

**Please ask for:** Matt Berry

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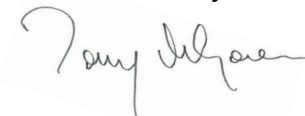
19 November, 2018

Dear Councillor,

**AUDIT & GOVERNANCE COMMITTEE  
4:00PM, TUESDAY 27 NOVEMBER, 2018  
ESPERANCE ROOM, CIVIC CENTRE, CANNOCK**

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

Yours sincerely,



**T. McGovern  
Managing Director**

To: Councillors

Grice, Mrs. D. (Chairman)  
Dudson, Miss M.J. (Vice-Chairman)  
Bowater, J.L.      Stretton, Mrs. P.Z.  
Crabtree, S.K.    Tait, Ms. L.  
Johnson, J.P.

# **A G E N D A**

## **PART 1**

**1. Apologies**

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

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

**3. Minutes**

To approve the Minutes of the meeting held on 26 July, 2018 (enclosed).

**4. Internal Audit Quarter 1 & 2 Report 2018/19**

Report of the Chief Internal Auditor and Risk Manager (4.1 – 4.4).

**5. Strategic Risk Register**

Report of the Chief Internal Auditor and Risk Manager (5.1 – 5.4).

**6. Annual Governance Statement – Progress Report**

Report of the Head of Governance and Corporate Services (Item 6.1 – 6.10).

**7. Annual Audit Letter for Cannock Chase Council 2017/18**

Report of the External Auditors (Item 7.1 – 7.13).

**8. Progress Report and Emerging Issues and Developments for Cannock Chase Council**

Report of the External Auditors (Item 8.1 – 8.13).

**CANNOCK CHASE COUNCIL**  
**MINUTES OF THE MEETING OF THE**  
**AUDIT AND GOVERNANCE COMMITTEE**  
**HELD ON THURSDAY 26 JULY 2018 AT 4:00 P.M.**  
**IN THE CIVIC CENTRE, BEECROFT ROAD, CANNOCK**

**PART 1**

PRESENT:  
Councillors

Grice, Mrs. D. (Chairman)  
Bowater, J.            Tait, Ms. L.  
Johnson, J.P.

Also Present:

- Richard Percival, Associate Director, Grant Thornton (External Auditors)
- Jim McLarnon, Audit Manager, Grant Thornton (External Auditors).

**10. Apologies**

Apologies for absence were submitted for Councillors Miss M.J. Dudson (Vice-Chairman), S.K. Crabtree and Mrs. P.Z. Stretton.

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

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

**12. Minutes**

RESOLVED:

That the Minutes of the meeting held on 19 June, 2018, be approved as a correct record and signed, subject to the inclusion of Richard Percival in the attendees list.

**13. The Audit Findings for Cannock Chase District Council**

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

The External Auditors thanked the Officers in the Finance team for the prompt delivery of the 2017/18 statement of accounts, and for the working papers and support provided as part of the audit process.

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

<u>Report section</u>	<u>External Auditor's conclusions/comments</u>
<u>Headlines:</u>	
Financial Statements	No amendments were identified during the audit process that would have required an adjustment to the Statement of Comprehensive Income and Expenditure.
Value for Money arrangements	It was anticipated that an 'unqualified' value for money conclusion would be issued to the Council.
Statutory duties	It had not been necessary to use any of the additional statutory duties or powers available as part of the audit work.
Materiality	The Council's materiality threshold for 2017/18 was circa £1.4m. Nothing was identified as part of the audit to put the Council above this amount.
<u>Significant Audit Risks:</u>	
Improper revenue recognition	Based on evidence received as part of the audit, this was not considered a significant risk for the Council.
Management of override controls	No issues were identified in this area during the audit.
Valuation of property, plant and equipment	No issues were identified in this area during the audit. Consideration was given during the audit as to how management obtained assurances that the value of assets not revalued in 2017/18 was materially correct. Based on information provided, it was accepted that the estimated values provided were below the materiality threshold and therefore not material to the Council's accounts.
Valuation of pension fund net liability	No issues were identified in this area during the audit.
Employee remuneration	No issues were identified in this area during the audit.
Operating expenses	No issues were identified in this area during the audit.
<u>Other Matters:</u>	
Publication of the draft Annual Governance Statement	It was noted that the draft Annual Governance Statement (AGS) was not published by 31 May, 2018, as required by the Audit & Accounts Regulations 2015.

<u>Report section</u>	<u>External Auditor's conclusions/comments</u>
A number of assets with a net book value of zero are included in the fixed asset register	Following a review of the Council's assets base, it was recommended that the fixed asset register be reviewed on a regular basis to ensure that only assets still in use by the Council were included.
<u>Value for Money:</u>	
Our work	Audit work focussed on the significant risks identified in the Council's arrangements, particularly related to: follow up on progress made of Financial Recovery Plan (FRP) implementation; assessment of the key assumptions made in the Medium Term Financial Strategy (MTFS); and the level of reserve balances available over the lifetime of the MTFS.
Financial sustainability	<p>The Council's outturn financial position for 2017/18 was better than expected, which in turn presented an improved position for 2018/19 and 2019/20.</p> <p>Any delays in delivery of the Mill Green Designer Outlet Village could have a detrimental impact on the Council's finances in the medium term. Accordingly, the Council needed to ensure that any associated risks were managed effectively.</p> <p>Beyond 2019/20, there was still significant uncertainty about how local government would be funded, included potential changes to New Homes Bonus (NHB) funding, so it would be important for the Council to ensure reserves were of a sufficient level.</p>

RESOLVED:

That the Report of the External Auditors be noted.

#### **14. External Audit of the Statement of Accounts 2017/18**

Consideration was given to the Report of the Head of Finance (Item 5.1 – 5.6 of the Official Minutes of the Council).

In response to the issue raised in the previous item concerning the Annual Governance Statement, the Head of Finance commented that the Head of Governance and Corporate Services was addressing this matter as necessary for future years.

The Head of Finance then advised that due to a change in accounting requirements, it was necessary for the Committee to consider the Statement of Accounts by 31 July, rather than 30 September as was previously the case. As such, this had required a lot of work by the Finance team, led by the Chief Accountant. Alongside this, the role of the External Auditors in helping to get the Council to this position was duly acknowledged.

RESOLVED:

- (A) The contents of the report be noted, with reference to the separate reports included on the agenda on 'The Audit Findings for Cannock Chase District Council' and the 'Statement of Accounts 2017/18'.
- (B) The Management Representation letter, as included at Appendix 1 to the Report, be approved and signed by the Chairman on behalf of the Committee.

## 15. Statement of Accounts 2017/18

Consideration was given to the Report of the Head of Finance (Item 6.1 – 6.113 of the Official Minutes of the Council) (*presented by the Chief Accountant*).

The Chief Accountant advised that the narrative section of the Statement of Accounts had been significantly changed to reflect a 'company style' of accounts reporting. This included providing information about: the background and purpose of the Council; staffing capacity and key staff; performance management and risk assessment; and comparators against previous year's accounts.

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

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

The Head of Finance advised that the Movement in Reserves Statement was a key section for the Committee to note as it showed the Council had put an increased amount of money into its reserves to support its future financial sustainability. The External Auditors further advised that the improved position of the Council's reserves balances compared to what was originally anticipated for 2017/18 was an important part of their overall assessment of the Council's financial health.

The Head of Finance then advised that spending on the General Fund was lower in 2017/18 compared to 2016/17 because of the implementation of the FRP. Additionally, proposed changes to NHB funding would likely mean the Council having to build an increased number of houses in order to qualify for future NHB grants. It was also expected that the NHB grant would be replaced in 2021 by a 'housing delivery grant'.

The Chairman, on behalf of the Committee, thanked Officers for their hard work in producing the accounts within the statutory timescales.

RESOLVED:

That the audited Statement of Accounts for 2017/18 be approved.

**16. Annual Treasury Management Report 2017/18**

Consideration was given to the Report of the Head of Finance (Item 7.1 – 7.8 of the Official Minutes of the Council).

The Head of Finance advised that the report set out the Council's outturn position of treasury management activity during 2017/18.

None of the prudential or treasury management indicators set out in Appendix 1 of the report were breached during the last financial year, and return on investment had performed better than the current benchmark rates.

RESOLVED:

That:

- (A) The annual treasury management report 2017/18 be noted.
- (B) The actual 2017/18 prudential and treasury indicators as set out in Appendix 1 of the Report be approved.

The meeting closed at 4:40 p.m.

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CHAIRMAN

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<b>Report of:</b>	<b>Chief Internal Auditor</b>
<b>Contact Officer:</b>	<b>Stephen Baddeley</b>
<b>Telephone No:</b>	<b>4415</b>
<b>Report Track:</b>	<b>Audit &amp; Governance Committee only</b>

**Audit & Governance Committee**  
**27<sup>th</sup> November 2018**  
**Internal Audit - Quarter 1 & 2 Report for 2018-19**

**1 Purpose of Report**

- 1.1 To present to the Audit & Governance Committee for information the Internal Audit Quarter 1 & 2 Report for 2018-19

**2 Recommendations**

- 2.1 That the Committee notes the contents of the Internal Audit Report for Quarter 2 of 2018-19.
- 2.2 That the committee approves the IT Audit Plan set out in Appendix 5.

**3 Key Issues and Reasons for Recommendation**

- 3.1 At the end of the quarter nine audits had been completed at least to draft report stage and a further eight audits were in progress. No Limited or No Assurance Audits have been issued in the quarter.

**4 Relationship to Corporate Priorities**

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

**5 Report Detail**

- 5.1 The report is a snapshot view of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by managers to address the weaknesses identified. The inclusion or comment on any area or function in this report does not indicate that the matters are

being escalated to Members for further action. Internal Audit routinely follow-up the recommendations that have been made and will bring to the attention of the committee any relevant areas where significant weaknesses have not been addressed by managers.

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

Number of Audits	Assurance	Definition
4	<b>Substantial</b> ✓	All High (Red) and Medium (Amber) risks have appropriate controls in place and these controls are operating effectively. No action is required by management.
5	<b>Partial</b> ▲	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 6 or below. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	<b>Limited</b> !	One or more Medium (Amber) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. The residual risk score for the affected Medium risks are 9 or higher. Prompt action is required by management to address the weaknesses identified in accordance with the agreed action plan.
0	<b>No Assurance</b> ✘	One or more High (Red) risks are lacking appropriate controls and/or controls are not operating effectively to manage the risks. Immediate action is required by management to address the weaknesses identified in accordance with the agreed action plan.

- 5.4 Appendix 3 lists the audits that were in progress but had not been completed to draft report stage by the end of the quarter.
- 5.5 Appendix 4 contains the details of the follow-up audits issued in the quarter. Three follow-up reports have been issued in Quarter 2 some progress had been made in relation to all 3 areas but not sufficient for a revised assurance to be issued.

- 5.6 Appendix 5 contains the proposed IT Audit Plan for 2018-19 which has been agreed following an IT Audit Needs Assessment exercise carried out by the Council's IT Audit Contractor.

**6 Implications****6.1 Financial**

None

**6.2 Legal**

None

**6.3 Human Resources**

None

**6.4 Section 17 (Crime Prevention)**

None

**6.5 Human Rights Act**

None

**6.6 Data Protection**

None

**6.7 Risk Management**

None

**6.8 Equality & Diversity**

None

**6.9 Best Value**

None

**7 Appendices to the Report**

Appendix 1 – Audit Performance

Appendix 2 – Audits Completed in Quarter 1

Appendix 3 – Audits In progress  
Appendix 4 – Audit Follow-ups completed in the Quarter  
Appendix 5 – IT Audit Plan for 2018-19

**Previous Consideration**


**Background Papers**

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




**Appendix 1 - Audit Performance****Breakdown of the Planned Delivery of the Audit Plan by Quarter**






Target Completion	Quarter %	No of Audits for Quarter	Cumulative %	Cumulative Total Number of Audits
Quarter 1	10	3	10	3
<b>Quarter 2</b>	<b>25</b>	<b>8</b>	<b>35</b>	<b>11</b>
Quarter 3	25	8	60	19
Quarter 4	40	13	100	32


**Cumulative Performance Information at the end of the Quarter**

	Planned Audits	Actual Audits			
		Complete	% Of Completed	Work In Progress	% WIP & Complete
<b>Audit Plan</b>	11	9	82%	8	155%
<b>Commentary</b>	<p>The Section is slightly below target for the number of audits completed in the quarter.</p> <p>The Team has been carrying vacancies, but a new postholder started late in Q2. Additional Support has been provided through use of a Contractor but their work did not commence until Q2. We anticipate the situation will improve in later quarters.</p>				

**Appendix 2 - Audits Completed in Quarters 1 & 2**

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Stores Function	Housing & Partnerships	Final	9	Partial 	The issues identified during the audit were - <ul style="list-style-type: none"> <li>• procedure notes were not comprehensive and up to date;</li> <li>• risk assessments are not reviewed, updated and monitored on an ongoing basis;</li> <li>• stock taking procedures do not comply fully with insurance requirements;</li> <li>• security procedures within stores need to be tightened in relation to access to materials; and</li> <li>• market testing is not undertaken on a regular basis as in respect of suppliers for Stores items.</li> </ul>
Street Cleansing	Environment & Healthy Lifestyles	Draft	8	Partial 	The key weaknesses identified relate to - <ul style="list-style-type: none"> <li>• the overarching framework/specification for the operation of the function needs to be reviewed and updated</li> <li>• inspections need to be planned and programmed and an appropriate performance monitoring regime established.</li> </ul>
Miscellaneous Engineering Functions (Public Clocks, Bus Stations, Street Furniture & Land Drainage)	Environment & Healthy Lifestyles	Final	4	Partial 	The key weaknesses identified relate to – <ul style="list-style-type: none"> <li>• inspection documentation needs to be reviewed to ensure that it is robust and where possible includes photographic evidence</li> <li>• defects should be logged to allow common issues or trends to be identified.</li> <li>• departure data should be verified prior to payment agreements being made</li> </ul>

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Insurance	Governance & Corporate Services	Draft	2	Partial 	The key weaknesses identified relate to – <ul style="list-style-type: none"> <li>the lack of a detailed documented insurance needs assessment being carried out in recent years to ensure the insurance cover remains appropriate and has taken account of all relevant emerging risks</li> <li>there are no regular performance reports issued to Heads of Service.</li> </ul>
Public Relations & Marketing including Graphic Design	Governance & Corporate Services	Final	4	Partial 	The issues identified during the audit were - <ul style="list-style-type: none"> <li>there was a need to update and reissue the communications strategy</li> <li>attempts should be made to develop a more formalised timetable with departments so that demands in work can be effectively planned for</li> <li>better records are needed to ensure the cost of campaigns can be monitored</li> </ul>
Customer Services (CRM, Reception)	Governance & Corporate Services	Final	0	Substantial 	
Sale of Council Houses	Housing & Partnerships	Draft	0	Substantial 	
Banking Arrangements	Financial Management	Draft	0	Substantial 	

Audit	Head of Service	Status	Number of High/Medium Recommendations	Assurance	Comments & Key Issues
Pensions Assurance for the County	HR★	Final	0	Substantial 	

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











**Appendix 3 - Audits in Progress**

Audit	Head of Service
Fleet Management & Garage Workshop	Environment & Healthy Lifestyles
Culture and Leisure Services Contract Monitoring (Client Function)	Environment & Healthy Lifestyles
Housing Benefits	Financial Management
Council Tax	Financial Management
National Non Domestic Rates	Financial Management
Creditors	Financial Management
Partnerships & CCTV	Housing & Partnerships
Payroll	HR★

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

**Appendix 4 - Audit Follow-ups Completed in Quarters 1 & 2**

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Housing Maintenance	Housing & Partnerships	Partial 	0	0	2	2	Partial 	<ul style="list-style-type: none"> <li>The level above which authorisation for variances are required still has not been reviewed and remains excessively high</li> <li>Performance reporting from the system has still to be developed.</li> </ul> Both of these areas are due to technical difficulties with the software.
Property Management	Head of Development	Limited 	5	7	2	14	Partial 	Some improvements have been made but the systems still remain undocumented and although permission has been given to purchase software to assist in maintaining records this has yet to be implemented. The progress in implementing the recommendations has been affected by capacity issues in the team although this is being addressed via recruitment to the vacant manager post.
Community Infrastructure Levy	Head of Development	Partial 	10	0	0	10	Substantial 	

Audit	Head of Service	Original Assurance	High/Medium Risk Recommendations				Revised Assurance	Comments & Key Outstanding Recommendations
			Implemented	In Progress	Not Implemented	Total		
Pest Control & Dog Warden	Head of Operations★	Partial 	3	0	0	3	Substantial 	

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

**Appendix 5 - IT Audit Plan**

Following an IT Needs assessment carried out by the Council's IT Audit Contractor it has been agreed that the following audits would be included in the IT Audit Plan for 2018-19. The IT Needs Assessment was carried out in consultation with the Head of Technology.

Audit	Description	Number of Days
Mobile Device Management incorporating Smartphones and their usage/ controls.	To review the controls in place to manage mobile devices and smartphones used across the Council.	10
IT Project Management	To provide assurance that there are adequate arrangements in place governing the management and delivery of IT projects across the Councils. This audit will focus on current or planned IT projects.	10
PCI-DSS	To provide assurance that the Councils' arrangements for processing card payments comply with the requirements of the Payment Card Industry Data Security Standards (PCI-DSS).	10
IT Strategy	To provide assurance that there are adequate arrangements in place to develop and deliver the Councils' IT strategy	8

Audit	Description	Number of Days
Northgate Housing Application	To provide assurance that there are adequate arrangements in place regarding the management and security of the Northgate Housing application. The Head of Technology indicated that this is a significant IT application for the Councils.	12

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<b>Report of:</b>	<b>Head of Governance</b>
<b>Contact Officer:</b>	<b>Stephen Baddeley</b>
<b>Telephone No:</b>	<b>01543 464546</b>
<b>Portfolio Leader:</b>	<b>Corporate Improvement</b>
<b>Key Decision:</b>	<b>No</b>
<b>Report Track:</b>	<b>Audit &amp; Governance Committee Cabinet 8/11/18</b>

## AUDIT & GOVERNANCE COMMITTEE

27<sup>TH</sup> NOVEMBER 2018

### STRATEGIC RISK REGISTER

#### 1 Purpose of Report

- 1.1 To set out details of the Council's Strategic Risk Register as at 30<sup>th</sup> September 2018 and Risk Management arrangements for managing the Strategic Risks facing the Council.

#### 2 Recommendations

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

#### 3 Key Issues and Reasons for Recommendation

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

<b>Risk Colour</b>	<b>Number of Risks at 1 April 2018</b>	<b>Number of Risks at 30 September 2018</b>
Red	1	1
Amber	4	4
Green	0	0
<b>TOTAL</b>	<b>5</b>	<b>5</b>

## 4 Relationship to Corporate Priorities

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

## 5 Report Detail

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

### Management of Strategic Risks / Opportunities

- 5.3 Central to the risk management process is the identification, prioritisation and management of strategic risks / opportunities. Strategic risks / opportunities have been identified and prioritised, action plans are in place for their effective management and delivery of the action plans is monitored. A summary of the Council's strategic risk register as at 1st April 2018 is attached at **Appendix 1**.

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

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






The number of strategic risks has remained at 5 with no risks deleted and no new risks added.

5.5 A progress update for those actions due up to the end of September 2018 is included in the full strategic risk register attached at **Appendix 2**.

5.6 Additional information for red and amber risks can be found in the Strategic Risk Register (**Appendix 2**) in the form of an 'Overall Progress Summary' this is accompanied by a symbol to indicate whether progress is on target or otherwise.

The table below outlines the overall progress made in reducing risks since 1st April 2018:

<b>Progress Indicator</b>	<b>Current position</b>
 No progress made in reducing the risk	0 Risks
 Some progress made in managing the risk	5 Risks
 Risk on target to be reduced	0 Risks

## 6 Implications

### 6.1 Financial

None

### 6.2 Legal

None

### 6.3 Human Resources

None

### 6.4 Section 17 (Crime Prevention)

None

### 6.5 Human Rights Act

None

### 6.6 Data Protection

None

**6.7 Risk Management**

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

**6.8 Equality & Diversity**

None

**6.9 Best Value**

None

**7 Appendices to the Report**

Appendix 1 – Summary of Strategic Risks 2018-19  
Appendix 2 – Strategic Risk Register – Detailed

**Previous Consideration**

None

**Background Papers**

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

## Appendix 1

### SUMMARY OF STRATEGIC RISKS AS AT 30/09/2018

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

#### Key to Direction of Travel



Risk has decreased



Risk level unchanged



Risk has increased


**Deleted Risks**

<b>Risk No</b>	<b>Potential Risks</b>	<b>Risk Owner</b>	<b>Date Added to Register</b>	<b>Score at April 2018</b>	<b>Score at Sept 2018</b>	<b>Direction of Travel over period reported</b>
	Nil					

## Cannock Chase District Council – Strategic Risk Register

Ref No: 16	Risk: <b>Impact of Welfare Benefit Reform (e.g. Introduction of Universal Credit, Single Fraud Investigation Service etc.)</b>		
Risk Owner: Head of Finance / Head of Housing & Partnerships		Portfolio: Health & Wellbeing	
Consequences Of Risk: <ul style="list-style-type: none"> <li>• Increased demand for services (additional workload, pressure on service delivery, additional resourcing etc);</li> <li>• Increase in arrears on Council Tax;</li> <li>• Increase in Rent Arrears;</li> <li>• Negative impact on ability to perform “Compliance” functions and adverse effect on income.</li> </ul>			
Links To Priority Delivery Plan: Community Wellbeing			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 3	Total Score: <b>12 RED</b>
Controls in Place <ul style="list-style-type: none"> <li>• Manage the Council’s housing stock;</li> <li>• Monitoring impact of localisation of Council Tax Support;</li> <li>• Liaison with DWP on implementation timetable for Universal Credits;</li> <li>• Budget support available for affected residents to better manage their budgets set up.</li> <li>• Discretionary Housing Payment policy being refreshed November 2018.</li> </ul>			
Residual/Net Risk Score (ie with controls)	Likelihood: 3	Impact: 3	Total Score: <b>9 AMBER</b>
Provisional Assessment of Risk – does the residual risk score need to be reduced		YES	

Actions Planned	Timescale/Person Responsible	Progress/Comments
Monitor impact of Benefit Reform to identify areas of concern.	Quarterly Head of Finance	An on-going monitoring routine is in place.
Identifying number of additional people falling into arrears with Council Tax payments	Quarterly Head of Finance / Local Taxation & Benefits Manager	This forms part of the overall monitoring.
A corporate Universal Credit Response Group has been established which includes relevant departments and the DWP	Monthly Meetings Head of Housing & Partnerships/ Head of Finance	Monthly meetings are in progress but it is too early to determine the impact yet. Full Service to be introduced from 23 November 2018.
Introduction of Tenancy Sustainment Service	Completed	Tenancy Sustainment Officer (TSO) service embedded – completed

<p><b>Overall Progress Summary:</b> The full impact of benefit reform cannot be determined until the phased introduction of Universal Credits – at present only a small number of claimants in the District have been moved over to Universal Credit. Full Service to be introduced from 23 November 2018 and the effect of this will be closely monitored.</p> <p>The emphasis has been shifted to look more holistically at pursuing rent recovery in line with the roll out of Universal Credit and impact of welfare reforms.</p> <p>The Tenancy sustainment service is now embedded in housing.</p>	<p style="text-align: center;"><b>AMBER</b></p> 
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Ref No: 18	Risk: <b>Vulnerability of Cannock Chase Council's financial stability as a result of public expenditure reductions and changes to the Government's funding regime</b>		
Risk Owner: Head of Finance		Portfolio: The Leader	
Consequences Of Risk: <ul style="list-style-type: none"> <li>• Council size becomes too small to sustain a viable organisation;</li> <li>• Unable to provide desired levels of service</li> </ul>			
Links To Priority Delivery Plan: N/A			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 5	Total Score: <b>20 – RED</b>
Controls in Place <ul style="list-style-type: none"> <li>• Medium term financial plan in place</li> <li>• Annual Financial Plan and Medium Term Financial Strategy in place</li> <li>• The Revenue Budget is balanced for 2018-19 but requires support from balances</li> <li>• Reliance on New Homes Bonus is reduced on an annual basis.</li> <li>• Corporate Budget Monitoring</li> <li>• Evaluation of consultation on changes to government funding regimes</li> </ul>			
Residual/Net Risk Score (ie with controls)	Likelihood: 4	Impact: 3	Total Score: <b>12 - RED</b>
Provisional Assessment of Risk – does the residual risk score need to be reduced		YES*	

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Responding to Government proposed legislation in relation to key funding regimes	On-going Head of Financial Management	Work streams of MHCLG/LGA and CIPFA in relation to 75% Business Rates Schemes and pilot areas to be monitored

Actions Planned	Timescale/ Person Responsible	Progress/Comments
		<p>Detailed responses to be submitted in relation to self -sufficient local government, 75% business rates retention and fair funding review as more technical detail becomes available</p> <p>Responses submitted in relation to : Business rates - dealing with the financial risks of appeals (June 2018) Local Government Finance Settlement 2019/20 : Technical Consultation (September 2018)</p>
Review criteria for 2019/20 Business Rates Pilot and subject to approval of partners submit application	On going	Application to pilot 75% Business Rates Retention in 2019/20 on behalf of the Staffordshire and Stoke on Trent proposed Business Rates Pool/Pilot submitted on 24 September 2018.
Determine impact of Government proposals for key funding regime	On-going as information becomes available, Head of Financial Management	In Progress
Production and refresh of medium term financial plan	On-going	In Progress
Mill Green DOV Development Project Board Established	On-going	In Progress
Refresh Budget Strategy to ensure external funding sources maximised and efficient and effective use of all resources	On-going	Report to Cabinet/Council anticipated November 2018
Council looking to maximise all funding opportunities for economic growth, transport, infrastructure, additional jobs and better skills for residents	Head of Economic Development	<p>Meet the Buyer event attended by 160 local employers/construction firms to source trades for the Mill Green Development.</p> <p>MOU in place between the Council and South</p>



Actions Planned	Timescale/ Person Responsible	Progress/Comments
		Staffordshire College. Partnership working well and training provision gradually being re-established. Working on Engineering Academy establishment and secured funding to aide delivery. Long term sustainability will be important.


<p><b>Overall Progress Summary:</b> The Approved Budget and Plan currently provides an ongoing balanced budget with the use of balances required in 2019/20 pending the opening of Mill Green DOV in 2020/21.</p> <p>The Balanced Budget in 2020/21 in addition is based upon the current Local government Finance Regime, however fundamental changes, to Government Funding, details still to be determined, are set to take place in 2020/21 (implementation of 75% Business Rates Retention; Fair Funding and Business Rates Reset ) combined with the ongoing uncertainty in relation to the longevity of the New Homes Bonus grant scheme creates a key strategic risk for the financial stability of this and all other councils. . Details are unlikely to become clear before the Autumn of 2019 and hence Budget strategies need to be developed reflecting the various scenarios and efficiency savings implemented as soon as practically possible.</p>	<p><b>AMBER</b></p> 
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Ref No: 19	Risk: <b>The organisation does not have sufficient Management / Officer capacity to deliver its corporate priorities (e.g. Corporate Plan &amp; PDP's) and statutory duties.</b>		
Risk Owner: Managing Director		Portfolio: The Leader	
Consequences Of Risk: <ul style="list-style-type: none"> <li>The Council's priorities are not fully delivered with impact on residents / the public.</li> </ul>			
Links To Priority Delivery Plan: N/A			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 3	Total Score: <b>12 RED</b>
Controls in Place <ul style="list-style-type: none"> <li>Scoping of management capacity for delivery of PDP's by Heads of Service (Assessments of Management Capacity)</li> <li>Management capacity issues are monitored by Leadership Team;</li> <li>Adherence to Sickness Management Policy</li> </ul>			
Residual Risk/Net Score (ie with controls)	Likelihood: 3	Impact: 3	Total Score: <b>9 AMBER</b>
Provisional Assessment of Risk – does the residual risk score need to be reduced		YES*	

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Ensuring that all priorities in the PDP's are resourced appropriately	Ongoing  All Heads of Service	The majority of PDP priorities are on target but there are a small number of Yellow 'not on target' areas in part due to management capacity.
Where necessary, considering whether resources from other parts of the Council can be transferred for a period.	Ongoing  Managing Director / Leadership Team	PDP Priorities not on target are being reviewed by Leadership Team and resource implications are being re-considered.

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Leadership Team maintaining an overview of performance through “managing the business” performance indicators	Ongoing Managing Director / Leadership Team	Quarterly Performance Indicator reports agreed for 2017/18
Requests for additional projects may be refused or deferred until subsequent year(s)	Ongoing  Managing Director	A number of requests for new projects in year have had to be refused in order to protect delivery of the Council’s agreed Corporate Priorities.
The Property Services Manager post will be re-established	Managing Director / December 2018	Interviews are scheduled for 2nd October to recruit to the post.

<p><b>Overall Progress Summary:</b></p> <p>The Councils management capacity will be monitored closely and action has already been taken by not accepting new project requests in year in order to protect capacity to deliver the agreed PDP priorities.</p> <p>Leadership Team have recently started to review delivery of the Council's General Fund and S106 Capital Programme and will be considering in further detail the need for additional project and programme management capacity</p>	<p style="text-align: center;"><b>AMBER</b></p> <div style="text-align: center;">  </div>
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<b>Ref No: 23</b>	<b>Risk: Failure to Repel or Recover from Cyber-attack including targeted ransomware, malware and Distributed Denial of Service (DDoS) attacks</b>		
Risk Owner: Head of Technology		Portfolio: Corporate Improvement	
<p>Consequences Of Risk:</p> <ul style="list-style-type: none"> <li>• Data, Systems and Applications inaccessible</li> <li>• Inability to deliver Council services</li> <li>• Cybercrime/ Fraud/ Ransom demands/ Financial harm</li> <li>• Reputational damage locally and nationally</li> <li>• Data Loss &amp; breach of Data Protection Act (DPA)</li> <li>• Financial Loss</li> </ul>			
Links To Priority Delivery Plan - Corporate			
Gross Risk Score (ie without controls)	Likelihood: 4	Impact: 5	Total Score: <b>20 - RED</b>
<p>Key Controls in Place:</p> <ul style="list-style-type: none"> <li>• Information Risk Management Regime – Assess the risks to our information assets, effective governance structure, LT engagement with cyber risk, produce supporting information management policies.</li> <li>• Secure configuration – Corporate policies and processes to develop secure baseline builds</li> <li>• Network Security – Protection and secured perimeter of external security threats and untrusted networks</li> <li>• Managing user privileges – All users of ICT systems provided with privileges suitable for their role</li> <li>• User education and awareness – Security policies that describe acceptable and secure use of ICT assets</li> <li>• Incident management – Incident response and disaster recovery capabilities that address the full range of incidents that can occur</li> <li>• Malware prevention – Produce policies that directly address the business processes (such as email, web browsing, removable media and personally owned devices)</li> <li>• Monitoring – Established monitoring taking into account previous security incidents and attacks. Annual IT Health Check and penetration testing conducted by a Council of Registered Ethical Security Tester (CREST)/ Communications-Electronics Security Group (CESEG) Listed Advisor Scheme (CLAS) - accredited Government Communication Headquarters (GCHQ) approved consultants.</li> <li>• Removable media controls – Produce removable media policies that control the use of removable media for the import and export of information</li> <li>• Home and mobile working – Assess the risks to all types of mobile working including remote working and develop appropriate security policies</li> </ul>			

Residual/Net Risk Score (ie with controls in place)	Likelihood: 3	Impact: 3	Total Score <b>9 -AMBER</b>
Provisional Assessment of Risk - does the residual risk score need to be reduced			<b>YES*</b>

Actions Planned	Timescale/ Person Responsible	Progress/Comments
Information Risk Management- Continuous review and work on our information risk management regime	Ongoing/ Head of Technology	Policies under review. Some elements will be dealt these will be reviewed
Monitoring – External and Internal checks. Threat and vulnerability assessment and remediation including Annual IT Health Check by CLAS approved consultant with remedial work carried out	Ongoing/ Head of Technology	Procurement in progress for the Annual Healthcheck
Application Security Assessment and Remediation action taken	Annually Head of Technology	The healthcheck will produce an action plan to feed into this. Other work will also be carried out to address
Security Compliance Assessment included in the survey	Annually of Technology	As above
Threat intelligence, Vulnerability management, Operational management, via internal and external monitoring.	December 2018 Head of Technology	Will review the webfilter and internet filter to replace the current
Exploring options to improve security for sharing information with external partners	Dec 2018 Head of Technology	New action

**Overall Progress Summary: Work has been completed and actions are in progress. However, the environment means that new risks and challenges are always developing and attacks are becoming more sophisticated.**

**Amber**



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

Actions Planned	Timescale/Person Responsible	Progress/Comments
Economic Prosperity Strategy to be developed	Head of Economic Prosperity / March 2019	Head of Economic Prosperity to commence early work to identify methodology of developing the strategy, likely/required content and stakeholder engagement.

Actions Planned	Timescale/Person Responsible	Progress/Comments
Continue to dedicate resources to the GBSLEP/Combined Authority	Head of Economic Prosperity/ Ongoing	The Council continues to actively participate in the GBSLEP and Combined Authority. The Government has instigated a LEP review and is proposing the removal of overlapping geographies which could have potential implications for the Council.
Revised Local Plan to be produced and delivered	Head of Economic Prosperity / Plan to be adopted by September 2021	Local Plan Review underway; outcome of the Issues and Scope consultation to be presented to Cabinet in November.
Reestablishment of a Further Education offer in the District (Retail Skills Academy/Engineering Academy)	Head of Economic Prosperity/ March 2019	MOU in place between the Council and South Staffordshire College. Partnership working well and training provision gradually being re-established. Working on Engineering Academy establishment and secured funding to aide delivery. Long term sustainability will be important.

**Overall Progress Summary:**

The Council continues to work pro-actively with a variety of partners to deliver its economic prosperity agenda. The development of a new Economic Prosperity Strategy will further set out how the Council is working to support the local economy, this will complement the Council's new Corporate Plan and the creation of a District Investment Fund. These priorities and investments will support the attraction of new investment to the District and ensure that the economy can grow and remain resilient. Maximising benefits from new investment made especially linked to the McArthurGlen designer outlet Cannock is of growing importance.

Amber



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

GREEN RISKS			
<i>Risk No:</i>	<i>Risk Owner</i>	<i>Risk:</i>	<i>Score:</i>
	<b>NONE</b>		

**KEY TO PROGRESS SYMBOLS**

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

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<b>Report of:</b>	<b>Head of Governance &amp; Corporate Services</b>
<b>Contact Officer:</b>	<b>Judith Aupers</b>
<b>Telephone No:</b>	<b>4411</b>
<b>Portfolio Leader:</b>	<b>Corporate Improvement</b>
<b>Key Decision:</b>	<b>No</b>
<b>Report Track:</b>	<b>Audit &amp; Governance Committee only</b>

**AUDIT & GOVERNANCE COMMITTEE**  
**27 NOVEMBER 2018**  
**ANNUAL GOVERNANCE STATEMENT – PROGRESS REPORT**

**1 Purpose of Report**

- 1.1 To present to the Audit & Governance Committee for information progress in addressing the significant governance issues identified in the Annual Governance Statement for 2017-18.

**2 Recommendations**

- 2.1 That the Committee notes the contents of the progress report on the Annual Governance Statement for 2017-18.

**3 Key Issues and Reasons for Recommendation**

- 3.1 Not all of the actions are yet due for completion, however a summary of the progress made against each of the significant governance issues as at 30 September 2018 is given at Appendix 1.
- 3.2 For the 11 significant governance issues identified in the AGS progress can be summarised as follows:
- 3 Significant progress is being made to deliver the action or has been completed (status shown as green tick Appendix 1);
  - 7 Some progress is being made to deliver the action (status shown as amber triangle on Appendix 1);
  - 1 No action has yet been taken (status shown as red cross on Appendix 1).

**4 Relationship to Corporate Priorities**

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

**5 Report Detail**

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

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

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

5.3 The Annual Governance Statement (AGS) for 2017-18 was approved by the Audit & Governance Committee on 19 June 2018.

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

5.5 Details of the progress made against each of the significant governance issues as at 30 September 2018 is given at Appendix 1 and overall performance is summarised in the table at 3.2.

5.6 Progress at the mid-year stage is as expected with work in progress or completed on 10 of the 11 issues. There is however 1 issue where there has been no progress and the work has been rescheduled to February 2019.

**6 Implications**

**6.1 Financial**

None

**6.2 Legal**

None

**6.3 Human Resources**

None

**6.4 Section 17 (Crime Prevention)**

None

**6.5 Human Rights Act**

None

**6.6 Data Protection**

None

**6.7 Risk Management**

None

**6.8 Equality & Diversity**

None

**6.9 Best Value**

None

**7 Appendices to the Report**

Appendix 1 - Significant Governance Issues – Progress Report as at 30 September 2018



**Background Papers**



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**PROGRESS REPORT AS AT 30 SEPTEMBER 2018  
ON THE SIGNIFICANT GOVERNANCE ISSUES  
FROM THE ANNUAL GOVERNANCE STATEMENT FOR 2017-18**



No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
1	<p><b>Financial Regulations</b></p> <p>The Financial Regulations are in need of revision and updating, prior to reporting to Council for approval.</p>	<p>September 2018</p> <p>Head of Finance</p>	<p>Draft produced and to be considered by Leadership Teams before submitting to both Cannock Chase and Stafford Councils</p>	
2	<p><b>Employees' Code of Conduct</b></p> <p>The Employees' Code of Conduct is in need of revision and updating.</p>	<p>September 2018</p> <p>Heads of Human Resources, Law &amp; Administration and Governance &amp; Corporate Services</p>	<p>An initial meeting has been held and a model for the revised Code of Conduct has been identified. Work has not yet commenced on tailoring this to meet the needs of the Council. Work on the Code is now scheduled to be completed by March 2019</p>	

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
3	<p><b>Information Governance</b></p> <p>Following on from the work done to date in implementing the General Data Protection Regulations, there is a need to:</p> <p>(i) provide training for employees and Members; and</p> <p>(ii) revise the Retention of Documents Schedule.</p>	<p>September 2018</p>       <p>January 2019</p> <p>Head of Governance &amp; Corporate Services</p>	<p>Training has been provided for employees and Members</p>       <p>Work is in progress</p>	<p></p>       <p></p>




No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
4	<p><b>Financial Stability</b></p> <p>The Approved Budget and Plan currently provides an ongoing balanced budget with the use of balances required in 2019/20 pending the opening of Mill Green Designer Outlet Village in 2020/21.</p> <p>The Balanced Budget in 2020/21 is based upon the current Local government Finance Regime, however fundamental changes, to Government Funding, details still to be determined, are set to take place in 2020/21 (implementation of 75% Business Rates Retention; Fair Funding and Business Rates Reset ) combined with the ongoing uncertainty in relation to the longevity of the New Homes Bonus grant scheme creates a key strategic risk for the financial stability of this and all other councils. Details are unlikely to become clear before the Autumn of 2019.</p> <p>Budget strategies need to be developed reflecting the various scenarios and efficiency savings implemented as soon as practically possible.</p>	Ongoing Managing Director and Head of Finance	<p>Monitoring of design of new funding regime undertaken on an ongoing basis.</p> <p>Responses made to relevant Consultations</p> <p>Financial plan to be submitted to November Cabinet.</p>	

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
5	<p><b>Management capacity and delivery of the Council's corporate priorities and statutory duties</b> - management capacity continues to be an issue. The situation will be managed by:</p> <ul style="list-style-type: none"> <li>• Leadership Team are assessing the need for additional project and programme management capacity to deliver capital and revenue projects; and</li> <li>• Increasing capacity with the Property Services Team to address building compliance issues and support the delivery of regeneration schemes.</li> </ul>	<p>September 2018</p> <p>December 2018</p> <p>Managing Director</p>	<p>Budget of £136k identified from existing S.106 reserves to recruit additional project management capacity</p> <p>An additional post has been created within the Property Services Team. A candidate was appointed to post but subsequently withdrew from the offer. Currently reviewing post with intention to conduct recruitment process again.</p>	<p></p> <p></p>

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
6	<p><b>Cyber Security</b></p> <p>With the rise in cyber attacks nationally, it is planned to:</p> <ul style="list-style-type: none"> <li>• Update firewall system</li>   <li>• Provide cyber awareness training for users (Members and Employees)</li> </ul>	<p>June 2018</p> <p>October 2018 Head of Technology</p>	<p>Partially complete. New firewall is in place and processing data. It has not yet fully taken over from the previous one.</p> <p>Cyber training has been provided along with the data protection training to all Members and employees.</p>	<p></p> <p></p>

No.	Issue & Action	Timescale & Lead Officer	Progress/Comments	Status
7	<p><b>Corporate Plan and Delivery Plans</b></p> <p>Following the production of the new Corporate Plan for 2018-23, it is necessary to ensure that there are detailed action plans in place to support the delivery of the Council's priorities and that these are managed.</p>	<p>Plans in place - June 2018</p> <p>Management of plans – ongoing</p> <p>Head of Governance &amp; Corporate Services and Leadership Team</p>	<p>The Priority Delivery Plans (PDPs) to support the new Corporate Plan have been produced and were approved by Council in June.</p> <p>Performance against the PDPs will be reported quarterly to Leadership Team, Cabinet and to the Scrutiny Committees.</p>	
8	<p><b>Contracts Register</b></p> <p>As a result of the failure to plan adequately for the re-tendering of a number of key contracts before they came to an end, there is a need to develop and maintain departmental contracts registers and procurement plans to support the timely planning for the procurement of contracts in future.</p>	<p>October 2018</p> <p>Head of Governance &amp; Corporate Services and Leadership Team</p>	<p>Due to other work taking priority this has not yet been progressed. The work has been rescheduled for February 2019</p>	

**KEY TO STATUS INDICATORS:**

<b>STATUS</b>	<b>DESCRIPTION</b>
	The action is making significant progress towards completion or has been completed
	The action is making some progress towards being completed
	Work has not commenced on the action

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# Annual Audit Letter

*Year ending 31 March 2018*

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**Cannock Chase District Council**

August 2018



# Contents



## Your key Grant Thornton team members are:

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## Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

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## Appendices

- A Reports issued and fees
- B Recommendations

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cannock Chase District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 26 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £1,277,000, which is 2% of the Council's gross revenue expenditure from the prior year.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Council's financial statements on 26 July 2018.
<b>Whole of Government Accounts (WGA)</b>	We did not perform any detailed work on the Authority's consolidation return as they are below the reporting threshold. This is in line with guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

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

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

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

# Executive Summary

<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 26 July 2018.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Cannock Chase District Council in accordance with the requirements of the Code of Audit Practice.

## Working with the Council

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

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts before the national deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to streamline your processes including journals, fixed assets and IT.

- Sharing our insight – we provided regular audit and Accounts committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting
- We met regularly with the Deputy Managing Director and Chief Accountant to discuss some of your key challenges and share our insight into the sector.

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

**Grant Thornton UK LLP**  
August 2018

# Audit of the Accounts

## Our audit approach

### Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,277,000, which is 2% of the Council's gross revenue expenditure from the prior year. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for senior officer remuneration – this is due to the sensitive nature and level of public interest in this disclosure .

We set a lower threshold of £63,850, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>1 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We have completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgements and decisions made by management</li> <li>• Undertaken testing of journal entries</li> <li>• reviewed unusual/ significant transactions</li> <li>• reviewed significant related party transactions</li> </ul>	<p>Our audit work has not identified any issues regarding the management override of controls. In particular the testing of journal controls and testing of journal entries has not identified any significant issues.</p>
<p><b>2 Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any issues regarding the valuation of the pension fund net liability included within the financial statements.</p>

# Audit of the Accounts

## Significant Audit Risks

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

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>3 Valuation of property, plant and equipment</b> The Council revalues its land and buildings on a five year basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• undertook testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>Our audit work has not identified any issues regarding the valuation of property, plant and equipment included within the financial statements.</p> <p>As part of our audit work we also considered how management obtained assurance that assets not revalued in 2017/18 were materially correct. A robust review process was completed during the year following the issues raised as part of our 2016/17 audit in relation to assets not subject to revaluation. This included changing the revaluation date (from 1st April to 31st March), a more extensive review of the asset base not revalued in year, and discussions with the external valuer to establish any contributing factors impacting on asset values (for example obsolescence).</p> <p>The potential estimation uncertainty for assets not revalued was identified by management as up to £944,000. We reviewed the basis for this estimation and concluded that it was reasonable. Management's view is that this understatement is not material to the Council's accounts. As the potential estimation uncertainty is below our materiality threshold we have accepted this judgement.</p>

# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 26 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

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

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 26 July 2018.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked management to address for the next financial year:

- The Annual Governance Statement was not published in line with the requirements of the Accounts and Audit Regulations 2015
- Assets with a net book value of nil should be written out of the fixed asset register where they are no longer in service providing condition

Our recommendations are included in appendix B of the report.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. The Narrative report was published on its website in the Statement of Accounts in line with the national deadlines. The Annual Governance statement was published later on 12 June 2018.

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

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Cannock Chase District in accordance with the requirements of the Code of Audit Practice.



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# Value for Money conclusion

## **Background**

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

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

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

## **Overall Value for Money conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

# Value for Money conclusion

## Key Value for Money Risks

Significant risk	Findings	Conclusion
<p><b>1 Financial sustainability</b></p> <p>The Council has a challenging three year budget and significant pressures to manage delivery of services. This relies heavily on ensuring key cost saving measures are met. In response this we have undertaken the following:</p> <ul style="list-style-type: none"> <li>Reviewed the implementation of the financial recovery plan and gained an understanding of progress made in realising savings: and</li> <li>Assessed the key assumptions underlying the medium term financial plan for reasonableness</li> </ul>	<p>One of the main issues identified as part of the 2016/17 VFM assessment was the impact on Business Rates income due to the closure of the Rugeley Power Station. The Council implemented a Financial Recovery Plan in April 2017 to ensure it could continue to deliver a balanced budget for the next four years.</p> <p>A substantial element of the Financial Recovery Plan is the construction and opening of the Mill Green designer outlet village. Once operational this will mitigate much of the loss in Business Rates income. It is also anticipated that it will prompt further regeneration of Cannock town centre. Although there have been some delays in the Mill Green project, the Council and its partners are committed to delivering this and it is on course for opening in 2020.</p> <p>The Council has implemented a range of cost saving measures and identified the planned use of reserves (General Fund working balances) to ensure a balanced budget. The Financial Recovery Plan required the delivery of a minimum of £1.59 million of savings by April 2019 and £1.26 million planned use of working balances over the three years 2017/18 to 2019/20.</p> <p>The Council's General Fund Revenue Budget 2018/19 to 2020/21 was reported to Cabinet in January 2018. This showed an overall improvement in the 2017/18 financial forecast, largely due to the over delivery of the Financial Recovery Plan and higher than anticipated Business Rate income. It also showed an anticipated £234,000 increase in working balances in 2017/18 and a net £401,000 planned use of balances in 2018/19 and 2019/20. An overall reduction in the planned use of balances of £1,093,000</p> <p>The financial outturn for 2017/18 was better than forecast resulting in £703,000 being transferred to General Fund balances compared to the £234,000 anticipated in the medium term budget. The General Fund working balances at 31 March 2018 are £3.14 million.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>The Council's overall financial position and outlook to 2019/20 is better than anticipated. There is still a significant planned use of working balances in 2019/20, but this is largely mitigated by the growth in working balances in 2017/18.</li> <li>The opening of the Mill Green Designer Outlet is a major component of projected income, arising from business rates. Delays in the delivery of this project will have a detrimental effect on the Council's overall financial position in the medium term. The Council needs to ensure that it is managing the risk of significant delays in this project effectively and has adequate financial contingency plans in place.</li> <li>Beyond 2019/20 there is continuing uncertainty over the future funding framework for local government. The details of the revised Business Rate retention system is not yet clear, nor is the future of New Homes Bonus or the impact of a Business Rate revaluation "re-set". The Council need to ensure that it has an appropriate level of reserves to maintain its financial resilience in this period of uncertainty.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council recognises the importance of Mill Green Designer Outlet and continues to work proactively with the developers to manage its delivery. The recent sale of the Council owned site to McArthurGlen being a key milestone towards its opening.</li> <li>Nevertheless, the Council continues to explore all means of delivering efficiency savings together with commercial and other income generation options. The Council has in addition ensured that over £2m of working balances exists to offset any potential delay and the uncertainty that exists in relation to the new financial regime from 2020/21.</li> </ul>

## A. Reports issued and fees

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

Report	Date issued
Audit Plan	27 March 2018
Audit Findings Report	26 July 2018
Annual Audit Letter	6 August 2018

	Proposed fee	Final fee
Authority Audit	£52,109	£52,109
Grant Certification	£12,807	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£64,916</b>	<b>TBC</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services	Final fee
Pooling of Housing Capital Receipts Certification	£2,500
<b>Total non-audit fees (excluding VAT)</b>	<b>£2,500</b>

### Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table adjacent summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

## B. Recommendations

	Assessment	Issue and risk	Recommendations
1	●	Internal control, IT issues	<p>Management need to ensure that all internal control points raised in the prior are monitored and where applicable agreed actions are implemented to mitigate against any control risks.</p> <p><b>Management response</b> Agreed subject to comments as included as part of Prior Year Management Response</p>
2	●	Publication of the draft Annual Governance Statement	<p>Management need to ensure that the draft annual governance statement is published on their website alongside the draft financial statements by 31<sup>st</sup> May 2019</p> <p><b>Management response</b> Agreed</p>
3	●	Assets with a net book value of zero	<p>Management need to ensure that as part of the fixed asset procedures they consider/ review any assets with a net book value of zero for applicability and use.</p> <p><b>Management response</b> Agreed</p>

### Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice



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# Audit Progress Report and Sector Update

Cannock Chase District Council  
Year ending 31 March 2019

27 November 2018



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# Introduction



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

The paper also includes:

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

Members of the Audit and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

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

# Progress at November 2018

## 2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on the 26 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

## 2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

## Other areas

### Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

### Meetings

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

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is the Chief Accountants workshop in January and February 2019. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<p><b>Annual Certification Letter</b></p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2018	In progress
<hr/>		
<p><b>2018/19 Deliverables</b></p>		
<p><b>Fee Letter</b></p> <p>Confirming audit fee for 2018/19.</p>	April 2018	Complete
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.</p>	January 2019	Not yet due
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2019	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2019	Not yet due
<p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2019	Not yet due
<p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>	August 2019	Not yet due
<p><b>Annual Certification Letter</b></p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2019	Not yet due

# Sector Update

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

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

## Social Housing Green Paper Consultation



### Challenge question:

What does the Social Housing Green Paper mean for your local authority?



# Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



# CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

## CIPFA Consultation

### Challenge question:

Has your Head of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)



# The Vibrant Economy Index

## a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website ([www.granthornton.co.uk](http://www.granthornton.co.uk)) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

### Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

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