council Internal Audit Department is an in-house team directed by the Chief Internal Auditor and is operationally managed by two group auditors. The team sits within the Financial Services division which is part of the Directorate of Resources. The Council has established an Audit Committee. It approves the annual internal audit work programme, monitors delivery of the work programme, receives and considers finalised internal audit reports and monitors the implementation of internal audit recommendations.

The Internal Audit Department provides internal audit and advisory services as well as a counter fraud investigation service (incorporating Stage 2 corporate complaints). It provides some services to external parties.

The Chief Internal Auditor also directs the council's insurance function.

2. Objectives, Scope & Approach of this Review

The overall objective of this review was to provide an independent external assessment of the Internal Audit Department's compliance with the Public Sector Internal Audit Standards. Where possible, good practice opportunities have also been provided to the team.

The counter fraud service did not form part of this review. The effectiveness of the internal audit service provided to third parties was also out of scope and no assurance to third parties cannot be provided

The approach comprised:

1. The Internal Audit team's preparation of a self-assessment comprising explanatory text and supporting compliance evidence. The Internal Audit team chose to undertake a self-assessment based on a TIAN developed checklist that follows the PSIAS.
2. A structured desk top review by the independent assessor of the internal Audit team's self-assessment and compliance evidence.
3. Clarification interviews with the Group Auditors and Chief Internal Auditor.
4. An examination of a sample of audit project files relating to 2018/19 and discussions with Group Auditors who were asked to explain compliance with the relevant standards (2200 Engagement Planning, 2300 Performing the Engagement, 2400 Communicating the Results, 2600 Communicating the Acceptance of risks).
5. Wash-up meeting with officers identified in 3 above.
6. Draft report for discussion;
7. Presentation of final report.

Any information and documentation provided by the Internal Audit team to conduct this review will remain confidential and will not be used for any other purpose than the PSIAS review.

3. Findings, Conclusions and Recommendations

Based on a desk top review of evidence provided by the Internal Audit team, clarification meetings with the Chief Internal Auditor and Group Auditors and a review of a sample of audit projects (reports and working papers) relating to Peterborough City Council for the period 2018/19 it was found to be compliant in the design and application of its policies and procedures with regard to the definition of internal audit, Code of Ethics and Standards.

A summary of the compliance status for each of these aspects of the review is provided in Table 1 below:

Table 1

Standard	Review Method		Compliance Rating
Conformance with the definition of internal audit	A		**Full**
Conformance with the code of ethics			
Integrity	A		**Full**
Confidentiality	A		**Full**
Objectivity	A		**Full**
Competence	A		**Full**
Conformance with the attribute standards			
1000 Purpose, authority and responsibility	A		**Full**
1100 Independence and objectivity	A		**Full**
1200 Proficiency and due professional care	A		**Full**
1300 Quality assurance and improvement programme	A		**Full**
Conformance with the performance standards			
2000 Managing the internal audit activity	A		**Full**
2100 Nature of work	A		**Full**
2200 Engagement planning	A	B	**Full**
2300 Performing the engagement	A	B	**Full**
2400 Communicating results	A	B	**Full**
2500 Monitoring progress	A		**Full**
2600 Communicating the acceptance of risks	A	B	**Full**

Review Method Key:
A = Independent review of evidence and discussions with senior staff.
B = Independent selection and review of a sample of audit reports and working papers and discussion with managers/ auditors responsible for the projects.

Twenty seven recommendations have been made to help support service improvements and strengthen the evidence of compliance with the PSIAS. Recommendations are prefixed (S) meaning recommendations that will improve compliance with the PSIAS Standards and (GP) where opportunities to adopt good practice have been identified.

The Conclusions and recommendations are detailed below. A recommendations implementation table is provided at Appendix C.

1000 Purpose, Authority and Responsibility

<u>Conclusion</u>

The Audit Charter is broadly compliant with the PSIAS and is regularly reviewed and approved by the Audit Committee. Some areas of improvement have been identified. Recommendations have been made to improve compliance with the PSIAS.

Recommendations

R1 (S) – The Audit Charter should be updated and enlarged to include:

- specified response times for PCC managers to respond to draft IA project terms of reference;
- minimum notice periods the IA team should provide to PCC managers prior to commencing audits;
- the maximum time permitted to issue draft IA reports after field work is comlpete;
- detail the process to be followed in the event of PCC management disputing the findings, conclusions or recommendations of Internal Audit reports
- Management obligations to implement recommendations to the agreed timescale; and provide agreed evidence of implementation;
- internal audit's responsibilities to follow up all or a sample of internal audit recommendations;
- The process of determine IA staffing needs as part of the annual IA planning process.

R2 (S) - The HOIA Job Description should be updated to reflect current responsibilities

1100 Independence and Objectivity

Conclusion

Evidence has been provided to confirm the independence of Internal Audit. A recommendation has been provided to improve compliance with the PSIAS regarding reporting consultancy/ advisory work to the Audit Committee.

Recommendations

R3 (S) Audit Committee internal audit progress reports should more clearly state what consultancy/ advisory has been undertaken in the financial year.

1200 Proficiency and Due Professional Care

Conclusion

The CIA's qualification, staff training arrangements, staff supervision and control arrangements allow the PCC IA team to be broadly compliant with the PSIAS. Compliance could be further strengthened by developing more detailed standard operating procedures, evidencing annual assessments of required future staff skill sets and making some budgetary provision for ICT audit specialist work.

Recommendations

R4 (S) The Training Strategy should be updated and incorporated with the PCC Finance strategy during 2018 and subsequently maintained and updated on a more frequent basis. A biannual review would seem appropriate.

R5 (S) An annual assessment of required staff skill sets should be undertaken and recorded. This should be shared with the Audit Committee alongside the Audit Plan.

R6 (S) PCC should consider providing funds to allow technical specialists, (particularly an IT audit specialist) for technical aspects of the audit plan.

1300 Quality Assurance and Improvement Programme

Conclusion

Compliance with the PSIAS is set out in the Audit charter and Audit Strategy and processes have been identified that demonstrate that ongoing monitoring takes place in regard to project planning, field work and reporting. This is the core product of the service but monitoring could be extended to evidence compliance with all PSIAS requirements. Client feedback processes should make use of technology to drive up response rates. Evidence of service improvements have been noted although more formal documentation could be used to evidence progress.

Recommendations

R7 (S) The Charter should be revised to require a service development plan to be developed

R8 (S) The IA Annual Audit Opinion should be used to report compliance with PSIAS primarily through reporting progress with the quality and assurance programme and implementation of service improvements.

R9 (GP) Monitoring of emerging practice should be widened. To help launch this, LAC will provide details of its own sources of service development.

R10 (S) The quality system should be extended to incorporate all processes necessary to ensure compliance with the PSIAS.

R11 (S) The annual IA Head of IA Opinion should document quality review work undertaken and results.

R12 (GP) The CSQ should be restarted using a web based platform that clients can access from a link provided within an email. PCC should also set the tone from the top and require managers to give feedback. Performance should be monitored by the Audit Committee. Such an approach at an NHS organisation led to a 100% return rate for CSQs.

2000 Managing the Internal Audit Activity

Conclusion

The PCC IA team has an effective audit planning process that meets the PSIAS. PCC IA standard operating procedures need to be consolidated, expanded to cover all key duties and issued to staff using a version control process and supported by training on key changes,

Recommendations

R13 (BP) The PCC IA team should exchange audit universes with other local government providers to help improve the potential to identify necessary internal audit coverage.

R14 (S) The PCC IA SOPs should include details of working practices specific to consultancy work. This may simply require a statement that procedures will be the same as for assurance work.

R15 (S) Existing IA SOPs should be consolidated and expanded to cover all key processes. Version control should be employed and records should be kept of distribution of updates to staff and the training provided.

2100 Nature of Work

Conclusion

The PCC IA plan and working practices are compliant with this standard.

2200 Engagement Planning

Conclusion

Terms of reference are prepared for all IA work. Examples reviewed could provide greater detail to assist client sign off and delivery by internal auditors

Recommendation

R16 (S) Further detail should be provided in project Terms of Reference to improve clarity and avoid misunderstandings.

2300 Performing the Engagement

Conclusion

Document retention and control arrangements are satisfactory. Supervision and quality control arrangements are also satisfactory.

PCC IA SOP guidance concerning the preparation of working papers is limited and should be expanded to ensure all staff have a detailed understading of requirements. This deficiency is offset to some degree by the experience of the team, the supervision arrangements in place and the framework provided by Pentana concerning audit evidence.

Recommendations

R17 (S) A control evaluation matrix should be adopted to improve evidence of analysis, support auditor analysis and improve the efficiency of QA.

R18 (S) PCC IA SOPs should detail the use of the internal control matrix.

R19 (S) PCCIA SOPs should be expanded to explain in more detail the QA process.

R20 (GP) The Pentana supervision and sign off functionality should be used consistently.

2400 Communicating Results

Conclusion

The communication arrangements for internal audit reports are compliant with PSIAS requirements. An overall annual opinion is provided in compliance with the PSIAS.

The appropriate use of memoranda instead of Internal Audit reports need to be clearly specified. The production of the annual governance statement (AGS) presently wrongly sits with Internal Audit. Some good practice opportunities exist around giving more detailed assurance ratings(for each control objective), indicating within reports when the Council's risk register has been updated to take account of the findings of the report and consideration needs to be given to making a disclosure in the AGS.

Recommendations

R21 (GP) Consideration should be given to exploring Pentana's ability to give assurance ratings by system element so as to improve the granularity of assurances and therefore the value and understanding of the report findings and recommendations.

R22 (GP) Consideration should be given to indicating in reports whether management should consider making a disclosure in the AGS or notifying regulatory bodies.

R23 (GP) PCC IA draft reports should be copied to PCC risk managers or the Risk Management Group with clear explanations of the findings IA consider should be considered for inclusion in the risk register. The final report should record details of risk register entries (Reference numbers, assigned risk ratings).

R24 (S) SOPs should be prepared to describe the appropriate use of memos as an alternative to Internal Audit reports and their minimum content.

R25 (S) PCC IA should pass across to management the responsibility for drafting the Annual Governance Statement.

R26 (GP) further metrics should be incorporated into the IA Annual Audit Opinion to improve the level of insight provided to PCC.

2500 Monitoring Progress

Conclusion

Internal audit recommendations are followed up using a priority based approach to determine the level of review. A tracker system could improve PCC monitoring of the status of recommendations and ensure performance in line with agreed implementation dates.
The CIA is able to escalate concerns regarding PCC management acceptance of risks

Recommendation

R27 (GP) A tracker system should be adopted and maintained by IA. Progress updates should be obtained from management regularly and reported to the Executive Team and the Audit Committee. Preferably, to reduce operating costs, an automated system should be used that automatically calls for updates and can be remotely accessed by PCC managers to upload status reports. In the first instance, the potential for Pentana to provide this facility should be explored.

2600 Communicating the Acceptance of Risk

Conclusion

PCC IA is compliant with this standard.

4. Acknowledgements

I would like to thank the Peterborough City Council Internal audit team for their cooperation and support during this review.

Derek Corbett, CPFA
Managing Director
London Audit Consortium

22 November 2018

Appendix A – The Public Sector Internal Audit Standards

The Relevant Internal Audit Standard Setters (Chartered Institute of Public Finance and Accountancy in respect of local government across the UK) have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013. The standards have subsequently been maintained up to date with the latest version being published in March 2017.

The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector.
- Set basic principles for carrying out internal audit in the UK public sector.
- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing.
- Code of Ethics.
- International Standards for the Professional Practice of Internal Auditing (ISPPIA).

The PSIAS comprise Attribute and Performance Standards.

- The Attribute Standards address the characteristics of organisations and parties performing internal audit activities.
- The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:
    - Assurance activities.
    - Consulting activities.

A summary of the PSIAS is set out in the table below.

Definition of Internal audit	
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.	
Mission of Internal audit	
To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.	
Code of Ethics	
Integrity	Confidentiality
Objectivity	Competency
Public Sector Internal Audit Attribute Standards	
1000 Purpose, Authority and Responsibility	1200 Proficiency and Due Professional Care
1100 Independence and Objectivity	1300 Quality Assurance and Improvement Programme
Public Sector Internal Audit Performance Standards	
2000 Managing the Internal Audit Activity	2400 Communicating Results
2100 Nature of Work	2500 Monitoring Progress
2200 Engagement Planning	2600 Communicating the Acceptance of Risks
2300 Performing the Engagement	

Appendix B - External Assessor

The assessment has been completed by Derek Corbett, CPFA, Managing Director of London Audit Consortium (LAC).

LAC is an NHS based internal audit consortium hosted by Barts Health NHS Trust. LAC provides internal audit, investigation services and consultancy services to a number of NHS and other public sector clients.

Derek Corbett, CPFA, is a qualified accountant with over 30 years' experience of directing internal audit services in public sector organisations. He has managed LAC since its formation in 2011 and previously directed London City Audit Consortium from 1997 until its merger with two other London NHS audit consortia to form LAC in 2008.

Derek has contributed to the development of the Public Sector Internal Audit Standards through his membership of two NHS national groups, HFMA Governance and Audit Committee and The Internal Audit Network (TIAN).

TIAN is a confederation of the 8 NHS internal audit consortia and two in house internal audit teams operating in England. Derek has chaired TIAN's executive committee since its inception in 2011.

Appendix C – Action Plan

Rec No	Recommendation	Rating (HML)	Agree/ Disagree	Management Action (SMART)	Action Lead/ Manager Responsible	Action Date
1	R1 (S) – The Audit Charter should be updated and enlarged to include: • specified response times for PCC managers to respond to draft IA project terms of reference; • minimum notice periods the IA team should provide to PCC managers prior to commencing audits; • the maximum time permitted to issue draft IA reports after field work is complete; • detail the process to be followed in the event of PCC management disputing the findings, conclusions or recommendations of Internal Audit reports • Management obligations to implement recommendations to the agreed timescale; and provide agreed evidence of implementation; • internal audit's responsibilities to follow up all or a sample of internal audit recommendations; • the process of determine IA staffing needs as part of the annual IA planning process.	**M**	Agreed	Audit Charter to be reviewed/ updated to clarify and formalise working processes in place. This will be presented to Audit Committee at the Annual Plan approval meeting along with other strategy documents. March 2019	Group Auditor	March 2019
2	R2 (S) - The HOIA Job Description should be updated to reflect current responsibilities	**M**	**Agreed**	Discussions held with Acting Corporate Director of Resources as part of annual	Chief Internal Auditor	March 2019

				appraisal process to agree revised responsibilities		
3	R3 (S) Audit Committee internal audit progress reports should more clearly state what consultancy/ advisory has been undertaken in the financial year.	**M**	**Agreed**	Consultancy work to be clearly annotated within Audit Committee reports.	Group Auditor	June 2019
4	R4 (S) The Training Strategy should be updated and incorporated with the PCC Finance strategy during 2018 and subsequently maintained and updated on a more frequent basis. A biannual review would seem appropriate.	**M**	**Agreed**	Internal Audit Training Strategy (IATS) to be reviewed and updated in line with annual planning processes. Incorporation of IATS into Resources Training Plan/Strategy once it is developed.	Group Auditor	March 2019
5	R5 (S) An annual assessment of required staff skill sets should be undertaken and recorded. This should be shared with the Audit Committee alongside the Audit Plan.	**M**	**Agreed**	This process will formalised into the annual planning documentation that is reviewed and approved by members as part of the 2019/20 plan.	Group Auditor	March 2019
6	R6 (S) PCC should consider providing funds to allow technical specialists, (particularly an IT audit specialist) for technical aspects of the audit plan.	**M**	**Agreed**	Consideration will be given within the annual planning process in conjunction with the budgetary constraints faced by the business	Chief Internal Auditor	March 2019

7	R7 (S) The Charter should be revised to require a service development plan to be developed	**M**	**Agreed**	Incorporation within annual planning process for Charter review/revision	Group Auditor	March 2019
8	R8 (S) The IA Annual Audit Opinion should be used to report compliance with PSIAS primarily through reporting progress with the quality and assurance programme and implementation of service improvements.	**M**	**Agreed**	This approach will be reviewed, updated and included within the Audit Committee reporting timetable for the 2018/2019 Annual Audit Opinion to ensure all aspects are transparent.	Group Auditor	July 2019
9	R9 (GP) Monitoring of emerging practice should be widened. To help launch this, LAC will provide details of its own sources of service development.	**M**	**Agreed**	New and emerging practices considered as part of the audit planning and development processes to be clearly identified within AC reports and strategies.	Group Auditor / Chief Internal Auditor	March 2019
10	R10 (S) The quality system should be extended to incorporate all processes necessary to ensure compliance with the PSIAS.	**H**		The IA annual report extended to include areas such as declarations of interest to demonstrate ongoing compliance with PSIAS.	Group Auditor	July 2019
11	R11 (S) The annual IA Head of IA Opinion should document quality review work undertaken and results.	**M**	**Agreed**	The IA annual report will be extended to include additional areas where required.	Group Auditor	July 2019

12	R12 (GP) The CSQ should be restarted using a web based platform that clients can access from a link provided within an email. PCC should also set the tone from the top and require managers to give feedback. Performance should be monitored by the Audit Committee. Such an approach at an NHS organisation led to a 100% return rate for CSQs.	**M**	**Agreed**	An electronic post audit questionnaire to be developed during 2018/19.	Group Auditor	March 2019
13	R13 (BP) The PCC IA team should exchange audit universes with other local government providers to help improve the potential to identify necessary internal audit coverage.	**M**	**Agreed**	Explore willingness of other unitary authorities to collaborate and share audit universes within annual planning process.	Group Auditor	March 2019
14	R14 (S) The PCC IA SOPs should include details of working practices specific to consultancy work. This may simply require a statement that procedures will be the same as for assurance work.	**M**	**Agreed**	SOPs to be updated to reflect the one process for consultancy and assurance activities.	Group Auditor	March 2019
15	R15 (S) Existing IA SOPs should be consolidated and expanded to cover all key processes. Version control should be employed and records should be kept of distribution of updates to staff and the training provided.	**H**	**Agreed**	Incorporation of in-built Pentana processes into version controlled SOPs to include 'how to' detail.	Group Auditor	June 2019
16	R16 (S) Further detail should be provided in project Terms of Reference to improve clarity and avoid misunderstandings.	**M**	**Agreed**	In conjunction with annual planning and client consultation/requirements review how scope and	Group Auditor	April 2019

				objectives can be further clarified within TOR.		
17	R17 (S) A control evaluation matrix should be adopted to improve evidence of analysis, support auditor analysis and improve the efficiency of QA.	**H**	**Agreed**	Review the control evaluation process within Pentana to make best use of either a control matrix or auditor analysis to support the QA process.	Group Auditor	March 2019
18	R18 (S) PCC IA SOPs should detail the use of the internal control matrix.	**H**	**Agreed**	SOPs to be revised to incorporate control matrix processes.	Group Auditor	March 2019
19	R19 (S) PCCIA SOPs should be expanded to explain in more detail the QA process.	**H**	**Agreed**	Incorporation of expanded QA detail within revision of SOPs	Group Auditor	June 2019
20	R20 (GP) The Pentana supervision and sign off functionality should be used consistently.	**H**	**Agreed**	The revised SOP will clarify the supervision review and audit sign off process.	Group Auditor	June 2019
21	R21 (GP) Consideration should be given to exploring Pentana's ability to give assurance ratings by system element so as to improve the granularity of assurances and therefore the value and understanding of the report findings and recommendations.	**M**	**Agreed**	Explore the potential for system development to provide sub opinions and the associated benefit for doing this.	Group Auditor	June 2019
22	R22 (GP) Consideration should be given to indicating in reports whether management should consider making a disclosure in the AGS or notifying regulatory bodies.	**M**	**Agreed**	'Limited or No Assurance' audit reports to be evaluated and recommended for AGS declaration where appropriate.	Group Auditor	April 2019

23	R23 (GP) PCC IA draft reports should be copied to PCC risk managers or the Risk Management Group with clear explanations of the findings IA consider should be considered for inclusion in the risk register. The final report should record details of risk register entries (Reference numbers, assigned risk ratings).	**M**	**Agreed**	Explore the development of PENTANA to capture and report internal audit risks identified to the Strategic Risk Management Board.	Group Auditor / Chief Internal Auditor	June 2019
24	R24 (S) SOPs should be prepared to describe the appropriate use of memos as an alternative to Internal Audit reports and their minimum content.	**H**	**Agreed**	Enhance the SOP to reflect the use of memo templates and the decision making process for producing a memo rather than a report.	Group Auditor	March 2019
25	R25 (S) PCC IA should pass across to management the responsibility for drafting the Annual Governance Statement.	**M**	**Agreed**	CIA to agree with management who should undertake responsibility for AGS preparation and drafting.	Chief Internal Auditor	March 2019
26	R26 (GP) further metrics should be incorporated into the IA Annual Audit Opinion to improve the level of insight provided to PCC.	**M**	**Agreed**	Review of IA Annual AO report format to identify potential further metrics such as performance by directorate etc.	Group Auditor	June 2019
27	R27 (GP) A recommendations tracker system should be adopted and maintained by IA. Progress updates should be obtained from management regularly and reported to the Executive Team and the Audit Committee. Preferably, to reduce operating costs, an automated system should be used that automatically calls for updates and can be remotely accessed by PCC managers to upload		**Agreed**	Explore the logistics of implementing individual action tracking within PENTANA along with any licence/cost implications. Consideration for any other methods for improving	Group Auditor	June 2019

	status reports. In the first instance, the potential for Pentana to provide this facility should be explored.			action tracking where not viable.		

202

AUDIT COMMITTEE	AGENDA ITEM No. 10
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter - Acting Director of Corporate Resources	
Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Resources	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

INTERNAL AUDIT PLAN 2019/2020: APPROACH AND EMERGING THEMES

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	**Deadline date:** *N/A*
It is recommended that Audit Committee: 1. Note and comment upon the emerging themes to be considered for inclusion in the 2019 / 2020 Internal Audit Plan	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the 2019 / 2020 Internal Audit.

2. PURPOSE AND REASON FOR REPORT

2.1 To provide Members with an update on progress in developing the audit plan.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.1.9 "*To commission work from internal and external audit.*"

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	N/A

4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 In accordance with the Public Sector Internal Audit Standards (PSIAS), the Chief Audit Executive must "*establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals*". Within Peterborough City Council (PCC), the role of Chief Audit Executive is undertaken by the Chief Internal Auditor.

4.1.2 In an ever changing risk and control environment, it is important that audit plans can adapt quickly to the needs of the Council. To ensure a flexible and prioritised approach to our work, we utilise an assessment and planning tool which is used throughout the year on a rolling basis. This helps to ensure that each 'next' piece of work is the highest priority one, according to our assessment of risk.

4.2 APPROACH

4.2.1 Research is currently underway to determine possible themes and areas for audit work. This includes consulting with senior management and reviewing risk registers, budgets, plans, decisions, project and contract registers.

4.2.2 The list of ideas that this generates will then be subject to an assessment, using our planning tool (see **Appendix A** for details). The key factors being assessed are:

- Materiality: The size of a system or process in terms of financial value or numbers of transactions or number of people affected.
- Corporate Importance: The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.
- Stability: The degree of change within the process.
- Vulnerability: Extent to which the system is liable to breakdown, loss, error or fraud.
- Specific concerns: Arising from management's assessment of risk as well as audit intelligence.

4.2.3 The Annual Audit Plan will be compiled on the basis of:

- The prioritised list of potential audit reviews generated by the above assessment.
- The number of audit days available for the year.
- The skills, knowledge and experience of audit staff.
- Information from other assurance providers.
- An allowance for statutory activities, ad hoc consultancy, supporting the democratic process and follow-up reviews

4.2.4 During the year, our assessment tool is applied to any new risks that emerge or concerns that are raised. This will determine its priority for review compared to those areas already in the plan. Coordination between Internal Audit and Risk Management functions is of value here in "horizon scanning" such that emerging local and national risks are identified and can be covered in audit work where appropriate.

4.2.5 We also aim to develop an assurance framework as part of this and ongoing future year's plans. This will map the controls in key areas to the sources of assurance for those controls. It will provide valuable insight for management and will also give the Chief Internal Auditor an oversight of the control framework at the Council, which will feed into the Annual Opinion report at the end of the year. The assurance framework will be based on the Three Lines of Defence model, which categorises assurance according to its source:

- First Line of Defence: Operational managers and staff carrying out day to day responsibilities and monitoring activities.
- Second Line of Defence: Oversight functions that set policy and process and monitor implementation, such as HR, Finance, Health and Safety, Legal, Procurement, ICT and Property.
- Third Line of Defence: Independent assurance providers, such as Internal and External Audit as well as regulators.

4.3 **THEMES EMERGING**

4.3.1 Following our initial works as determined in 4.2.1, the following areas have been identified for potential coverage. Assurance will be established from elsewhere in the business if appropriate.

4.3.2 <u>Financial Governance</u>

- Financial resilience
  - Brexit and arrangements for any impact on procurement activities and service resources, also linking to:
  - Budget savings delivery linked to transformation of services and changes in service delivery models; and
- Corporate financial systems and providing assurance for External Audit;

4.3.3 <u>Information Governance</u>

- General Data Protection Regulations (GDPR) post Act implementation;
- Cyber security including Stocktake Bid / incident reporting; and
- Data Quality.

4.3.4 <u>Corporate Governance</u>

- Risk management;
- Business Continuity and Disaster Recovery;
- Health and Safety / statutory compliance
- Performance management;
- Anti-fraud and corruption / NFI Initiative; and
- culture and ethics; and
- Ongoing governance, risk and control impacts of devolution

<u>Other Service Delivery Governance</u>

- Peterborough Limited (LATco);
- Shared Services;
- Medesham Holmes Joint Venture; and
- Serco IT/PSSP contracts

4.3.5 Contracts

- contract management; and
- commissioning and outsourcing of services

4.3.6 Projects

- IT – Implementation of Office 365;
- Think Communities; and
- Programme / project management arrangements

4.3.7 People Management

- Apprenticeship Levy targets / Scheme administration;
- Agile working; and
- Safeguarding / assurance framework.

4.3.8 Other Operational

- S106 arrangements;
- School procurement activities;
- Procurement (e.g. PCards)

4.4 Other Activities

Internal Audit also provides support for other activities of the Council as well as to other organisations. These include:

- Grant certification;
- Cambridgeshire and Peterborough Combined Authority; and
- Vivacity

4.5 It should be reiterated that this is the initial data collection and not all areas will be covered either as a result of low scoring or finite resources. Furthermore, if the audit area is included in future audit plans it does not imply that a service, system or activity is poor - it indicates activities that most need to be subject to effective controls to manage the risks identified.

5. CONSULTATION

5.1 Directors and Heads of Service have been invited to input into the planning process to date. Consideration of any information received has been incorporated into this report where applicable and further consultation is in train with Directors and their Management Teams.

The Audit Committee is similarly invited to input into the annual planning process by way of this report. Any comments will be incorporated and assessed for inclusion within the plan in accordance with the planning tool (see Appendix A).

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Audit Committee note and comment on the contents of this report.

7. REASON FOR THE RECOMMENDATION

7.1 To provide members with an insight into the development of the audit plan to provide assurance to the Council on its governance and operations.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

9. IMPLICATIONS

Financial Implications

9.1 The Audit Plan needs to be deliverable within available resources and the achievement of the audit plan will be based on the assumption that the current structure remains essentially intact throughout the year and recruitment to one post mid-year. Resource requirements are reviewed each year as part of the planning process and are discussed with the s.151 officer.

Legal Implications

9.2 The Accounts and Audit Regulations 2015 require the Council to have a sound system of internal control which includes effective arrangements for the management of risk, controls and governance.

Equalities Implications

9.3 The identification of risks and the proper management of those risks will ensure that:

- The Council's environmental policies and ambitions can be met; the Council is able to mitigate against potential financial losses, litigation claims and reputational damage; the Council is able to effectively deliver the strategic priorities.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 None.

Appendix A

INTERNAL AUDIT PLANNING AND ASSESSMENT TOOL

Category	*Weight*	*Description*	*Total Possible Category Score*
Materiality	1	Value (budgeted income and expenditure; contract values; project costs etc.) and volume (number of transactions, number of staff/public affected). 1= up to £100k or 100 transactions 2= £100k-£1m, or 100-1000 transactions 3= £1-10m, or 1000-10,000 transactions 4= £10-£100m, 10,000 or 100,000 transactions 5= £100m plus, or 100,000 plus transactions Score 1 to 5 (1= low, 5 = high).	5
Stability	2	Amount of change within a system or process. Growth in size or responsibilities; staff turn-over; legislative change; new or upgraded IT systems; cultural change; new service delivery models; significant internal policy change. Score 1 to 5 (1= low, 5 = high)	10
Vulnerability	4	Inherent risks (fraud, corruption, error, commercial or sensitive information, health and safety, vulnerable adults and children). Control environment (limited central control or ownership, poor physical security, high turn-over of staff, complexity of systems and processes, poor SoD, lack of expertise) Score 1 to 5 (1= low, 5 = high)	20
Corporate Importance	5	Dependence on the system to meet regulatory requirements or corporate priorities and objectives. Score 1-5 (1= low, 5= high)	25
Specific Concerns	4	Concerns and risk assessment of management and auditors. Review risk registers, specific areas raised by management, audit intelligence. score 1-5 (1= low, 5= high)	20
		Total Possible Overall Score	**80**

<u>Prioritisation Schedule</u>

>50	High Priority	30-50	Medium Priority	< 30	Low Priority

AUDIT COMMITTEE	AGENDA ITEM No. 11
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Director of Corporate Services	
Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Resources	
Contact Officer(s):	Peter Carpenter, Acting Director of Corporate Resources Katherine Hlalat, Head of the PMO	Tel. 452520 07834315674

RISK MANAGEMENT REPORT

R E C O M M E N D A T I O N S	
FROM: Corporate Director Resources	**Deadline date:** *N/A*

It is recommended that Audit Committee

1. Note and comment on the Risk Management Report.

1. ORIGIN OF REPORT

1.1 This report is submitted as an update on the analysis undertaken by the Project, Programme and Assurance Office for each Directorate's Risk and Issue register.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is for the Audit Committee to note and comment on the Risk Management Report.

2.2 This report is for the Audit Committee to consider under its Terms of Reference No 2.2.2.12:

To monitor the effective development and operation of risk management and corporate governance in the council.

2.3 *How does this report link to the Corporate Priorities?*

This report sets out identified risks and mitigating actions in order that the Council delivers its Statutory and Corporate priorities.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	

4. BACKGROUND AND KEY ISSUES

4.1 The effect of uncertainty on an organisation's objectives is risk. Risk management is the process of identifying what might go wrong, what the potential consequences could be, and how to best mitigate the likelihood of the risk occurring. If it does go wrong, as is inevitable sometimes, proactive risk management will ensure the impact is kept to a minimum.

4.2 In order to formalise risk management arrangements across the business, Peterborough City Council has developed a Risk Management Strategy.

The objectives of this strategy are to maintain the effective management of risk through:

- Increasing the likelihood of achieving the organisation's goals and delivering outcomes;
- Improving the identification of opportunities and threats across the project portfolio;
- Improving governance, stakeholder confidence and trust;
- Establishing a reliable basis for informed decision making and planning;
- Effectively allocate and use resources for risk treatment;
- Improving organisational resilience.

4.3 Peterborough City Council is committed to effective risk management arrangements as a means of achieving the council's strategic objectives. As such the risk management vision is to consolidate and improve existing arrangements to bring about the following benefits:

- Key risks are identified, are being managed and mitigated, both by the council and its partners;
- Resources are directed to the risks that matter away from risks that don't, and there are fewer surprises;
- Opportunities are exploited from risk taking, because risks are understood and managed.

4.4 This report sets out in appendix A the Council's Corporate Risks as at January 2019, their likelihood, impact, and factors being taken to mitigate them.

Overall the Council, by department has the following Corporate Risks identified:

Department	High level Risks	Medium level Risks	Low Level Risks
Legal & Governance	4	6	4
Human Resources	0	1	6
Growth and Regeneration	0	8	2
People and Communities	4	5	0
Public Health	1	0	0
Resources	5	10	1

This is an increase from the last risk report for Audit Committee due to a revised approach to categorising what constitutes a Corporate Risk. The following criteria is now applied:

1. If it would cause reputational damage to the council
2. If it would have a financial impact on the council

Public Health has also been included separately for the first time.

The high level Corporate Risks, which are set out in more detail in the Appendix are:

- Recall petition called by the speaker of the House of Commons
- General election or referendum as a result of Brexit
- Leaseholds of 50 homes to aid with the homeless situation
- Parliamentary bi-election called
- LATCO/Amey contract:
- Corporate property income
- Reduction affordable permanent rented accommodation
- Impact of social demographic change
- Meeting demand for School Places

- Shared Service
- Safeguarding
- Health Debt - Special Measures
- National public health grant allocation is below target
- "Brexit" impact on EU funding and regulatory framework
- Financial Resilience
- Local Government Funding Review outcome & a possibility of losing grant with short notice
- Failure to maintain an effective business continuity plan

It should be noted, that the risks are taken at a snapshot in time, and due to mitigation and circumstances will move in level from period to period.

4.5 As the turbulence in parliament continues with Theresa May's Brexit Deal being defeated in the vote held on 15 January 2019, and then the prime minister defeating Labour's motion of no confidence the following day, the uncertainty around the future for the UK and the European Union (EU) continues.

The UK is due to leave the EU on 29 March 2019, and to change this date would require a change to the law in the UK. At present there seems to be a number of avenues this could take such as the deal eventually being agreed, an extension to article 50, where the leave date is extended (most likely) where a number of other options could become possible such as a general election or a second referendum or a no deal situation.

Taking the most likely situation in to account this would mean a continuation of the prolonged uncertainty on the economy, pushing any interest rate and gross domestic product (GDP %) increases further into the future.

A Brexit 'no deal' situation would mean a number of key changes for Councils such as:

- How EU funded programmes will operate
- Procurement
- State Aid
- Importing and Exporting (Where the authority has a port, importing certain animal species etc.)
- Labelling products (including food, chemicals, enforcement, tobacco products etc.)
- Personal data and consumer rights

A full list produced by the LGA can be found here

5. CONSULTATION

5.1 Departmental Risk Registers are submitted to CMT for review on a monthly basis.

There is a monthly Risk Management meeting where Lead Officers update Departmental Risk Registers and review a detailed analysis of both Departmental and Corporate Risks.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 That Risks to the delivery of Council services are identified and rated in a timely manner and mitigating actions are put in place to minimise their impact.

That Risks are reviewed on a periodic basis to ensure their impact and likelihood are correctly stated and mitigating actions are being delivered.

7. REASON FOR THE RECOMMENDATION

7.1 The Audit Committee must be assured that the Council has processes in place to identify risks on a timely basis and that actions are put in place to monitor and mitigate their effects.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 *N/A*

9. IMPLICATIONS

Financial Implications

9.1 None in this Report, however for individual Risk mitigations that are identified there might be costs. These are picked up in the normal monthly monitoring process.

Legal Implications

9.2 *N/A*

Equalities Implications

9.3 *N/A*

10. APPENDICES

10.1 Appendix A - Corporate Risk Register – High and Severe level Risks
Appendix B - Corporate Risks - Jan 2019
Appendix C - Brexit copy of potential impacts CCC & PCC with mitigation

Appendix A

Risk Assessment - Corporate Risks

PETERBOROUGH CITY COUNCIL

RAYG Status	Last Update	Risk Title	Risk Description	Financial Impact	Financial Impact Value (£)	Mitigating Action	Mititgating Action Cost (£)	Likelihood	Impact	Over Risk Appetite?	Risk Type	Trend	Corporate Risk	Risk Owners
Chief Executive														
Legal & Governance Departmental Risk Register														
20	11/12/18	Recall petition called by the speaker of the House of Commons	There is a risk that now Peterborough's MP is convicted of an offence she may be ordered to serve a custodial sentence or ordered to be detained, that they are barred from the House of Commons for 10 sitting days or 14 calendar days. The consequences are increased level of staff and resources, requirement to deliver in line with tight timetable, financial commitment, time of year (difficulty in securing premises, staff, lighting issues due to dark nights, adverse weather conditions). Increased level of media interest.	Yes		Up to date project plan, Regular EWG meeting, Contact with print suppliers, ascertain availability of council owned buildings that can be used as signing places		5	5	No	Legal & Regulatory	Increasing	Yes	Rachel Edwards
20	11/12/18	General election or referendum as a result of Brexit	There is a risk that there will be a General Election or another Brexit referendum. The consequences are a need for increased level of staff and resources. Tight time-scales. Adverse weather conditions. Poor lighting. Risk to locating polling stations at short notice. Public order issues.	Yes		Project plan EWG meetings Staffing held CCTV for key stations Police engagement and support.		4	5	Yes	Legal & Regulatory		Yes	Rachel Edwards
16	11/12/18	Leaseholds of 50 homes to aid with the homeless situation	There is a risk that an an incorrect process is followed by service causing common law tenancies to exist with security of tenure that cannot be terminated by notice under the AST provisions. The consequences are that tenants would have to give up tenancy which has security to take on AST which would mean they lose security. Reputational damage for the council in not following correct process			Meetings with service to undertake remedial actions Review of potential for ultra vires case on tenancy.		4	4	Yes	Legal & Regulatory		Yes	Fiona McMillan
15	11/12/18	Parliamentary bi-election called	There is a risk that a parliamentary bi-election will be called if Peterborough's MP resigns or is disbarred from sittings as a result of her court case. The consequences of this are the need for increased level of staff and resources. Requirement to deliver in line with tight timetable, Financial commitment, time of year (difficulty in securing premises, Staff, lighting issues due to dark nights, adverse weather	Yes		Up to date project plan, Regular EWG meeting, contact with print suppliers, staffing list held.		3	5	No	Legal & Regulatory		Yes	Rachel Edwards
People and Communities														
25	19/12/18	Reduction affordable permanent rented accommodation	There is a risk associated with the reduction in the availability of affordable permanent rented accommodation, combined with increase in the number of homelessness presentations. The consequences are significant financial pressure on the Housing Services budget.	Yes		• Extensive management controls in place to closely monitor financial; demand and consequences. • Additional capacity within the housing needs service • Focussed commissioner activity to increases supply of affordable homes • Implantation of the homelessness prevention hub (support services offered by the Voluntary & Community Service)		5	5	Yes	Technical / Operational / Infrastructure	Increasing	Yes	Sean Evans
20	19/12/18	Meeting demand for School Places	There is a risk that the authority will fail to meet its legal requirement for every child of statutory school age to access a school place and within a 'reasonable' distance from their home (less than 2 miles for 4 to 8 year olds and up to 3 miles for 9 to 16 year olds) This is as a result of the impact of further inward migration as EU borders open up, increasing demand and a cut in Government funding for school places. The consequences are: 1) Significant additional costs incurred in terms of transport. 2) Impact on schools in terms of attendance, less engagement from parents and increased churn of pupils when places become available nearer to home - all having a significant impact on outcomes. 3) Potential legal action from parents for failure to meet legal requirements	No		1) Keep under review. 2) Local and national lobbying (inc. EFA capital funding options, inc. Free Schools) 3) Continue to review options around reducing costs including modular technology, use of existing buildings and procurement savings 4) Plans for emergency places being developed including pulling forward schemes and additional mobiles 5) Continue to monitor in year admissions and trends around numbers leaving the city (new In Year form being developed to improve data collection) 6) The School organisation plan and demographic forecast are regularly updated and reviewed by the council 7) Sufficient resources identified in the MTFS to support known requirements in the next three years if forecasts remain accurate. *8) Quality of relationships with schools means schools have over admitted to support the council with bulge years??* *9) Ongoing review of council's five year rolling programme of capital investment.*		5	4	Yes	Organisational / Management / Human Factors	Steady	Yes	Brian Howard

20	19/12/18	Shared Service	There is a risk that there are financial and service implications from implementing the plan to share services with CCC. The consequences are that this process could result in a reduction in performance and an	Yes		Shared service Programme Board established, meeting monthly. Close monitoring of performance and progress in place.		4	5	Yes	Organisational / Management / Human Factors	Increasing	Yes	Wendi Ogle-Welbourn
15	19/12/18	Safeguarding	There is a risk that safeguarding functions fail to prevent a child or vulnerable adult being placed at significant risk of harm. The consequence is an increase in costs across the public sector, increased fear of crime, reduced confidence in public sector, community tensions and conflict.	No		1) Sustain current improvement journey and adhere to JTAI improvement plan in Children's Services; 2) Permanent leadership team recruited to/in place - recruitment and retention package for social workers developed and to be implemented; 3) Continuing focus on high priority areas including domestic abuse, neglect and child sexual exploitation; 4) Practice development emphasising continuing importance of evidencing management oversight and journey of child in work with families **Adults:** a) Care Act brings significant changes to the role of the SAB and the nature of enquiries to be undertaken. Revised procedures under development including in relation to Large Scale Investigations b) Strengthened Safeguarding Adults		3	5	No	Organisational / Management / Human Factors	Steady	Yes	Wendi Ogle-Welbourn, Will Patten
Public Health														
16	13/11/18	National public health grant allocation is below target	There is a risk that the Public Health Grant allocation to Peterborough is not sufficient to meet the need for Public Health Services. The consequences are a failure to improve public health outcomes due to insufficient investment in Public Health Services.			PH DMT DPH meetings with Finance team to track budget. CMT 1) Full participation in quarterly budget rounds and quarterly budget planning 2) Monthly financial reporting and business planning/staffing discussions at PH DMT 3) Ongoing joint working across directorates of co-placed staff		4	4	No	Economic / Financial/Market	Increasing	Yes	Liz Robin
Resources														
20	08/01/19	"Brexit" impact on EU funding and regulatory framework	There is a Risk that the vote to leave EU impacts procurement arrangements and costs / availability of services. The consequence is uncertainty around EU funding, possible disruptions to the labour market / uncertainty around service demand / provision."	Yes		Consequences of vote UK's decision to leave the UK to be monitored as they emerge Consequences of policy developments / funding changes to be reported to CMT at the earliest opportunity.		4	5	Yes	Political	Steady	Yes	Peter Carpenter
20	08/01/19	Financial Resilience	There is a risk that the Council's financial resilience is insufficient to further withstand the combined pressures of reduced grant funding and increased cost and demand pressures. Any weaknesses in the delivery of the strategy to strengthen financial resilience may exacerbate this risk. The consequence is an unsustainable and financially unviable organisation beyond the short term.	Yes		A number of metrics are being developed to assess financial resilience across Local Government. The strategy to strengthen financial resilience is underpinned by a set of financial planning and management arrangements, including significant changes in arrangements for commissioning services. However, a clear route to a sustainable medium term financial position has not yet been fully identified.		4	5	No	Economic / Financial/Market		Yes	Peter Carpenter
16	08/01/19	Local Government Funding Review outcome & a possibility of losing grant with short notice	The impact of funding review on PCC finances is not currently known. There is a risk that this is adverse. The consequence is a possibility of losing grant with short notice	Yes		Monitor position and evaluate impact at earliest opportunity		4	4	Yes	Strategic / Commercial	Increasing	Yes	Kirsty Nutton
15	08/01/19	Failure to maintain an effective business continuity plan	There is a risk of failure to maintain an effective business continuity plan for all relevant service areas. The consequence is disruption caused by service failure leading to hardship for individuals, potential loss of business and significant reputation damage. Loss of IT Loss of key records Loss of office accommodation.	Yes		Revisit all business continuity plans 1/2 yearly review going forward Establish emergency response toolkit and re-issue		3	5	No	Strategic / Commercial	Steady	Yes	Peter Carpenter

Appendix B

Risk Assessment

RAYG Status	Last Update	Risk Title	Risk Description	Financial Impact	Financial Impact Value (£)	Mitigating Action	Mititgating Action Cost (£)	Likelihood	Impact	Over Risk Appetite?	Risk Type	Trend	Corporate Risk	Risk Owners
Chief Executive n4 n7 n10														
PR002436 : Legal & Governance Departmental Risk Register n4 n6 n4														
25	08/01/19	Parliamentary bi-election called	There is a risk that a parliamentary bi-election will be called if Peterborough's MP resigns or is disbarred from sittings as a result of her court case. The consequences of this are the need for increased level of staff and resources. Requirement to deliver in line with tight timetable, Financial commitment, time of year (difficulty in securing premises, Staff, lighting issues due to dark nights, adverse weather conditions), increased level of media interest.	Yes		Up to date project plan, Regular EWG meeting, contact with print suppliers, staffing list held.		5	5	Yes	Legal & Regulatory	Increasing	Yes	Rachel Edwards
20	08/01/19	Recall petition called by the speaker of the House of Commons	There is a risk that now a Peterborough's MP is convicted of an offence she may be ordered to serve a custodial sentence or ordered to be detained, that they are barred from the House of Commons for 10 sitting days or 14 calendar days. The consequences are increased level of staff and resources, requirement to deliver in line with tight timetable, financial commitment, time of year (difficulty in securing premises, staff, lighting issues due to dark nights, adverse weather conditions), Increased level of media interest.	Yes		Up to date project plan, Regular EWG meeting, Contact with print suppliers, ascertain availability of council owned buildings that can be used as signing places		4	5	No	Legal & Regulatory	Increasing	Yes	Rachel Edwards
20	11/12/18	General election or referendum as a result of Brexit	There is a risk that there will be a General Election or another Brexit referendum. The consequences are a need for increased level of staff and resources. Tight time-scales. Adverse weather conditions. Poor lighting. Risk to locating polling stations at short notice. Public order issues.	Yes		Project plan EWG meetings Staffing held CCTV for key stations Police engagement and support.		4	5	Yes	Legal & Regulatory		Yes	Rachel Edwards
16	11/12/18	Leaseholds of 50 homes to aid with the homeless situation	There is a risk that an an incorrect process is followed by service causing common law tenancies to exist with security of tenure that cannot be terminated by notice under the AST provisions. The consequences are that tenants would have to give up tenancy which has security to take on AST which would mean they lose security. Reputational damage for the council in not following correct process.			Meetings with service to undertake remedial actions Review of potential for ultra vires case on tenancy.		4	4	Yes	Legal & Regulatory		Yes	Fiona McMillan
12	08/01/19	Lack of comprehensive oversight and control in relation to the management of information.	There is a risk that a lack of oversight and control of information management leads to information being mis-handled, which would expose the organisation, as well as data breaches occurring if there is a lack of learning in place. The consequences are: * Legal action/Information Commission Officer involvement. * Damage to the reputation of the council and adverse publicity. * Complaints.			All contracts are evaluated and data protection issues are taken into account. Data protection elearning rolled out and completion rates are progressing and directorates will receive completion reports Specific training focusing on handling contracts as well as mandatory training relating to Data Protection is undertaken by staff. Corporate awareness campaigns relating to the revised Data Protection policy promoted through team briefing and management meetings and the sequence of regular Insite bulletins with accompanying videos. Joint IM Board formed with CCC to handle strategic view The department continues to raise awareness of promotional		3	4	No	Legal & Regulatory	Steady	Yes	Ben Stevenson
12	08/01/19	Insufficient capacity and resources to deliver required General Data Protection Regulations (GDPR) work programme	There is a risk that there is an inability to deliver required project due to lack of capacity within the team. The consequence is a loss of internal reputation of service and externally the authority. This would entail adverse publicity and complaints.			• Review of structure and roadmap to ensure that sufficient resources are in place • Work on prioritisation of work programmes has commenced and identified the range of work that is required. • Collaboration with CCC and other services • Additional resources procured to aid with poroduction of ROPA retention schedule to be worked with CCC. • Additional legal resources added to the team to handle influx of contract variations		3	4	No	Legal & Regulatory	Steady	Yes	Ben Stevenson

9	08/01/19	Income Generation from external clients	There is a risk that there is a failure to obtain the correct revenue income streams from external clients. The consequences of this could impact on cash flow, future funding needs and the ability to achieve strategic objectives.	Yes		Ongoing work to highlight areas of potential income Review of charging schedules Explore other sources of income. Monthly budget reports to Legal and Democratic SMT Review of pricing structure for other LAs to charge as appropriate		3	3	No	Legal & Regulatory	Increasing	Yes	Ben Stevenson, Amy Brown, Rachel Edwards
8	08/01/19	Electoral Management	There is a risk that the council fails to maintain efficient electoral procedures. The consequences are the potential for electoral fraud and other failures to comply with legal requirements, and failure to deliver in accordance with a project plan.			• Trained staff in place • PCC and Police joint approach • Adherence to Electoral Commission guidance • Integrity Plan in place		2	4	No	Legal & Regulatory	Steady	Yes	Rachel Edwards, Ben Stevenson
8	08/01/19	Lack of business continuity and disaster recovery for services	There is a risk that there is an inability to access hard copy and electronic files needed to maintain services. The consequences are: * Statutory inspection * Loss of reputation. * Service failure * Adverse publicity. * Complaints.			Home working access with limited access to emails/system Ability to operate away from office and deliver service Action Directorate reviewing continuity plans in three themes; no access to building, no servers, no access to Google		2	4	No	Legal & Regulatory	Steady	Yes	Ben Stevenson, Amy Brown, Rachel Edwards
6	08/01/19	Lack of System Support for FOI system	There is a risk that the council is unable to manage and develop an effective FOI system. The consequences are loss of internal reputation of service and externally the authority. This could include regulatory action by the Information Commissioners Office (ICO).			All officers are trained to use the systems properly. Systems are fully reviewed to understand functionality and flexibility, as well as potential benefits and future development. Request for options appraisal for new system to replace Salesforce		2	3	No	Legal & Regulatory	Decreasing	Yes	Ben Stevenson
4	08/01/19	Electoral Registration	There is a risk that the council fails to maintain the electoral register. The consequences are: * Non-compliance with statutory obligation. * Service failure to combat fraud effectively. * Reputational damage to the council. * High impact should fraud affect local and/or national elections.			* Trained staff in place * PCC and Police joint approach * Adherence to Electoral Commission guidance * Integrity Plan in place		1	4	No	Legal & Regulatory	Steady	Yes	Rachel Edwards
3	08/01/19	Governance practices	There is a risk that failure to develop and maintain knowledge and expertise in advising officers and Members on governance issues may result in inappropriate advice being given. The consequences are the council is vulnerable to legal challenge and reputational damage.			Maintain and update the constitution and associated policies and procedures. Promote awareness of legislative changes and ensure these are embedded through department al meetings and supervisions.		1	3	No	Legal & Regulatory	Steady	Yes	Ben Stevenson, Rachel Edwards, Amy Brown
2	08/01/19	Register of interests for Members	There is a risk that the council fails to maintain an up to date register of interests for Members, particularly for those that are cheque signatories, in accordance with the constitution. The consequences of failing to maintain an up to date register of interests for Members are: * Non compliance * Legal action * Complaints * Reputational damage to the council			Register created and reviewed regularly. Officer training on the constitution and officer code of conduct. Signatories reviewed, updated and asked to declare any interests. Members interests registered and kept up to date		1	2	No	Legal & Regulatory	Steady	Yes	Rachel Edwards
2	08/01/19	Failure to comply with Solicitor Regulation Authority	There is a risk that a lawyer fails to observe the rules set out in the Solicitor's Regulation Authority code of conduct. The consequences of this would be: * Non compliance * Legal action * Complaints * Reputational damage to the council			Managed through supervisions, guidance, team meetings, the SLA and the Lexcel manual.		1	2	No	Legal & Regulatory	Steady	Yes	Amy Brown
PR002443 : HR Departmental Risk Register n0 n1 n6														
9	10/01/19	Open Data and Transparency code - non-compliance	There is a risk that the council is not compliant with legislative requirements regarding publication of open data. The consequences are reputational damage to the Council. Also potential of statutory notice from Secretary of State and/or legal challenge from council tax payer.			Reports and key dates are scheduled into HR forward plan. This ensures documents are submitted to appropriate Committee/Council in time to meet publication deadlines. Data is produced based on an instruction document to the Performance Team. Since Feb 2018 the production of data has not been carried out due to staff shortage in the performance team. This was briefly resolved due to temporary resource in place but during October the role was vacant again. This has had an impact on statutory returns for 2018/19 as output is currently behind schedule. Performance team staff are reacting to HR concerns but as a temporary measure pending a formal resource		3	3	No	Organisational / Management / Human Factors	Increasing	Yes	Mandy Pullen

4	10/01/19	HR Policy & Processes	There is a risk that the HR department is not compliant with current legislation and best practice. This would include employment legislation plus legislation from other external bodies, including the UK Visas & Immigration (UKVI), HMRC, DWP, and DOH. The consequences are a risk of litigation against the council and potential financial penalties.	Yes		Tracker document records all upcoming legislation and caselaw and confirms action required. Tracker is monitored monthly and updated as necessary. This ensures that changes are appropriately reflected in policies and other relevant documentation including processes and instruction documents. Tracker maintained of all employees who do not hold a UK or EU passport. Audit report has been received to review all onboarding processes in respect of right to work in the UK. System changes to be considered in light of this. All team members received up to date training in immigration law during October 2018 which has significantly improved		2	2	No	Organisational / Management / Human Factors	Steady	Yes	Karen Craig
4	10/01/19	HR Policy & Processes - recruitment pay & pensions	There is a risk that Policies & Processes around recruitment, pay and pensions are not absorbed into Serco HR Support and Payroll practices. The consequences are the potential of a statutory notice from the Secretary of State for the Home Office and/or the Ministry of Housing, Communities and Local Government, as well as complaints from members of staff and the Trade Unions. These consequences could result in reputational damage for the council.			Shared communication with Serco HR including updated policies. Training provided for significant changes. Close working relationships and planning re changes - update meetings scheduled. Process documents in place. Few grievances from staff. Current issues with DBS processes but no raised risk as this is being managed.		2	2	No	Organisational / Management / Human Factors	Steady	Yes	Karen Craig
4	27/06/18	Commercialisation of the HR Service	There is a risk that the council is unable to develop an HR and Occupational Health service that can be traded with external organisations and thereby generate income for the council. The consequences are that HR continues to be an overhead and competitors may take on the role that HR could be performing, thereby reducing further revenue generation opportunity for PCC.	Yes		Revised charging plans already in place for Occupational Health. Charging for Job Evaluation started recently. Team currently developing clear plan and milestones to achieve commercial delivery in the services that are to be traded.		2	2	No	Organisational / Management / Human Factors	Steady	Yes	Mandy Pullen
4	10/01/19	Information and compliance with data protection legislation	There is a risk that: * Medical information received on staff is not kept securely. * TUPE information is shared with other organisations inappropriately. * Pension information is shared with pension administrators inappropriately. * Letters to staff sent to wrong address (either email or hard copy). The consequence is failure to comply with data protection legislation and other statutory obligations regarding data.	No		Medical information stored on private area of Anite not accessible by those outside of OH. OH PC screens shut down automatically to ensure others cannot view information. TUPE information only shared via secure email. Staff training via new e learning module is mandatory for all staff and compliance monitored/reported to DMTs. This issue is discussed at team meetings regularly reminding staff of the importance of double checking personal details. Email addresses only used if permission given by the recipient. Mandatory Data Protection training undertaken by team. Privacy notices inserted onto HR forms and processes including employment contract. New		2	2	No	Organisational / Management / Human Factors	Steady	Yes	Mandy Pullen
3	10/01/19	HR Processes for onboarding, retaining, and terminating staff	There is a risk that the processes for ensuring payments to staff are inaccurate. The consequences are: * Equal Pay Risks. * Employees being paid incorrect amounts. * Pension payments not being correctly calculated. * Fines being imposed on PCC by LGSS * Impact on tax and NI payments.			Knowledge in team to interpret pay awards and terms and conditions correctly. Tracker kept to record all pay rates, and also pension changes and tax updates. Robust procedures in place. Forward plan is maintained monthly to capture all forthcoming changes. Joined up working with Serco HR Support & Payroll is increasing skill levels. Joint management of team from 1/11 is expected to improve performance further. Monthly meetings with Serco to discuss staffing and resource distribution plus practical issues.		1	3	No	Organisational / Management / Human Factors	Steady	Yes	Karen Craig

2	17/01/19	Apprenticeships	There is a risk that the council fails to identify sufficient numbers of apprentice opportunities both for new & existing roles, to meet the 2.3% of our workforce target set by central government for public bodies and maximise use of funds received from Government from the apprenticeship levy. If the council does not determine cost effective arrangements for organising and managing delivery of apprenticeship schemes and securing suitable training providers, the 2.3% workforce target will not be met. Current interest in apprenticeships in the council is across all levels. However, some are focused on	Yes		• The workforce plan produced shows numbers, types, timescales and costs involved of all identified opportunities for apprenticeships. This plan is regularly reviewed and updated. • An Apprenticeship Governance group meets up every 6 weeks initially (from Nov 2018), then quarterly. Its purpose is to agree strategy, priorities and workforce plan/expenditure on apprenticeships including authority to approve all levels 6 and 7 apprenticeships. • Working collaboratively with City College Peterborough (CCP) as the preferred apprenticeship provider. LGSS may be involved in management apprenticeships for levels 6 and 7. • Apprenticeships		1	2	No	Organisational / Management / Human Factors	Steady	Yes	Debbie Hiller
Growth and Regeneration n0 n8 n2														
PR002464 : G&R BAU - Risk Register n0 n8 n2														
12	23/01/19	Failure to plan for/realise implications of Growth Agenda	There is a risk of a failure in realising the city's Growth Agenda. The city has an ambitious growth agenda and growth supports the Council's income through business rate growth. However, there is also a significant cost to growth through the need to upgrade and provide new infrastructure. Funding for infrastructure is increasingly channelled through the Combined Authority. There is a need to maintain a focus and capacity to deliver growth. Brexit has the potential capacity to slow down growth which puts at risk forecast income as mentioned above plus planning application and pre-app fee income. The consequence is			Robust viability discussions with developers. Focused Section 106 team and CIL is in place and effectively managed. Co-ordinated approach between the Council and Opportunity Peterborough to influence LEP & Mayoral investment decisons.		3	4	No	Economic / Financial/Market	Increasing	Yes	Simon Machen
12	21/01/19	ERF Energy Generation plant performance issues	There is a risk of poor plant performance and difficult energy market conditions. The consequence is a failure to meet income objectives in MTFS.	Yes		Work with partners and internal stakeholders to ensure ongoing income delivery. Energy price protection reserve to smooth impact of market conditions. Mitigation identified through PCC energy budgets offset, to fund price protection reserve.		3	4	No	Economic / Financial/Market	Steady	Yes	Annette Joyce
12	21/01/19	LATCO/Amey contract: has a separate risk log	There is a risk that not all data is being transferred and lack of visibility for all costs. All risks associated with the project has a separate detailed risk log. The consequence is - PCC unable to achieve the transition of Amey contract to a new provider within resource envelope.	Yes		Weekly project meetings and the transition is being phased from February to May from Amey to Peterborough Ltd.		3	4	No	Economic / Financial/Market	Decreasing	Yes	James Collingridge, Richard Pearn
12	21/01/19	Insufficient Capacity to meet service demand	There is a risk that growth of the city and service reduction widens gap between capacity and service demand. The consequences are reputational, failing to meet statutory duty, detrimental impact on public protection/safety.			Shared service arrangements implemented to add resilience. All discretionary services stopped. Service are Intelligence led. Continue to add resilience through collaborations, and invest in IT solutions to aid service delivery. Increase revenue generating services, and review customer information to better manage expectations.		4	3	No	Organisational / Management / Human Factors	Steady	Yes	Annette Joyce
9	21/01/19	Data integrity and accuracy - linked to PR002218, PR002397 and PR002414.	There is a risk of inaccuracy of necessary data sets, e.g. Pullouts, clinical collection addresses, street cleaning information including frequency, fly tipping location data etc.	Yes		Early engagement of ICT expert from Serco to examine data sets and ascertain accuracy, which will require access to Amey systems and staff. May need an additional internal resource to bring tree data up to date in order to allow accurate information to be presented to providers. Resolve availability of the Vehicles at an early stage	An additional resource may be required to bring data up to suitable condition and Serco will likely charge for staff input to ascertain data suitability and transferability.	3	3	No	Technical / Operational / Infrastructure	Steady	Yes	James Collingridge, Nicholas Cox, Richard Pearn
9	21/01/19	Reduction in parking income	There is a risk of reduction in parking income due to staff parking with the move to SMH, the impact of wider agile working, off and on-street parking fees. The consequence is failure to meet the MTFS targets.	Yes		TBA		3	3	No	Technical / Operational / Infrastructure	Steady	Yes	Annette Joyce

8	23/01/19	Failure by G&R governed Partnerships to deliver their BAU functions	There is a risk that strategic Partnerships fail to deliver as per expectation and/or contract, prejudicing the Authority's ability to secure the desired outcomes. The consequences are reputational and financial impact to PCC if delivery is not at either the price or to the quality envisaged at the time of the contracts being entered into. Linked to corporate risk: #00010 Strategic Partnerships (Amey, Serco, Skanska, Opportunity Peterborough,Norse and Vivacity) fail to deliver as per expectations, prejudicing the Authority's ability to secure the desired outcomes on behalf of citizens In addition PIP and	Yes		Strategic partnerships and operational boards are in place to review both contractural issues and performance delivery. This is being monitored on regular basis and mitigation actions taken as and when required. Creating a stronger focus at an operational level to set priorities and review performance - these are being introduced as part of a new approach to business planning with the partners. Taking into account the scale of the financial and delivery challenges facing PCC over the years ahead.		2	4	No	Legal & Regulatory	Steady	Yes	Simon Machen
8	23/01/19	Corporate manslaughter/ health and safety incident	There is a risk that there is a failure of the health and safety system to prevent a death or serious injury (that could have been preventable). The consequence is a negative impact on the organisation and individuals concerned, potential for financial loss, litigation etc.	Yes		Robust arrangements and training in place including regular internal auditing of policies and proceedures. 1) Regular review of H&S Policy. 2) Focused auditing by dedicated team. 3) Training of senior management on H&S duties and responsibilities to be introduced. There is a full review taking place of all externalised contracts ensuring the appropriate contractual obligations are in place for each provider and that where our own properties are occupied the appropriate testing and monitoring schedules are in place.		2	4	No	Legal & Regulatory	Steady	Yes	Ben Stevenson
4	23/01/19	Failure to manage cost-reductions within the Partnerships	There is a risk that partners are unable to drive through efficiencies to meet reduced funding levels that lead to service reductions whilst maintaining service delivery. The consequence is financial and reputational damage to PCC.	Yes		Strategic partnerships and operational boards are in place to review & monitor both the contractural and performance delivery.		1	4	No	Economic / Financial/Market	Steady	Yes	Simon Machen
4	23/01/19	Failure to drive income from Partnerships	There is a risk that partners are unable to generate sufficient independent income to allow reductions in subsidy level. The consequence is financial and reputational damage to PCC.	Yes		Organised strategic partnership meetings and monthly operational boards in place for reviewing performance delivery.		1	4	No	Economic / Financial/Market	Steady	Yes	Simon Machen
People and Communities n6 n4 n0														
PR002417 : People and Communities Departmental Risk Register n6 n4 n0														
25	11/09/18	Reduction affordable permanent rented accommodation	There is a risk associated with the reduction in the availability of affordable permanent rented accommodation, combined with increase in the number of homelessness presentations. The consequences are significant financial pressure on the Housing Services budget.	Yes		• Extensive management control s in place to closely monitor financial; demand and consequences. • Additional capacity within the housing needs service • Focussed commissioner activity to increases supply of affordable homes • Implantation of the homelessness prevention hub (support services offered by the Voluntary & Community Service)		5	5	Yes	Technical / Operational / Infrastructure	Increasing	Yes	Sean Evans
20	03/07/18	Meeting demand for School Places	There is a risk that the authority will fail to meet its legal requirement for every child of statutory school age to access a school place and within a 'reasonable' distance from their home (less than 2 miles for 4 to 8 year olds and up to 3 miles for 9 to 16 year olds) This is as a result of the impact of further inward migration as EU borders open up, increasing demand and a cut in Government funding for school places. The consequences are: 1) Significant additional costs incurred in terms of transport. 2) Impact on schools in terms of attendance, less engagement from parents and increased churn of pupils when places	No		1) Keep under review. 2) Local and national lobbying (inc. EFA capital funding options, inc. Free Schools) 3) Continue to review options around reducing costs including modular technology, use of existing buildings and procurement savings 4) Plans for emergency places being developed including pulling forward schemes and additional mobiles 5) Continue to monitor in year admissions and trends around numbers leaving the city (new In Year form being developed to improve data collection) 6) The School		5	4	Yes	Organisational / Management / Human Factors	Steady	Yes	Brian Howard
20	11/09/18	Shared Service	There is a risk that there are financial and service implications from implementing the plan to share services with CCC. The consequences are that this process could result in a reduction in performance and an increase in costs. In addition to this, plans may not deliver the desired benefits and objectives, or meet the timescales required.	Yes		Shared service Programme Board established, meeting monthly. Close monitoring of performance and progress in place.		4	5	Yes	Organisational / Management / Human Factors	Increasing	Yes	Wendi Ogle-Welbourn

15	03/07/18	Safeguarding	There is a risk that safeguarding functions fail to prevent a child or vulnerable adult being placed at significant risk of harm. The consequence is an increase in costs across the public sector, increased fear of crime, reduced confidence in public sector, community tensions and conflict.	No		1) Sustain current improvement journey and adhere to JTAI improvement plan in Children's Services; 2) Permanent leadership team recruited to/in place - recruitment and retention package for social workers developed and to be implemented; 3) Continuing focus on high priority areas including domestic abuse, neglect and child sexual exploitation; 4) Practice development emphasising continuing importance of evidencing management oversight and journey of child in work with families Adults: a) Care Act brings significant changes to the role of the		3	5	No	Organisational / Management / Human Factors	Steady	Yes	Wendi Ogle-Welbourn, Will Patten
12	03/07/18	Health Debt - Special Measures	There is a risk that Peterborough's CCG will enter financial "special measures" due to missing its financial controls target. The CCG's current debt to PCC is over £7m. CCG may not be able to reduce the debt owed to PCC. The consequence is financial pressure on PCC and an adverse affect on the future relationship with the CCG.	Yes		CMT to agree policy. Needs to be raised at Health Executive WOW and PC written to CCG Chief Exec and Finance Director requesting payment of Debt. Monthly meetings between finance teams. Position monitored closely. Status reviewed monthly at joint commissioning board.		3	4	No	Economic / Financial/Market	Steady	Yes	Will Patten
12	05/07/18	Information governance	There is a risk that the council's management of information data on a day to day basis is not properly controlled. The consequence is the council being vulnerable to significant risk from litigation, financial penalties and loss of reputation.	No		1) Information Governance overarching policy has been reviewed to meet requirements of Caldicott2 and quality assured by Zurich. Data Protection and Data Breaches policies also reviewed and action plan to be taken to CMT in March. 2) Mandatory training and awareness sessions held for all staff 3) Corporate Induction raises awareness to all new staff. 4) Information Governance Group to be relaunched to oversee compliance and action / work plan. 5) Information governance risk registers being finalised with individual		3	4	No	Technical / Operational / Infrastructure	Steady	Yes	Wendi Ogle-Welbourn
9	16/07/18	Carillion liquidation	There is a risk that the council will be unable to find alternative contractors to take over from Carillion (as they have gone into liquidation.) The consequence is an increase in costs, delays to school build programmes and the consequential impact on availability of school places.	Yes		Options finalised for procurement route for Jack Hunt, Hampton Lakes and Heltwate schemes and action plans in place.		3	3	No	Economic / Financial/Market	Decreasing	Yes	Brian Howard
8	11/07/18	Increased Crime and Anti-Social Behaviour	There is a risk that broader social changes, financial pressures and national/international events lead to an increase in several crime types including Anti-Social Behaviour and an increase in community tensions. The consequence is increased costs across the public sector, increased fear of crime, reduced confidence in public sector and community tensions and conflict.	No		1) Maintain strong focus on daily risk management and longer term performance monitoring. 2) Continue to enhance the role of Community Connectors from higher risk communities to act as a bridge between communities and the public sector. 3) Continue to develop the Community and Safety model incorporating more partners where relevant. 4) Continue to develop the relationship between Mosques and between the Muslim community and other relevant groups and the Council		2	4	No	Technical / Operational / Infrastructure	Steady	Yes	Adrian Chapman
6	11/09/18	Lack of financial reserves	There is a risk that, owing to a lack of financial reserves, the council would be unable to respond rapidly to the actions required following a negative Ofsted Inspection. The consequences of this would mean a reduction in other budgets in order to fund the Ofsted recommendations.	Yes		CMT to consider as part of budget setting		3	2	Yes	Economic / Financial/Market	Decreasing	Yes	Peter Carpenter
Public Health n1 n0 n0														
PR002482 : Public Health Departmental Risk Register n1 n0 n0														

16	13/11/18	National public health grant allocation is below target	There is a risk that the Public Health Grant allocation to Peterborough is not sufficient to meet the need for Public Health Services. The consequences are a failure to improve public health outcomes due to insufficient investment in Public Health Services.			PH DMT DPH meetings with Finance team to track budget. CMT 1) Full participation in quarterly budget rounds and quarterly budget planning 2) Monthly financial reporting and business planning/staffing discussions at PH DMT 3) Ongoing joint working across directorates of co-placed staff		4	4	No	Economic / Financial/Market	Increasing	Yes	Liz Robin
Resources n5 n10 n1														
PR002415 : Resources BAU n5 n10 n1														
20	08/01/19	"Brexit" impact on EU funding and regulatory framework	There is a Risk that the vote to leave EU impacts procurement arrangements and costs / availability of services. The consequence is uncertainty around EU funding, possible disruptions to the labour market / uncertainty around service demand / provision."	Yes		Consequences of vote UK's decision to leave the UK to be monitored as they emerge Consequences of policy developments / funding changes to be reported to CMT at the earliest opportunity.		4	5	Yes	Political	Steady	Yes	Peter Carpenter
20	08/01/19	Financial Resilience	There is a risk that the Council's financial resilience is insufficient to further withstand the combined pressures of reduced grant funding and increased cost and demand pressures. Any weaknesses in the delivery of the strategy to strengthen financial resilience may exacerbate this risk. The consequence is an unsustainable and financially unviable organisation beyond the short term.	Yes		A number of metrics are being developed to assess financial resilience across Local Government. The strategy to strengthen financial resilience is underpinned by a set of financial planning and management arrangements, including significant changes in arrangements for commissioning services. However, a clear route to a sustainable medium term financial position has not yet been fully identified.		4	5	No	Economic / Financial/Market		Yes	Peter Carpenter
16	08/01/19	Local Government Funding Review outcome & a possibility of losing grant with short notice	The impact of funding review on PCC finances is not currently known. There is a risk that this is adverse. The consequence is a possibility of losing grant with short notice	Yes		Monitor position and evaluate impact at earliest opportunity		4	4	Yes	Strategic / Commercial	Increasing	Yes	Kirsty Nutton
16	15/11/18	Corporate Property Income	There is a risk that the income for letting space at the Town Hall & Fletton Quays is not secured. The consequence is missing the MTFS target.	Yes		To be confirmed.		4	4	No	Technical / Operational / Infrastructure	Steady	Yes	Peter Carpenter
15	08/01/19	Failure to maintain an effective business continuity plan	There is a risk of failure to maintain an effective business continuity plan for all relevant service areas. The consequence is disruption caused by service failure leading to hardship for individuals, potential loss of business and significant reputation damage. Loss of IT Loss of key records Loss of office accommodation.	Yes		Revisit all business continuity plans 1/2 yearly review going forward Establish emergency response toolkit and re-issue		3	5	No	Strategic / Commercial	Steady	Yes	Peter Carpenter
12	08/01/19	Cyber Security	There is a risk of cyber attack The consequences could be: • Compromise of data / personal data • Total, or significant partial loss of core business systems • Total, or significant partial loss of access to one or more systems supporing a specific service area	Yes		ICT security measures and protocols in place to protect systems		3	4	No	Organisational / Management / Human Factors		Yes	Peter Carpenter
10	08/01/19	Failure to maintain an oversight of programme and project delivery across the Council	There is a risk of failure to maintain an oversight of programme and project delivery across the Council. The consequence is Project and programme failure with consequent financial and reputational impact.	Yes		The Programme Management Office (PMO) maintain regular liaison with stakeholders and Project Managers to ensure oversight.		2	5	No	Strategic / Commercial	Steady	Yes	Peter Carpenter
9	08/01/19	Failure to achieve MTFS savings targets	There is a Risk that MTFS savings targets are not achieved, or costs are not contained within approved budget, leading to overspending. The consequence is unplanned cessation of services. Reserve levels adversely impacted and additional and / or emergency savings measures need to be taken.	Yes		Ensure robustness of proposals and closely monitor implementation and delivery in conjunction with BCR. DMT to identify early warning of risk areas and develop solutions. A savings RAG review is included in the BCR process to support this		3	3	No	Economic / Financial/Market	Steady	Yes	Nick Hutchins
9	08/01/19	Capital Programme not delivered	There is a risk that the Capital Programme is not delivered. The consequence is significant underspends within the capital programme, meaning priorities are not addressed, reduced service capacity and reputational damage.	Yes		Establish Capital Strategy with clear mechanisms for managing the capital programme Reduce size of capital programme into manageable chunks Improvement on bidding / approval / gateway review processes		3	3	No	Strategic / Commercial	Steady	Yes	Nick Hutchins, Peter Carpenter
8	08/01/19	Failure of financial system leading to loss of accounting capability	There is a risk of failure of financial system leading to loss of accounting capability. The consequence is financial transactions and reporting compromised until system and data restored.	Yes		Business continuity plans re ICT backup. Contingency measures for short term urgent payments etc.		2	4	No	Technical / Operational / Infrastructure	Steady	Yes	Peter Carpenter

8	08/01/19	Failure to set a balanced budget for the forthcoming year due to insufficiently robust savings targets. Risk will roll forward to 19/20 budget	There is a risk that insufficiently robust savings plans are identified to enable a balanced budget to be set for the forthcoming year. The consequence is a council budget not set in accordance with legal framework. Updated review will be required for 19/20 budget.	Yes		Alternative proposals for savings delivery / Use of reserves has reduced likelihood for 18/19 Final delivery of proposals for consultation and approval		2	4	No	Economic / Financial/Market	Increasing	Yes	Nick Hutchins
6	08/01/19	Non compliance with Financial Regulations, internal and external requirements, contract standing orders and grant conditions	There is a risk of non compliance with Financial Regulations, internal and external requirements, contract standing orders and grant conditions. The consequence is reputational damage internal and external, claims from contractors and grant repayments.	Yes		Training & review of compliance issues; Meetings with HoS and HoF, Financial & Contract Regs & Guidance under review. Review of compliance issues. Financial & Contract Regs & Guidance under review.		2	3	No	Legal & Regulatory	Steady	Yes	Nick Hutchins
6	08/01/19	Failure to protect income of the Register Office and Bereavement Service through a drop in quality of service or price competitiveness	There is a risk of failure to maintain quality of service and price competitiveness. The consequence is customers exercise their right to purchase service from other providers and PCC do not achieve expected revenue from the services.	Yes		Awareness of competitors pricing. Continued investment in service eg Green Flag. Annual meeting with Funeral Directors. Review of processes and future operating model for Register Office with Cambridgeshire County Council.		2	3	No	Strategic / Commercial	Steady	Yes	Mark Sandhu
6	08/01/19	Financial loss due to poor day to day management of bank balances; cash flow; borrowing; investments	There is a risk of poor day to day management of bank balances; cash flow; borrowing; investments. The consequence is: • financial loss / adverse publicity / unable to finance statutory payments • Pressure to achieve unrealistic returns • Lending outside of Council approved lists and exceeding deposit limits	Yes		Adhere to Treasury Management Strategy / Code of Practice Review of criteria ongoing 1/2 yearly report to Audit Committee		2	3	No	Economic / Financial/Market	Steady	Yes	Peter Carpenter, Kirsty Nutton
6	08/01/19	Improper administration of VAT	There is a risk that concentration of expertise in one person leads to lack of understanding elsewhere Finance not involved in projects at an early stage / VAT not considered. The consequence is financial loss from penalties or fines. Partial exemption breached, Opportunities to recover VAT are missed, increased project costs.	Yes		VAT return reviewed by management before submission? Monitoring against limit Finance representation on Project Boards?		2	3	No	Economic / Financial/Market	Steady	Yes	Peter Carpenter, Kirsty Nutton
4	08/01/19	Failure to meet statutory obligations in relation to bereavement and registry services	There is a risk of failure to meet statutory obligations in relation to bereavement and registry services. The consequence is a breach of legislation with subsequent potential for being fined.	Yes		Work with service to ensure ongoing service delivery		1	4	No	Legal & Regulatory	Steady	Yes	Mark Sandhu

BREXIT IMPACT ASSESSMENT- v0.7

Ref	Category	Potential Impacts	Likelihood	Impact	Mitigation
BX1	Citizens Rights / Migration	Increase in community tensions causing damage to community cohesion	Likely	High	Communications Strategy and Community Engagement strategy, working with the programme board
BX2	Citizens Rights / Migration	Complications on rights and status of EU citizens and workers - impact on vulnerable people who may not understand requirements	Possible	High	Looked After Children and other vulnerable people who are EU citizens will be identified and
BX3	Supplies	Limited availability of medicinal drugs	Possible	Very High	National government and NHS led response (including prioritisation of medicine imports and extra
BX4	Workforce	Complications on rights and status of EU citizens and workers- reduction in CCC/PCC workforce, especially in hard to fill roles such as in Adult	Likely	High	There will be targeted work with EU Employees to encourage them to apply for settled status, and to
BX5	Workforce	Reduction in workforce in services that are commissioned by CCC and PCC; such as care workers, cleaners, security staff, construction	Very Likely	Very High	Central government has issued advice to social care providers (encouraging business continuity plans
BX6	Recruitment	Changes to rules for recruiting staff from outside the UK	Very Likely	Very High	Government is still consulting on elements of its new migration policy although this is likely to prioritise highly skilled workers and include an income threshold. PCC and CCC are engaging with the Home Office about the implications of these changes and will reflect these in our own planning and processes.
BX7	Finance / Funding	Reduction of income from business rates (for example, as a result of EU-owned businesses closing)	Unlikely	Low	Low rating of risk in six month timeframe but to be kept under review.
BX8	Finance / Funding	Loss of EU funding for projects, or loss of government funding	Unlikely	Low	Government have guaranteed existing funding beyond six month timeframe. This will need to be kept under review.
BX9	Finance / Funding	Pressures on budgets from other sectors, such as increase in cost of workforce in services that we commission, as well as cost of products and materials that we purchase	Very Likely	Very High	CCC & PCC will engage in discussions with providers about how they can encourage their employees to register (and reassure them about any concerns they may have) and examine contract provisions and arrangements and review these as necessary.
BX10	Finance / Funding	General financial implications - for example, reduced value of the pound, demand placed on the national payments and banking systems, financial downturn, negative impact on the council pension scheme	Possible	High	Engagement with central Government and relevant national representative bodies (i.e. LGA) will be necessary, as this will have national implications.
BX11	Regulations / Legislation	Changes in legislation and/or regulations for food production/packaging, employment, procurement, competition law, equalities and rights, health and safety, crime and security, waste and recycling, and state aid. In the longer term-simplification of regulatory frameworks and increased flexibility	Unlikely	Medium	Existing EU legislation to be transferred into UK law at least initially. CCC & PCC will ensure that their systems are in place to administer these effectively.
BX12	Regulations / Legislation	Complications in the shipping of waste	Very Rare	Low	CCC & PCC waste provision not dependent upon the need to ship waste overseas. Risk will be monitored.
BX13	Procurement	Reduced opportunity for accessing public sector contracts due to fewer procurement opportunities	Very Rare	Low	CCC & PCC contracts overwhelmingly let by UK companies so impact has been judged minimal. Risk will be monitored.
BX14	Devolution	Increase in devolved powers moving from Brussels to local government (unlikely in the first 6 months)	Unlikely	Low	Could be a positive factor and PCC and CCC will support LGA lobbying in this regard but unlikely to impact in the short term timeframe.
BX15	Transport	Potential shortage of fuel supplies would impact on staff travelling to deliver services	Possible	Very High	CCC & PCC will review business continuity plans, and request commissioned services do likewise. In addition, national government arrangements are in place to address disruption to supply of fuel, with local arrangements overseen and managed by the Local Resilience Forum.
BX16	Transport	Transport problems due to the knock-on impact of border checks/barriers to trade	Possible	High	Highways England will lead response to any issues on trunk road network. If there was to be sustained disruption local arrangements would be overseen by the Local Resilience Forum.

Categories

Likelihood

- Very Rare
- Unlikely
- Possible
- Likely
- Very Likely

Impact

- Very High
- High
- Medium
- Low
- Negligible

AUDIT COMMITTEE	AGENDA ITEM No. 12
11 FEBRUARY 2019	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Resources	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director Resources	Tel. 452520

USE OF CONSULTANTS – UPDATE REPORT

R E C O M M E N D A T I O N S	
FROM : Corporate Director Resources	**Deadline date :** N/A
1. That Audit Committee consider the update report on the use of Consultants for the financial year 2018/19 up to December 2018 (9 months).	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following the Sustainable Growth Scrutiny Committee review into Peterborough City Council's use of consultants, the subsequent endorsement of their recommendations by Cabinet, and the agreement of Audit Committee to undertake an on-going monitoring role.

2. PURPOSE AND REASON FOR REPORT

2.1 Sustainable Growth Scrutiny Committee recommended that the on-going monitoring role at Member level is undertaken by Audit Committee. Audit Committee considered their approach to this role at their meeting of 26 March 2012. This report is in line with the approach agreed and subsequent updates, and is in accordance with the Committees' Terms of Reference:

- 2.2.1.11 To review any issue referred to it by the Chief Executive or a Director, or any Council body; and
- 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALE

Is this a Major Policy Item / Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	N/A

4. REVIEW OF THE USE OF CONSULTANTS

4.1 In March 2010, the Sustainable Growth Scrutiny Committee requested a review into Peterborough City Council's use of consultants. A cross-party review group was established to undertake this work on behalf of the Sustainable Growth Scrutiny Committee.

4.2 The report from the Consultancy Review Group was issued in March 2011. Scrutiny also recommended that on-going monitoring of the use of consultants should fall to Audit Committee. Audit Committee considered this role at their meeting of 26 March 2012.

4.3 A further report, outlining the information requested, was discussed at the meeting of 5 November 2012. Further updates have been considered at the meetings of 4 February 2013, 4 November 2013, 3 November 2014, 9 November 2015 and 21 November 2016. A report on 19 November 2018 continued the regular reporting to Audit Committee.

4.4 **Use of consultants**

The definition of consultancy is based upon standard procurement classification. As such it covers a wide range of companies and services. Expenditure is included here if the company meets the standard classification, irrespective of exactly what services have been provided.

4.5 The spend for the last nine full years, plus in current year to date is shown below. The trend over that period is for a reduction in spend.

	Total £m
2009-10	8.5
2010-11	6.4
2011-12	5.4
2012-13	4.3
2013-14	4.5
2014-15	3.1
2015-16	2.5
2016-17	3.0
2017-18	2.4
2018-19 first 9 months	1.6

4.6 Spend has risen slightly in 2016/17 before reducing again in 2018/19.

4.7 The policy agreed by Cabinet and Audit Committee to manage use of consultants, including the need for a business case to be produced, remains in place. The Corporate Management Team has reviewed arrangements as part of the 2017/18 budget monitoring process, and will continue to review as part of the 2018/19 budget monitoring process.

4.8 A list of companies used for the period 1 April 2016 to 31 December 2018 is included in Appendix 1, indicating the breadth of these companies and services that are included in the standard classification and in the analysis in this report.

Agency

4.9 The Council also employs Agency staff through a number of Contracts. The spend for the past 2 financial years on Agency and the current year to date has been:
- 2016/17 - £6.3m
- 2017/18 - £6.5m
- 2018/19 - £7.4m

5. CONSULTATION

5.1 Audit Committee considered options for how they wish to monitor use of consultants in the future at their meeting of 26 March 2012. Subsequent discussions at the meetings referred to have refined the information they wish to monitor.

6 ANTICIPATED OUTCOMES

6.1 That Audit Committee consider the update report on the use of consultants.

7 REASONS FOR RECOMMENDATIONS

7.1 The recommendations are in line with the recommendations of Scrutiny, and the view of Audit Committee in undertaking this role.

8 ALTERNATIVE OPTIONS CONSIDERED

8.1 Audit Committee considered options for how they wish to monitor use of consultants in the future at their meeting of 26 March 2012.

9 IMPLICATIONS

9.1 Where appropriate, the policy outlines implications for areas such as Legal, Human Resources, Procurement and Finance.

9.2 This report does not have implications for specific wards.

10 BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

- Consultancy Review Report, March 2011;
- Report to Sustainable Growth Scrutiny Committee, 8 November 2011;
- Report to Sustainable Growth Scrutiny Committee, 6 March 2012; and
- Reports to Cabinet and Audit Committee 26 March 2012.
- Report to Audit Committee of 5 November 2012
- Report to Audit Committee of 4 February 2013
- Report to Audit Committee of 4 November 2013
- Report to Audit Committee of 3 November 2014 and supplementary report to Audit Committee of 2 February 2015
- Report to Audit Committee of 9 November 2015
- Report to Audit Committee of 22 November 2016
- Report to Audit Committee of 19 November 2018

11 APPENDICES

- Appendix 1 - list of companies used during the period 1 April 2018 and 31 December 2018 with summary

This page is intentionally left blank

2018/19 (to 31 December 2018)
Appendix 1 - List of companies with Summary

2018/19 Supplier Name	Initiative	Amount
4OC Ltd	Project Support - Savings Programme	320,149.00
Airey Consultancy Services Ltd	Council Tax reduction scheme	6,600.00
AXA PPP Healthcare OHS Ltd	Occupational Health Advice	4,444.36
Barker Storey Matthews	Property Advice - Town Hall / University	4,763.75
Bevan Brittan LLP	LATCO development advice	6,023.30
CapacityGrid	Empty Homes review	34,394.75
Carter Jonas LLP	Development Control advice	3,500.00
CEB Global Limited	Finance Improvement & delivery of MTFS savings agenda	46,500.00
Civica UK Limited	ICT Consultancy	1,025.00
Corazon Health Limited	Occupational Health Advice	240.00
Cranford Solutions Ltd	ICT support - interim	74,000.00
Eastern Shires Purchasing Organisation	Environmental Services purchasing support	7,974.00
Fiona Spinks	GDPR work	14,327.50
G V A Grimley	Property valuation advice	3,300.00
Gerald Eve LLP	Finance project advice	12,500.00

Grant Thornton UK LLP	LATCO development advice	15,097.90
Heales Health Services Ltd	Occupational Health Advice	10,848.80
Hegarty LLP	Advice - The Manor	250.00
Inform CPI Ltd	ICT Consultancy	96,699.00
J C Associates	Complaints support	4,943.30
Kealey-HR	HR Support / LATCO advice	13,758.79
Lind Associates	SEN consultancy	12,554.80
Lisa Bunyan	Integrated communities programme management	9,131.55
Mark Stephen Land Management	Development Control Advice	750.00
Mills & Reeve	Finance Advice	3,488.50
North Kesteven District Council	Planning & Housing Policy Support	27,175.68
NPS Peterborough Ltd	Bridge Street Shops Project; Roof mounted Solar PV Project; Property Project Delivery	96,440.64
Penna Plc	Interim Development Director; Vivacity support; LATCO	326,749.17
Prior Associates (Soham) Ltd	Resilience & Risk advice	675.00
PS3 Safeguarding Limited	PCSB work	1,000.00
PSI(UK)Ltd	SEND consultancy	18,975.00
Reed Specialist Recruitment Limited	Fletton Quays project / PMO / Homeless 50 Project	201,904.87
RJW Associates Ltd	PCSB work	25,875.00

Sales Nova Limited	LATCO mobilisation support	17,684.73
Serco Ltd	Project Management and Support	43,327.76
The Planning Inspectorate	Examination of Local Plan	34,734.94
WESTCO TRADING LIMITED	Communications Support	57,375.00
2018/19 Total to 31/12/18		**1,559,182.09**

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 13
11 February 2019	PUBLIC REPORT

Report of:	Fiona McMillan, Director of Law and Governance & Monitoring Officer	
Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Resources	
Contact Officer(s):	Ben Stevenson, Data Protection Officer	Tel. 452387

USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

R E C O M M E N D A T I O N S	
FROM: Fiona McMillan, Director of Law and Governance & Monitoring Officer	**Deadline date:**

It is recommended that the Audit Committee

1. *Receives and notes the outcome of the inspection of Peterborough City Council by the Investigatory Powers Commissioner's Office (IPCO)*

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a scheduled report on the Council's use of the powers contained within the Regulation of Investigatory Powers Act (RIPA) in accordance with the established Work Programme 2018/2019.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to provide Members with an overview of the inspection by the Investigatory Powers Commissioner's Office (IPCO) in November 2018 and the subsequent report received in January 2019.

2.2 This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.1.13

To monitor Council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the Council's complaints process.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	

4. BACKGROUND AND KEY ISSUES

4.1 Local authorities exercise criminal investigation powers for a number of reasons from fly tipping to planning enforcement to sale of counterfeit goods. The Council may undertake covert surveillance to investigate such matters and that work will be regulated by RIPA. It also provides a statutory process for authorising such work.

RIPA seeks to ensure that any covert activity undertaken is necessary and proportionate because of the impact on an individual's right to a private life under Article 8 of the Human Rights Act. In undertaking such activity the Council are in effect suspending a person's right to privacy. RIPA seeks to ensure both the public interest and the human rights of individuals are balanced.

The Council is able to undertake directed surveillance meaning that it must be for the purpose of a specific investigation or operation. The Council is not permitted to undertake intrusive surveillance, i.e. surveillance in private premises or vehicles.

Covert surveillance might mean the use of CCTV to monitor an individual's movements or their actions. Whilst the CCTV camera itself is overt, it is the use of that camera to track that individual's actions without that individual knowing which makes that act one which is considered covert. The Council may also use underage volunteers to purchase tobacco or alcohol whilst being filmed. The viewing of CCTV footage *after* an incident does not constitute covert surveillance and therefore does not fall under RIPA.

4.2 The Council may also authorise the use of a Covert Human Intelligence Source (CHIS) to obtain information from individuals in a covert manner such as a Trading Standards officer using a pseudonym to carry out a test purchase online. It may also apply to the tasking of a member of the public to obtain private information about an individual. It should be noted that the Council has never authorised the use of a CHIS since the commencement of RIPA.

4.3 The Council controls the governance of the RIPA process through the Director of Law and Governance & Monitoring Officer with reports to the Audit Committee and senior management.

5 IPCO Inspection

5.1 IPCO provides independent oversight of the use of investigatory powers by intelligence agencies, police forces and other public authorities. As part of this oversight, they undertake inspections to assess compliance, provide guidance and assurance that such powers are being used appropriately and in line with the legislation and codes of practice.

Local authorities are inspected on a two to three year basis, with our last inspection having been in 2015.

5.2 As Fiona McMillan had become the senior responsible officer (SRO) for both Peterborough City Council and Cambridgeshire County Council shortly before the inspection, it was agreed that ICPO would undertake an inspection of both authorities at the same time.

It has also been agreed that Ben Stevenson will act as central monitoring officer for both councils. Peterborough also has two experienced authorising officers who cover the main areas in which covert surveillance may play a role; the Prevention & Enforcement Service (e.g. fly tipping and the use of CCTV) and Regulatory Services (e.g. Trading Standards).

5.3 As part of the inspection, Mr Gration, the Inspector, met with officers from areas such as the Prevention & Enforcement Service, Planning, Trading Standards, Internal Audit and CCTV. This was an opportunity for those officers to understand any best practice which could be shared by Mr Gration as well as raising any issues and concerns they had.

5.4 We were aware that our policy would need to be updated to reflect a policy across both councils and also to take into account the changes to the Codes of Practice issued in August 2018. A draft policy was produced by October 2018. However aware of the impending inspection, we decided to take the opportunity to obtain the IPCO's view of the draft policy during the inspection.

5.5 The inspection report is a very positive one and it highlights:

- the compliant and fit for purpose structure we have in place to ensure compliance
- recent training having been undertaken and the need to continue to promote awareness of RIPA to ensure compliance
- our approach to informing Members of the use of the powers at each Audit Committee
- in addition to the policy, we have an easy read guide which is available for officers
- the excellent understanding of RIPA we have in place across the SRO, central monitoring officer and authorising officers

5.6 The inspection did highlight some areas to help improve our applications such as providing greater detail on how we have assessed any collateral intrusion during our activities and also ensuring that we do document any variation between what activity is proposed and what is authorised.

5.7 Mr. Gration also highlighted that whilst we had covered in great detail our approach to the use of social media in surveillance, he felt that we needed to consider the way in which we had oversight of such activities and how we can audit the use of social media during investigations.

5.8 Mr. Gration also recommended that we ensured that the section of the draft policy regarding a CHIS is reviewed for clarity and made easier for officers to understand exactly what a CHIS is and the process to follow.

5.9 These issues formed the basis of the report's single recommendation which is to review the draft policy based on those issues highlighted. The Inspector believed that with these small changes, we will have a well written, meaningful and compliant policy in place.

6. SURVEILLANCE UNDERTAKEN

6.1 There has been no surveillance undertaken by Peterborough City Council since the last report to Audit Committee.

7. CONSULTATION

7.1 The report following the inspection was received by the following parties:

- Chief Executive; and
- Director of Law and Governance

8. ANTICIPATED OUTCOMES OR IMPACT

8.1 The Audit Committee continues to be informed of the necessary and proportionate use of RIPA across the Authority through regular updates. We will also be presenting an updated policy at the next meeting of this committee.

9. REASON FOR THE RECOMMENDATION

9.1 It is recommended that the committee continues to receive information on the use of RIPA and receives an updated draft policy based on the changes in the Code of Practice and the IPCO inspection.

10. ALTERNATIVE OPTIONS CONSIDERED

10.1 There are no alternative options considered at this time.

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

11.1 Regulation of Investigatory Powers Act 2000
Protection of Freedoms Act 2012

AUDIT COMMITTEE	AGENDA ITEM No. 14
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Peter Carpenter – Acting Director of Corporate Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter – Acting Director of Corporate Resources	Tel: 384564

UNCOLLECTABLE DEBTS IN EXCESS OF £10,000

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter – Acting Director of Corporate Resources	**Deadline date:** *N/A*

It is recommended that Audit Committee:

1. Note the Uncollectable Debts in excess of £10,000 report.

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee for information from Cllr Seaton (Cabinet Member for Resources) following the publication of a Cabinet Member Decision Notice (CMDN).

2. PURPOSE AND REASON FOR REPORT

2.1 This report is for information following the Cabinet Member for Resources exercising delegated authority under paragraph 3.4.3 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (n).

2.2 This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.2.12

To review any issue referred to it by the Chief Executive or a Director, or any Council body.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	

4. BACKGROUND AND KEY ISSUES

4.1 The attached CMDN report details the Cabinet Member’s approval to write-off uncollectable debts that exceed £10,000 in relation to non-domestic (business) rates and accounts receivable (sundry debt). The aggregate total value of these debts is £1,359,599.

4.2 All cases requested for write-off follow a lengthy process to recover the outstanding money, sometimes dating back many years. Only once all avenues have been exhausted will the council consider writing off debt.

4.3 It is acknowledged that given the high volume and value of invoices and bills issued there will always be a requirement to write off an element of debt as uncollectable, however, a number of the debts included within the report are historic and should have been considered for write off a number of years ago.

4.4 The largest type of debt raised each year is non-domestic rates at approximately £100 million per annum. When the sum recommended for write off is expressed as a percentage of the total debt raised over the period, it represents only 0.135% for business rates and only 0.016% for sundry debt accounts.

4.5 The debt to be written off has been provided for in the council's debt provisions. As a result, there will be no adverse impact on the Council's revenue position as a result of this write off exercise, and no adverse financial impact as a result of not writing these debts off sooner.

5. CONSULTATION

5.1 Information concerning the consultation undertaken is detailed within the attached CMDN report.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 It is anticipated that the Committee will note the attached 'Uncollectable Debts in Excess of £10,000' Cabinet Member Decision Notice.

7. REASON FOR THE RECOMMENDATION

7.1 Reasons for recommendation are detailed within the attached CMDN report.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 Alternative options are detailed within the attached CMDN report.

9. IMPLICATIONS

Financial Implications

9.1 Financial implications are detailed within the attached CMDN report.

Legal Implications

9.2 Financial implications are detailed within the attached CMDN report.

Equalities Implications

9.3 There are no significant equalities implications.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 Cabinet Member Decision Notice: To approve the write-off of any uncollectable debts in excess of £10,000.

11. APPENDICES

11.1 Cabinet Member Decision Notice: To approve the write-off of any uncollectable debts in excess of £10,000.

Appendix 1

Report Author: Chris Yates - Finance Manager
(Business Operations)

UNCOLLECTABLE DEBTS IN EXCESS OF £10,000
COUNCILLOR DAVID SEATON, CABINET MEMBER FOR RESOURCES
January 2019
Deadline date: 30 January 2019

Cabinet portfolio holder: Responsible Director:	Councillor David Seaton, Cabinet Member for Resources. Peter Carpenter, Acting Director of Corporate Resources
Is this a Key Decision?	NO
Is this decision eligible for call-in?	NO
Does this Public report have any annex that contains exempt information?	NO
Is this a project and if so has it been registered on Verto?	NO

R E C O M M E N D A T I O N S

The Cabinet Member is recommended to authorise the write off of the debt shown as outstanding in respect of non-domestic rates and accounts receivable (sundry debt) accounts included in the Appendices. This details the financial year and the category for the write off request.

1. SUMMARY OF MAIN ISSUES

1.1 This report seeks the Cabinet Member's approval to write-off uncollectable debts that exceed £10,000 in relation to non-domestic (business) rates and accounts receivable (sundry debt), as detailed in the appendices to this report. The aggregate total value of these debts is £1,359,599, with the vast majority (94%) relating to non-domestic rates.

1.2 All cases requested for write-off follow a lengthy process to recover the outstanding money, sometimes dating back many years. Only once all avenues have been exhausted will the council consider writing off debt.

1.3 It is acknowledged that given the high volume and value of invoices and bills issued there will always be a requirement to write off an element of debt as uncollectable.

1.4 The largest type of debt raised each year is non-domestic rates at approximately £100 million per annum. When the sum recommended for write off is expressed as a percentage of the total debt raised over the period it represents only 0.135% for non-domestic rates and only 0.016% for sundry debt accounts. The debt to be written off is set out in Appendix 1.

1.5 This report is the 2nd write-off of debt over £10,000 during 2018-19, following on from the write off exercise undertaken in July 2018.

2. PURPOSE OF THIS REPORT

2.1 This report is for the Cabinet Member for Resources to consider exercising delegated authority under paragraph 3.4.3 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (n).

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	**NO**

4. DETAILS OF DECISION REQUIRED

4.1 The Cabinet Member for Resources is requested to approve the write off of uncollectable debt in excess of £10,000. These debts relate to non-domestic rates and accounts receivable (sundry debt) accounts.

Financial Context

4.2 The Council is committed to taking all appropriate action necessary before considering a debt for write off. This includes multiple written reminder letters early in the recovery process, telephone call follow up, senior management dialogue with counterparts, and where necessary, court and enforcement agent action. It can take several years before all actions have been undertaken.

4.3 Per annum, the Council currently expects to receive approximately £100m in non-domestic rates and in excess of £50m of sundry invoice income. In addition, the Council receives significant income from operational activity with other public sector organisations, including approximately £14m per annum from the Clinical Commissioning Group (CCG). As a result of activity on this scale, the Council recovers millions of pounds every year in unpaid debt, sometimes dating back years, due to being persistent in recovery activity.

4.4 Despite our best endeavours, it is inevitable that a small percentage of debt will not be collected and will ultimately have to be written off. There are a number of reasons why this occurs with the most common being where a company has gone into liquidation, an individual has been made bankrupt, a debtor has died with no funds available, or where it has not been possible to trace a debtor. It is very common for large organisations in both the public and private sectors to incur debt, and the Council is no different in that respect. Writing off debt is standard practice and recommended as part of good budget management.

4.5 In respect of non-domestic rates, although the Council continues to collect arrears after the year it becomes due, the amount collected 'in year' is still measured. For example, for the last financial year, the in-year collection of non-domestic rates as at 31 March 2018 was 97.9%, 0.05% above the target set.

4.6 In addition to the balances to be written off as part of this report, debts with a value less than £10,000 also require write-off consideration. While not forming part of this governance process (due to delegation limits as part of the Council's financial regulations), the values are shown in Appendix 2 for completeness and overall context.

5. CONSULTATION

5.1 Consultation between relevant Council Officers, the Head of Finance, the Local Taxation section and key Heads of Service within the Peterborough-Serco Strategic Partnership was undertaken to provide the relevant information for this report.

6. ANTICIPATED OUTCOMES

6.1 It is anticipated that the Cabinet Member for Resources will approve the write-off of the debt amounts summarised in Appendix 1.

7. REASONS FOR RECOMMENDATIONS & ANY RELEVANT BACKGROUND INFORMATION

7.1 In all cases included in this Cabinet Member Decision Notice the authorisation for write-off is requested due to one of the following scenarios:

- a company being placed into administration of liquidation;
- the ratepayer is an individual being made bankrupt;
- the ratepayer is deceased with no further income due from the estate;
- following extensive enquiries being made it has not been possible to trace the debtor and therefore collect payment; or
- all recovery options/ activity have been exhausted.

7.2 Where debt being written off is in relation to companies that have gone into administration/ individuals being made bankrupt, proof of debt has been lodged with the Administrators or Liquidators in all appropriate cases and either it has been confirmed that no dividend is payable or a final dividend payment has been received. Recovery action has therefore been exhausted and there is no further action that can be taken to obtain any further payments in relation to the debt. Table 2 in Appendix 1 summarises the rationale for the different reasons for write off decisions by year and by value.

7.3 The majority of the aged debt outlined in Appendix 1 has been fully provided for in the council's debt provisions in accordance with the council's debt provision policies, local accounting procedures and statutory accounting regulations. As a result, there has been no adverse impact on the Council's revenue position as a result of this write off exercise and no adverse financial impact as a result of not writing these debts off sooner. All debt recovery actions available to the council must be exhausted before outstanding debt can be recommended for write-off.

7.4 To further strengthen its debt collection procedures, the Council has now implemented a robust end-to-end accounts receivable process, including ensuring that all future debt write off exercises take place on a quarterly basis. This report is the 2nd iteration of that new process.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The alternative option is to not write off this debt but this would result in an uncollectable debt continuing to be shown as outstanding and a bad debt provision for this debt. Once a debt is no longer collectable it should be written off in the Council's accounts and the debt provision adjusted accordingly.

8.2 All other alternative options available to the Council to collect the debt have already been undertaken before making a decision to recommend a debt for write off.

9. IMPLICATIONS

9.1 Financial and legal implications have been included within this report.

9.2 Section 151 of the Local Government Act 1972 requires a local authority to make arrangements for the proper administration of their financial affairs and the write-off of debts falls within such duties.

10. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED

None

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985) and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

There are no documents.

12. APPENDICES

Appendix 1 - Debt Write-Offs With A Value Over £10,000
Appendix 2 - Debt Write-Offs With A Value Under £10,000

Appendix 1 - Debt Write-Offs With A Value Over £10,000

Table 1: By financial year and % of total debt raised

	Non Domestic Rates			Sundry Debt		
Financial Year	Write-off (Inc. costs of collection) (£)	Debt raised in year (£)	% Write-off in-year	Write-off (£)	Debt raised in-year (£)	% Write-off in-year
Up to 2008/09	12,876	-	-	-	-	-
2009/10	-	86,843,886	0.000%	-	51,430,000	0.000%
2010/11	4,312	84,526,730	0.005%	-	51,450,000	0.000%
2011/12	51,370	89,444,197	0.057%	-	47,270,000	0.000%
2012/13	103,883	92,745,954	0.112%	10,940	48,540,000	0.023%
2013/14	92,297	94,532,290	0.098%	-	46,140,000	0.000%
2014/15	81,861	96,008,318	0.085%	72,354	45,140,000	0.160%
2015/16	263,944	100,664,032	0.262%	-	54,270,000	0.000%
2016/17	333,134	101,768,770	0.327%	-	56,610,000	0.000%
2017/18	215,495	100,459,326	0.215%	-	56,914,648	0.000%
2018/19	117,133	101,527,035	0.115%	-	48,981,081	0.000%
Total	**1,276,305**	**948,520,538**	**0.135%**	**83,294**	**506,745,729**	**0.016%**

Table 2: By financial year and write-off rationale

	Company/ ratepayer placed into Administration/ Liquidation/ Bankruptcy (£)	Unable to trace the debtor and collect payment (£)	The ratepayer is deceased with no further income due from the estate (£)	Recovery action exhausted (£)	Other - legacy or disputed debts (£)	Total (£)
Up to 2008/09	-	12,876	-	-	-	12,876
2009/10	-	-	-	-	-	-
2010/11	4,312	-	-	-	-	4,312
2011/12	38,257	13,113	-	-	-	51,370
2012/13	103,883	-	-	10,940	-	114,823
2013/14	73,440	18,857	-	-	-	92,297
2014/15	59,488	19,642	2,731	-	72,354	154,215
2015/16	227,747	20,174	16,023	-	-	263,944
2016/17	287,782	20,253	25,099	-	-	333,134
2017/18	206,893	2,651	5,951	-	-	215,495
2018/19	113,014	-	4,119	-	-	117,133
Total	**1,114,816**	**107,566**	**53,923**	**10,940**	**72,354**	**1,359,599**

Appendix 2 - Debt Write-Offs With A Value Under £10,000

	Non Domestic Rates			Sundry Debt			Housing Benefit Debt (Overpayments)		
Financial Year	Write-off (Inc. costs of collection) (£)	Debt raised in year (£)	% Write-off	Write-off (£)	Debt raised in-year (£)	% Write-off	Write-off (£)	Debt raised in-year (£)	% Write-off
Up to 2008/09	30,680	-	-	926	-	-	1,612	-	-
2009/10	7,891	86,843,886	0.01%	0	51,430,000	0.00%	7,461	1,757,300	0.42%
2010/11	3,282	84,526,730	0.00%	7,045	51,450,000	0.01%	5,330	2,136,189	0.25%
2011/12	13,983	89,444,197	0.02%	5,496	47,270,000	0.01%	2,343	2,182,339	0.11%
2012/13	8,171	92,745,954	0.01%	5,047	48,540,000	0.01%	3,801	2,632,518	0.14%
2013/14	2,430	94,532,290	0.00%	19,506	46,140,000	0.04%	10,061	3,224,687	0.31%
2014/15	14,123	96,008,318	0.01%	2,184	45,140,000	0.00%	2,771	4,680,398	0.06%
2015/16	26,899	100,664,032	0.03%	4,874	54,270,000	0.01%	1,733	3,975,023	0.04%
2016/17	57,659	101,768,770	0.06%	12,822	56,610,000	0.02%	16,528	3,904,982	0.42%
2017/18	26,058	100,459,326	0.03%	8,763	56,914,648	0.02%	42,167	4,499,133	0.94%
2018/19	9,026	101,527,035	0.01%	8,522	48,981,081	0.00%	30,769	2,040,407	0.00%
Total	**200,202**	**948,520,538**	**0.02%**	**75,185**	**506,745,729**	**0.01%**	**124,576**	**31,032,978**	**0.40%**

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 15
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Councillor Over, Chair of Audit Committee	
Cabinet Member(s) responsible:	Councillor Seaton, Resources Portfolio Holder	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296334

FEEDBACK REPORT

R E C O M M E N D A T I O N S
It is recommended that Audit Committee: 1. Note the Feedback Report and work completed since the last meeting

1. ORIGIN OF REPORT

1.1 This is a standard report to Audit Committee which forms part of its agreed work programme.

2. PURPOSE AND REASON FOR REPORT

2.1 This standard report provides feedback on items considered or questions asked at previous meetings of the Committee. It also provides an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

3. IMPLICATIONS

Financial Implications

3.1 There are none.

Legal Implications

3.2 There are none.

Equalities Implications

3.3 There are none.

4. APPENDICES

4.1 Appendix A - Feedback report

This page is intentionally left blank

APPENDIX A

AUDIT COMMITTEE: RECORD OF ACTION TAKEN

MUNICIPAL YEAR: MAY 2018 - APRIL 2019

AGENDA ITEM	ACTION ARISING	OFFICER RESPONSIBLE	ACTION TAKEN	ACTION RAISED	SIGN OFF DATE
External Audit Plan	Add a report on the new accounting standards IFRS9, IFRS15 and IFRS16 to the work programme	Pete Carpenter	Added to work programme	Done	Done
Internal Audit: Mid-year progress	The Chief Internal Auditor, Steve Crabtree agreed to provide Members with the additional costs which would be incurred in conducting the additional internal audits.	Steve Crabtree	To be completed by next Committee		
Use of Consultants	The Acting Corporate Director of Resources agreed to: 1. Obtain the figure for Agency Expenditure to date this year. 2. Obtain the reason for the difference in costs between PSCB work - Independent Chair of Safeguarding Children's and Adults Boards, the cost of which was £52,150.00 and the costs associated with PSCB Support - Chair of CDOP and Chair of Serious Case Review Sub Committee 16/17 the costs of which were £2,475.00. 3. Find out if, of the two agencies mentioned in the previous action point, one agency was less expensive than the other.	Pete Carpenter	To be completed by next Committee		

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 16
11 FEBRUARY 2019	PUBLIC REPORT

Report of:	Councillor Over, Chair of Audit Committee	
Cabinet Member(s) responsible:	Councilor Seaton, Resources Portfolio Holder	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296 334

WORK PROGRAMME 2018/19

R E C O M M E N D A T I O N S
It is recommended that the Audit Committee: 1. Notes and agrees the Work Programme for the municipal year 2018/19.

1. ORIGIN OF REPORT

1.1 This is a standard report to the Audit Committee which forms part of its agreed work programme. This report provides details of the Draft Work Programme for the following municipal year.

2. PURPOSE AND REASON FOR REPORT

2.1 The Work Programme is based on previous year's agendas. The programme can be refreshed throughout the year in consultation with senior officers and the Committee membership to ensure that it remains relevant and up to date. In addition, any delays in reporting issues are recorded so that they do not drop off the committee agenda.

2.2 Training for members on specific aspects of the Audit Committee agenda are available throughout the year and will be arranged on request and will take place on a separate day to that of the committee meeting.

3. IMPLICATIONS

Financial Implications

3.1 There are none

Legal Implications

3.2 There are none

Equalities Implications

3.3 There are none

4. APPENDICES

4.1 Appendix A - Work Programme 2018/19

APPENDIX A

DATE: 16 JULY 2018			
		Section / Lead	**Description**
	Annual Governance Statement	Internal Audit Steve Crabtree	To consider and endorse the development of the Annual Governance Statement as included in the accounts.
	Internal Audit: Annual Audit Opinion	Internal Audit Steve Crabtree	To receive, consider and endorse the annual Audit Opinion of Internal Audit for the year ended 31 March 2018.
	Investigations Team Annual Report 2017 / 2018	Internal Audit Steve Crabtree	To receive, consider and endorse the annual report on the investigation of fraud and irregularities for the year ended 31 March 2018.
	Capital and Treasury Outturn 2017 / 2018	Finance Pete Carpenter	To receive, consider and endorse the Capital and Treasury outturn 2017/2018
	Update of Treasury Management Strategy 2018/19	Finance Pete Carpenter	
	Audit of Statement of Accounts To Those Charged with Governance (ISA260) including Annual Governance Statement	Finance Pete Carpenter & EY	To receive the final Statement of Accounts for the year ended 31 March 2018 incorporating the Annual Governance Statement together with the annual report to those charged with governance following their scrutiny by External Audit.
	Audit Plan Update	EY	To receive an update on the Audit Plan from EY, to review their proposed approach and scope for the 2017/18 audit in accordance with requirements, and to ensure that the EY audit is aligned with the Committee's service expectations.
	Fees report	Finance Pete Carpenter	To approve the fees for the Municipal year 2018/2019
	INFORMATION AND OTHER ITEMS		

	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter/Chris Yates	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Draft Work Programme 2018 / 2019	Democratic Services Dan Kalley	

DATE: 24 SEPTEMBER 2018			
		Section / Lead	**Description**
	Treasury Management	Finance Pete Carpenter	To receive an update on the policy and effectiveness of treasury management
	Risk Management: Strategic Risks	Governance Simon Machen	To receive details of the strategic risks impacting on the Council and the mitigating actions to address these.
	Use of Consultants	Finance Pete Carpenter	To receive an update on the use of Consultants
	Annual Report - Insurance	Audit Steve Crabtree	To receive an annual report on insurance
	External Audit: Annual Audit Letter	EY	To receive and approve the External Annual Audit Letter identified as part of their audit works
	INFORMATION AND OTHER ITEMS		
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required. To also include the outcome of a recent Surveillance Commission Inspection.
	Approved Write-Offs Exceeding £10,000 - None	Finance Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	

	Work Programme 2018 / 2019	Democratic Services Dan Kalley	

DATE: 19 NOVEMBER 2018			
		Section / Lead	**Description**
	Internal Audit: Mid Year Progress Report	Internal Audit Steve Crabtree	To receive an update on progress against the Annual Audit Plan together with details of any concerns
	Combined Authority - Governance	Finance Pete Carpenter	To receive a report on current Governance arrangements at the Combined Authority
	Asset Investment Strategy	Finance Pete Carpenter	
	EY Audit Plan	EY	
	INFORMATION AND OTHER ITEMS		
	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Work Programme 2018 / 2019	Democratic Services Dan Kalley	

DATE: 11 FEBRUARY 2019

		Section / Lead	Description
	Grants Certification report	EY and Finance	To receive a report on Grants Certification
	External Audit - Assessment of Internal Audit	Internal Audit Steve Crabtree	To receive a report in relation to the assessment by external auditors on internal audit procedures.
	Internal Audit: Approach to Audit Planning	Internal Audit Steve Crabtree	To receive a report on the approach to Audit Planning
	Use of Consultants	Financ/HR Pete Carpenter	To receive an update on the use of consultants and agency staff
	Treasury Management Strategy Including the Investment Policy 2018 - 2021	Finance Pete Carpenter	
	Risk Management: Strategic Risks	Governance Pete Carpenter	To receive an update on the strategic risks for the Council
	INFORMATION AND OTHER ITEMS		

	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Finance Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	
	Work Programme 2018 / 2019	Democratic Services Dan Kalley	

DATE: 25 MARCH 2019			
		Section / Lead	**Description**
	Draft Annual Audit Committee Report	Democratic Services Dan Kalley	To receive the Draft Annual Audit Committee Report prior to submission to Council
	Internal Audit: Draft Internal Audit Plan 2019 / 2020	Internal Audit Steve Crabtree	To receive and approve the Internal Audit Plan 2019 / 2020
	New accounting standards	Ian Pantling/Pete Carpenter	
	INFORMATION AND OTHER ITEMS		
	Use of Consultants	Finance Pete Carpenter	To receive an update on the Use of Consultants across the organisation
	Use of Regulation of Investigatory Powers Act 2000 (RIPA)	Governance Ben Stevenson	To receive an update on the use of RIPA during the financial year reporting activity when required.
	Approved Write-Offs Exceeding £10,000	Pete Carpenter	To receive an update on write offs approved, which exceed the Council's financial regulation threshold of £10,000.
	Feedback report	Democratic Services Dan Kalley	