GOVERNANCE COMMITTEE

WEDNESDAY, 24TH JANUARY 2018, 2.30 PM
COMMITTEE ROOM 1, TOWN HALL, CHORLEY

I am now able to enclose, for consideration at the above meeting of the Governance Committee, the following reports that were unavailable when the agenda was published.

GARY HALL
CHIEF EXECUTIVE

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Report of	Meeting	Date
Chief Finance Officer	Governance Committee	24th Jan 2018

HOMES AND COMMUNITIES AGENCY (HCA) AUDIT OF THE COTSWOLD HOUSE PROJECT

PURPOSE OF REPORT

1. To provide the Governance Committee with an update on the HCA audit of the Cotswold House project as well as the lessons learnt and future actions, including the actions for the presumed audit of the Primrose Gardens projects.

RECOMMENDATION(S)

2. To note the contents of this report and the actions identified for the future

EXECUTIVE SUMMARY OF REPORT

3. Chorley Council received a £658k allocation from the HCA towards the £858k refurbishment and extension of Cotswold House, work began in August 2016.

4. The initial tenders for the work came in £200k under budget and in February 2017 Chorley Council received telephone confirmation that the project could carry out further works to the building using the grant allocation. The second phase of the work completed in June 2017.

5. In June 2017 Chorley Council received notification from the HCA that it has been selected from a list of projects in the North West of England to be subject to an audit. Grant Thornton where appointed as the auditors.

6. The audit findings gave ‘No’ answers to eight questions. Different questions have different severity ratings and the profile of the ‘Nos’ Chorley received are 4 highs, 3 mediums and 1 low.

7. The Council has the opportunity to respond and if these responses are taken into account and agreed the revised outcome is likely to be
    - HIGH – final claim prior to completion
    - MEDIUM – not meeting pre-commencement conditions
    - LOW – IMS not updated with key data

8. In either case the Council is likely to receive a red grade for this audit. It should be noted that red grades are common for a Local Authority undergoing its first audit.

9. It should be noted that there has been no money expended on the project that does not meet the criteria outlined in the grant agreement. The red grade that is likely to be received by the council is the result of the timing at which funds were claimed. As highlighted earlier in the report, funds were claimed through the HCA's investment management system on the advice of the HCA's Grant Manager.

10. The Council will receive confirmation of the audit results in May 2018 and it is proposed that they are signed off by the Governance Committee. The assumed red rating will result in a guaranteed audit of the Primrose Gardens project in September 2018 however there is no indication that the red rating will result in funds being returned to the HCA.

11. Lessons learnt from this audit are tabulated in this report. These relate to lessons learnt for the next audit of the Primrose Gardens project and lessons learnt in general for processes within the Council.

Confidential report Please bold as appropriate	Yes	**No**

Key Decision? Please bold as appropriate	Yes	**No**

REASONS FOR RECOMMENDATION(S)
(If the recommendations are accepted)

12. To provide the Governance Committee with an update on the HCA audit of the Cotswold House project as well as the lessons learnt and future actions, including the actions for the presumed audit of the Primrose Gardens projects.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

13. Not applicable

CORPORATE PRIORITIES

14. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

<u>Cotswold House Funding Application</u>

15. A bid was placed to the HCA in June 2016 for funding towards the renovation of Cotswold House. The renovation involved:
    - works to the car park
    - the modernisation of 15 flats

- additional CCTV
- an extension
- installation of a lift and stairwell

16. The total estimated cost of the project was £858k. £658k of HCA funding was applied for with the remainder of the project costs to be funded by the Council.

17. The HCA announced that the bid had been successful in December 2016 and the project and grant agreement were approved by Executive Cabinet on 17th March 2016. The grant would be paid to the Council

    - 75% Start on site
    - 25% Practical completion

18. There were various conditions on the funding with the most stringent being that practical completion must be by the end of March 2017.

Cotswold House Project

19. The design and project management of the project was managed in-house by Property Services. The funding allowed the Council to charge 10% of the value of the build for these professional fees.

20. The project was tendered in two parts:

    - Works to the car park –awarded to O'Callaghans
    - Modernisation of building – awarded to PJ Services Ltd

21. Works to the car park began on 31st Aug 2016 and works to the building began on 20th October 2016.

22. It was clear that as a result of receiving very competitive quotes that the project would underspend. Officers contacted the HCA Grant Manager to outline a plan of action. The following items were discussed and agreed:

- The project was going to underspend as the winning tender for the main building works was £200k lower than originally budgeted for.
- A proposal was put to the HCA Grant Manager that CBC would finish off the original works outlined in the bid in 2016/17 and then carry out additional works to Cotswold House to bring spend closer to the £858k total. The HCA Grant Manager was happy with this proposal.
- There was no indication that the underspend would require a change in the agreed funding levels. The HCA Grant Manager indicated that as long as the underspend was being re-invested in Cotswold and that the cost per room as per the bid was not exceeded then funding could be retained.
- There was no indication from the HCA Grant Manager that the HCA's Investment Management System (IMS) would require updating

23. As a result of these discussions an Executive Member Decision was approved on 14th February 2017 for the additional works to Cotswold House to be carried out, the supplementary works commenced 28th February 2017.

24. On 21st March 2016 the HCA Grant Manager rang the Council and strongly encouraged the Council's grant manager to enter the completion of the project in the IMS. The HCA Grant Manager guided officers through the system and it was noted as practically complete. The final tranche of funding was released and received on 31st March 2017.

25. The project as a whole completed in June 2017 with the important dates summarised below:

Milestone	Date
Planning permission approved	9th Jun 2016
Start on site – car park	31st Aug 2016
Start on site - IMS	21st Sept 2016
Start on site – building modernisation	20th Oct 2016
Start on site – additional works	28th Feb 2017
Practical Completion entered into IMS	21st Mar 2017
Building Practical Completion Certificate	22nd Jun 2017
Building Control Certificate	21st Jul 2017

26. Total expenditure including 10% charge for Property Services was £830k against a budget of £858k. As per advice from HCA the IMS has been updated to reflect the project underspend, the next steps from the HCA have not been communicated to the Council.

<u>HCA Audit</u>

27. The Council were contacted by the HCA Audit Team in June 2017 and informed that HCA would be conducting an audit of one of its projects. As Primrose Gardens had only just started it was clear the audit would be for Cotswold House. The HCA grant managers and audit team are independent of each other and it should be noted that the HCA grant team never briefed Council officers regarding the potential audit and what works this could involve.

28. The HCA's audit process is unusually complicated but can be summarised as:

- The Council must recruit their own external independent auditor at a cost to the Council
- That the recruitment must be done immediately as the auditor would have to attend a HCA audit training session that was scheduled approximately 10 days later
- The appointed auditor has to be ACCA/ACA accredited
- The auditor should be appointed by Sep 2016 and set up on the HCA Audit System
- The audit should be complete by 3rd November
- The Council then had 10 working days to respond to the audit queries
- The findings would be moderated by the HCA
- The Final Compliance Audit Report will issued in <u>May 2018</u> and must be signed off by Cabinet Members (likely to be Governance Committee in the case of Chorley Council)

29. The Council's audit was undertaken by Grant Thornton. The audit is essentially a checklist exercise whereby up to 31 questions are posed and Yes or No responses from auditors were given based on evidence provided by the Council. The list of questions given to the Council is provided at the end of this report, it should be noted that many of the questions weren't relevant to this project, these have been removed from the table.

AUDIT FINDINGS

30. The auditors gave answers of 'No' to the questions tabulated below.

31. Receiving a 'No' to a question means the question has breached the level of compliance expected by the HCA. These breaches are given different severity ratings dependent on how important the HCA deem compliance to the relevant question. The table below also outlines what severity rating each question is likely to receive.

	Question	Council Response	Severity
7	Have both of the following been achieved a. the main building contract has been signed and dated, b. contractual possession of the site has passed to the contractor prior to the first grant claim?	Further correspondence with the initial contractor O'Callaghan Ltd provides evidence that works on the site had begun prior to 21st Sep 2016. This work relates to the car park resurfacing that was included in the original bid. Chorley Council is therefore satisfied that: • All contracts were signed and dated • Contractual possession of the site has passed to the contractor O'Callaghan Ltd prior to the first grant claim	HIGH
8	Taking into account agreed extensions of time in line with building contract provisions, was the completion certificate/independent certification issued before the date of final PCF grant claim?	As evidence by the contractor PJ Services the main building works were practically complete by the end of March with just the veranda to complete. The veranda was not integral to the functioning of the building. The authority received a level of pressure from the HCA grant manager to mark the project as complete in the IMS in order to release the final tranche of cash within the financial year. Chorley Council recognise that the practical completion certificate is 3 months after the IMS date however the practical completion certificate was only granted on completion of the phase 2 works. Chorley Council, in agreement with the main contractor, understand that the phase 1 works were practically complete by the end of the 2016/17 financial year.	HIGH
9	Has Provider's group insurance been updated to include new scheme(s) during development and thereafter for its Full Replacement Value?	The nature of this question is whether or not the asset is insured. As outlined in the audit response the works to the asset as well as the enhanced asset after completion are covered by the Council's insurance policy under 'Inadvertent Omissions'. The Council therefore feels comfortable that this asset was and is insured. The estimated additional costs of the works, £850k, will be included in the renewed insurance policy ready for January 2018. The asset will be valued by the end of February 2018 as part of the 2017/18 closure of accounts	MEDIUM

10	Does key cost data entered in 'Schemes' area of IMS ('capital details', 'scheme milestones' and 'scheme development code' screens) along with any updates in the Profile line, match scheme file evidence?	There are many facets to this question: • Check IMS final cost information against supporting filed evidence to confirm accuracy of data entry – the Council has requested guidance from HCA regarding how the final outturn is uploaded into IMS. The Council will upload this information when guidance is provided. • Check IMS final cost information against supporting filed evidence to confirm eligibility of costs –it is difficult to confirm eligibility through IMS however the Council has provided evidence of all expenditure that confirms that <u>none of this expenditure is ineligible</u> as described in Part 4 of the HCA grant funding agreement. • IMS should match the cost figures known at time of scheme handover/final claim; and the evidence on file should support the figures entered into IMS. There was no way for the Council to have the final expenditure figures at the time of the final claim as the project was split into two phases. However the Council did not update IMS in March when the final claim was made for phase 1 works.	LOW
12	Interim payment (SOS)/final cost (PCF) claims – were IMS scheme details submitted in accordance with published guidelines set out in the relevant Contract and CFG?	Chorley Council recognise that the practical completion certificate is 3 months after the IMS date however the practical completion certificate was only granted on completion of the phase 2 works. Chorley Council, in agreement with the main contractor, understand that the phase 1 works were practically complete by the end of the 2016/17 financial year.	HIGH
13	Are IMS rent figures the same as the actual rents charged?	The Council feels this question should be answered YES because: • the evidence provided does reconcile back to IMS and • these were the rent figures included and accepted in the original bid	MEDIUM
14	Were all necessary Planning Consents obtained by Practical Completion	Chorley Council cannot evidence it met the following pre commencement conditions Prior to the commencement of development samples of all external facing and roofing materials (notwithstanding any details shown on previously submitted plan(s) and specification) shall be submitted to and approved in writing by the Local Planning Authority. All works shall be undertaken strictly in accordance with the details as approved	MEDIUM
15	Was the final certification required under building regulations obtained prior to	Chorley Council recognise that the building control completion certificate is 4 months after the date of completion in IMS however the building control certificate was only granted on completion of the phase 2 works. Chorley Council, in agreement with the main contractor, understands that the phase 1 works	HIGH

	development completion?	were practically complete by the end of the 2016/17 financial year.	

32. If the audit findings are accepted the Council will receive 4 HIGHS, 3 MEDIUMS and 1 LOW. If the Council's responses are taken into account the revised figures are likely to be:
    - HIGH – final claim prior to completion
    - MEDIUM – not meeting pre-commencement conditions
    - LOW – IMS not updated with key data

33. In either case the Council is likely to receive a red grade for this audit. The precise definition is

    - RED grade: serious failure to meet Programme requirements – high risk of misapplication of public funds

34. It should be noted that there has been no money expended on the project that does not meet the criteria outlined in the grant agreement. The red grade that is likely to be received by the council is the result of the timing at which funds were claimed. As highlighted earlier in the report, funds were claimed through the HCA's investment management system on the advice of the HCA's Grant Manager. It should also be noted that it is common for a local authority to receive a red rating on its first HCA audit.

35. The Council will receive confirmation of the audit results in May 2018 and it is proposed that the findings are signed off by the Governance Committee. The assumed red rating will result in a guaranteed audit of the Primrose Gardens project however there is no indication that the red rating will result in funds being returned to the HCA.

Lessons Learnt and Future Actions

36. The lessons learnt and future actions are tabulated below. Two tables have been used, the first gives the actions that apply to the assumed 2018 Primrose Gardens audit. The second table gives the more general actions that have been recognised for the council.

Primrose Gardens Project

Lesson/Condition	Action	SRO
IMS not updated regularly	HCA require a Quarterly Certification to be submitted. Clarification should be sought with the HCA grant manager as to what is expected in these updates	Zoe Whiteside
IMS not updated regularly	Update IMS through the Quarterly Certification	Zoe Whiteside
Planning conditions not met	Ensure all pre-commencement conditions have been either discharged or met	Zoe Whiteside
Document key dates	Save documents in the project's shared folder that give key project dates including: • Site acquisition – legal interest obtained • Contract signatory dates • Start on site	Zoe Whiteside
Ensure the site is valued regularly	It is proposed that the District Valuer value the site in Jan/Feb 2018	James Thomson
Ensure the Council's insurance is updated with the works to date at the site	Check with insurance services how the current site is insured whether through the contractor or through the Council's policy. Document the response in the shared folder. The site will be valued in Jan/Feb 2018 and this value will be communicated to insurance services and changes documented.	Zoe Whiteside James Thomson
Title of Land	Ensure the title of the land is at least 'good'	Chris Moister
Land Registry	Register a restriction on title with Land Registry, indicating a requirement to gain HCA consent to dispose.	Zoe Whiteside
Signed grant agreement	Save a signed copy of the agreement in the project's shared folder	Zoe Whiteside

Chorley Council

Lesson/Condition	Action	SRO
The HCA's Investment Management System was not updated regularly	A final update on the Cotswold Project should be uploaded to IMS	Fiona Hepburn/James Thomson
The signed copy of the contract for the modernisation work could not be found	Ensure all signed contracts are immediately copied and stored with legal services.	Chris Moister
Final Compliance Audit Report will issued in May 2018 and will be signed off by Governance Committee	Add this item to the May agenda	James Thomson

IMPLICATIONS OF REPORT

37. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	✓

COMMENTS OF THE STATUTORY FINANCE OFFICER

38. The Cotswold House project has been successful in refurbishing the site to a high standard. The project has spent £829k on the refurbishments, including approximately £77k expenditure in kind such as the work carried out by the Council's building surveyor. This underspend has been communicated to the HCA and the £30k grant income will be held until the HCA decide whether it should be returned or reinvested. Despite the red rating the council is likely to receive, it should be noted that there has been no money expended on the project that does not meet the criteria outlined in the grant agreement

39. It is proposed that the final audit findings, due to be received in May 2018, are signed off by the Governance Committee.

COMMENTS OF THE MONITORING OFFICER

40. It is recognised that whilst the audit felt there were areas of non-compliance this view is challenged by the Council. Despite this there are areas of accepted lessons to be learnt and the Council will take steps to implement these going forward.

GARY HALL
CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
James Thomson	5025	16/01/18	

Appendix 1: List of HCA Audit Questions for Cotswold House and Severity Rating

	Questions	Breach Severity
1	Were the conditions within the relevant contract complied with?	MEDIUM
2	Has a comprehensive scheme file been provided, containing all relevant documents as set out in the CA Web page?	MEDIUM
4	For affordable and social rent properties – do rents being charged meet the requirements set out in the CFG?	MEDIUM
5	For owned and leased properties, has the provider obtained a secure legal interest, as defined in the Contract/CFG, prior to the first grant claim?	HIGH
6	Does the land/property have 'good title'	HIGH
7	Have both of the following been achieved a. the main building contract has been signed and dated, and b. contractual possession of the site has passed to the contractor prior to the first grant claim?	HIGH
8	Taking into account agreed extensions of time in line with building contract provisions, was the completion certificate/independent certification issued before the date of final PCF grant claim?	HIGH
9	Has Provider's group insurance been updated to include new scheme(s) during development and thereafter for its Full Replacement Value?	MEDIUM
10	Does key cost data entered in 'Schemes' area of IMS ('capital details', 'scheme milestones' and 'scheme development code' screens) along with any updates in the Profile line, match scheme file evidence?	LOW
11	Is evidence available to confirm that submitted scheme details of number of persons, homes, scheme types, tenancies, size, needs categories, occupancy and location accord with the approved scheme details and those held on file?	MEDIUM
12	Interim payment (SOS)/final cost (PCF) claims – were IMS scheme details submitted in accordance with published guidelines set out in the relevant Contract and CFG?	HIGH
13	Are IMS rent figures the same as the actual rents charged?	MEDIUM
14	Were all necessary Planning Consents obtained by Practical Completion	MEDIUM
15	Was the final certification required under building regulations obtained prior to development completion?	HIGH
16	Where required, were other specified consents obtained for the relevant works?	MEDIUM
21	Supported housing/housing for older people - Do the client groups housed reflect the published group definitions?	MEDIUM
22	Has the contractual requirement to register a restriction on title with Land Registry, indicating a requirement to gain HCA consent to dispose, been met?	MEDIUM

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	24th Jan 2018

IMPLICATIONS OF REVISED CIPFA PRUDENTIAL CODE AND TREASURY MANAGEMENT CODE AND DCLG GUIDANCE

PURPOSE OF REPORT

1. To update members on
   a. CIPFA's changes to the Treasury Management Code
   b. The proposals from DCLG to change the Prudential Framework of Capital Finance

RECOMMENDATION(S)

2. To note the contents of this report including:
   a. The changes to the Treasury Management Code and the introduction of a new Capital Strategy report.
   b. The proposed changes to the Prudential Framework of Capital Finance that include additional reporting requirements, potential restrictions on investing in assets purely for financial returns and the reduction in the maximum allowable number of years the cost of borrowing can be spread over.

EXECUTIVE SUMMARY OF REPORT

3. The Treasury Management code was last updated in 2011 and since this time councils nationally have begun to invest in assets for the purpose of income generation as well as other strategic objectives. This increasing trend has resulted in potential risks to a Council's revenue budget that may not be picked up in the current Treasury Management Code and reporting requirements.

4. The new treasury management code seeks to address this deficiency and introduces a new **Capital Strategy** report to be approved by Full Council in 2019/20. The report will replace the treasury management and investment strategy report and will include:

   a. a policy statement with the Council's high level policies for borrowing and investments and include policies where the Council has commercial investments held for financial return;
   b. a new treasury management practice that will require the Council to set out the investment management practices for non-treasury investments;
   c. a schedule that will include a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and contingent liabilities and the authority's risk exposure.

5. The consultation recognises the importance of delegating detailed processes to other committees. The Governance Committee will approve the detail and ongoing monitoring of the Capital Strategy, responsibility, at all times, however for the strategy, remains with Full Council.

Local Authorities Investment Code

6. There are many proposed changes to the code some of which follow a similar theme to the changes proposed above. The proposals are for the Council to disclose, presumably in the Capital Strategy report:
    a. the level of risk exposure and rate of return from its financial investments to Councillors;
    b. the dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income;
    c. additional disclosure by local authorities who borrow solely to invest in revenue generating investments
    d. the reliance on income from investments in funding core council activities

7. Chorley Council's response to this consultation did not object to additional disclosures provided that they do not compromise commercial confidentiality or jeopardise accruing higher returns from the Council's investments. The Council supports any disclosures that can support good risk management however it does not support disclosing how its 'core functions' are funded.

8. The consultation alludes to a restriction on councils investing in assets purely for generating returns. This would seemingly prohibit investment in assets outside of the Council's boundaries. This restriction of 'borrowing in advance of need' will not affect Chorley Council's current or future planes investments as they all meet other strategic goals such as regeneration and improving housing standards.

Guidance on calculation of Minimum Revenue Provision (MRP)

9. As part of the consultation the proposed changes to the calculation include:
    a. aligning it more closely with the capital financing requirement – Chorley Council supports this change
    b. reducing the maximum useful economic life for assets (other than freehold land) to 40 years – Chorley Council does not support this proposal as financing of some capital assets is spread over 50 years. This is considered to be prudent because it takes account of estimated asset lives provided by professional valuers. To date, the Council's external auditors have agreed financing charges (MRP) for these assets which are being spread over 50 years.

Confidential report Please bold as appropriate	Yes	**No**

Key Decision? Please bold as appropriate	Yes	**No**

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

10. To provide the Governance Committee with an update on the changes to the Treasury Management Code and the Prudential Framework of Capital Finance.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

11. Not applicable

CORPORATE PRIORITIES

12. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

TREASURY MANAGEMENT CODE

13. The Treasury Management Code was last updated in 2011 and since then the introduction of the Localism Act has resulted nationally in a significant increase in council's investment and asset portfolios, with subsequent increases in borrowing. As such CIPFA considered it a good time to revise the code and guidance notes. The updated code was published by CI{FA in December 2017.

14. The main theme running through the changes to the code is that non-treasury investments (investments that don't relate to managing cash flow and debt) should now be included in the Council's treasury management strategic reports. These changes include:

    a. the policy statement should include the organisation's high level policies for borrowing and investments and include policies where the organisation has commercial investments held for financial return;
    b. the introduction of a new treasury management practice that will require the Council to set out the investment management practices for non-treasury investments;
    c. the creation of a schedule that will include a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and contingent liabilities and the authority's risk exposure.

15. Suggested schedules to accompany the statement of treasury management practices include:

    a. Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios
    b. Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments
    c. Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision-making in relation to non-treasury investments, and arrangements to ensure that appropriate professional due diligence is carried out to support decision making
    d. Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken
    e. Training and qualifications (TMP10 and schedules), including how the relevant knowledge skills in relation to non-treasury investments will be arranged

16. The changes to the code will result in a new **Capital Strategy** report that will replace the existing Treasury Management and Investment Strategy reports. The Capital Strategy report will be approved annually by Full Council. Approval of the detailed processes related to the report may be delegated to a committee provided that this facilitates a more active discussion of the strategy and performance by those with the most appropriate skills and knowledge. It is proposed that monitoring of the strategy be delegated to the Governance Committee.

PRUDENTIAL FRAMEWORK OF CAPITAL FINANCE

17. On the 9th November 2017 the government released a consultation on changes to:
    a. Local Authorities Investment Code
    b. Minimum Revenue Provision Guidance

    Officers submitted a response to the consultation on 22nd December 2017. The response is found in appendix 1 to this report.

Local Authorities Investment Code

18. The Statutory Guidance on Local Authority investments has not been updated since 2010. As Local Authorities are considering more innovative types of investment activity the Government decided to consult on changes to the code. The Government believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity. That means there is a need to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

19. The revised guidance retains the requirement for an Investment Strategy to be prepared at least annually. However, in recognition that the CIPFA consultation on the Prudential Code introduces a new requirement for local authorities to prepare a **Capital Strategy**, the revised guidance specifically allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

20. The revised guidance requires the Council to report to members so that they understand the total exposure of their local authority due to borrowing and investment decisions and that this information is presented in such a way that allows them to compare any change in exposure from year to year. The guidance does not specify what indicators should be used, however it did suggests benchmarking against other authorities.

21. The Council supports the disclosure of risk exposure and rate of return from its financial investments to Councillors. It also supports disclosures to the public so long as it does not jeopardise any commercial confidentiality or if it reduces the potential rate of return by weakening the Council's bargaining position. The Council agreed that specific indicators and thresholds should not be introduced as the consultation rightly states that the level of risk appetite is specific to each local authority. For the same reason, it does not support the proposal of benchmarking indicators against other authorities.

22. The Government believes that where local authorities invest in non-financial assets, they should apply the principles of prioritising security and liquidity over yield in the same way that they are required to do for financial assets. The revised guidance seeks to apply existing definitions to non-financial assets (investment in income generating assets):

    a. Security: the revised guidance recognises that a local authority will normally have an asset that can be used to recoup capital invested. Therefore, the revised guidance requires local authorities to consider whether the underlying asset is impaired and if it is, to detail the actions planned or in progress to protect the funds invested.
    b. Liquidity: the revised guidance requires local authorities to set out the procedures for ensuring that funds invested in a non-financial asset can be accessed when they are needed

23. In the response Chorley Council didn't object to the definitions however it was stressed that it is a decision for each individual council to consider what the optimum balance is for yield, security and liquidity. In some circumstances it is probable that yield will be a more important

consideration than liquidity however it will always be the case that all three principles will be considered when making an investment.

Proportionality

24. The Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. Given the nature of assets that local authorities are investing in this could leave them exposed to macro-economic trends. For this reason the Government proposes requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. Specifically
    - detail the extent to which funding expenditure to meet the core functions of the local authority is dependent on achieving the expected net yield
    - detail the local authority's contingency plans should it fail to achieve the expected net yield

25. In response Chorley Council agreed with the overall concept of proportionality and did not object to principle of the additional disclosures outlined in the draft guidance however the requirement to state what level of core functions are funded through expected yield should be removed as it is not clear what the definition is for these core functions. The Council believes the risk to the council's balanced budget of not generating investment yields will also be outlined in the Council's MTFS.

Borrowing in Advance of Need

26. The consultation suggests that borrowing solely to invest rather than to deliver statutory services or strategic objectives is considered to be borrowing in advance of need. The Government believes that it is appropriate for the revised guidance that recognises this and the consultation requires additional disclosure by local authorities who borrow solely to invest in revenue generating investments

27. This definition of borrowing in advance of need has led to many news stories suggesting that the Government wishes to clamp down on the amount of borrowing Councils undertake to generate income. A clarification has been requested as part of the consultation with the following response by the Government:

    We do not want to restrict opportunities for local authorities to use commercial structures to kick start local economic regeneration to deliver services more effectively. However, the prime duty of a local authority is to provide services to local residents, not to take on disproportionate levels of financial risk by undertaking speculative investments, especially where that is funded by additional borrowing.

    For this reason we are proposing that all local authorities disclose the contribution that each investment makes towards the core objectives of the local authority. The proposals also make it clear that borrowing solely to fund yield generating investments is borrowing in advance of need. Local authorities will be able to borrow to fund investments that have multiple objectives, including generating yield.

28. Chorley Council's capital investments, including planned investments included in the MTFS, in yield (surplus) generating assets all have superior objectives such as the regeneration of the town centre, the creation of local jobs and the improvement in the standards of local housing. This restriction on borrowing in advance of need would seem to prohibit investments in assets outside of the Council's boundaries. As such this change is <u>not seen as a risk to the Council</u> however it could restrict future investments if the Council chose to pursue such non-local investment.

GUIDANCE ON CALCULATION OF MINIMUM REVENUE PROVISION (MRP)

29. MRP Definition: “provision for the borrowing which financed the acquisition of the asset should be made over a period bearing some relation to that over which the asset continues to provide a service”.

30. The Government proposes to change the definition of prudent provision to one that requires local authorities to set MRP in a way that covers the gap between the Capital Financing Requirement and the amount of that requirement that is funded by income, grants and receipts. Chorley Council responded with no objection to this proposal.

31. The Government has concerns that some local authorities may be setting artificially long asset lives to reduce the annual charge for MRP and thereby deferring revenue costs into future years. The Government does not believe that this is a prudent approach and for this reason the updated Guidance includes a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The useful economic lives have been selected with commonly used practices in depreciation accounting in mind

32. Chorley Council does not agree with a maximum useful life of 40 years for assets other than freehold land. We have specific examples of assets where the useful life has been identified by our valuer to be longer than suggested in the draft guidance. Our external auditors have already accepted as being prudent longer periods for charging MRP. To reduce the MRP period by 10 years from 2018/19 onwards would not cost the Council any more in total, but re-phasing of MRP would add to budget pressure in the short term. In the longer term the asset would continue in use but no MRP would be chargeable in later years.

NEXT STEPS

33. What is clear from these consultations is that additional disclosures will need to be made regarding the risks of the various investments the Council has made and will make. These disclosures should be created and agreed by Chorley Council and reported through the Capital Strategy report.

34. CIPFA recognises that the Capital Strategy cannot be created in time for the 2018/19 budget setting process. However it is proposed to this committee that an additional note is appended at the end of the Treasury Strategy 2018/19. This will summarise the future non-treasury investments that could be arise as part of the Medium Term Financial Strategy (MTFS).

35. Further guidance is expected from CIPFA regarding the format of the Capital Strategy report. The first draft of the report will be taken to Governance Committee during 2018/19 in time for feedback and amendments for the final report to be taken with the budget setting papers in February 2019.

36. The Governance Committee will approve the detail and ongoing monitoring of the Capital Strategy, responsibility, at all times, however for the strategy, remains with Full Council.

37. The Council does not deem it necessary to adjust its MRP calculations for future investment proposals from 50 years to 40 years. This would have an impact on the forecast borrowing costs of investments such as the extension to Market Walk and the Digital Office Park. However the Council feels that the current 50 year calculation on its long term assets is sufficiently prudent and should not be adjusted.

IMPLICATIONS OF REPORT

38. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

39. The various consultations will require the Council to produce an annual Capital Strategy report. This will be taken to Full Council in February 2019 for approval and taken to Governance Committee before this time to agree the format and content. More guidance surrounding this new report is expected in 2018/19.

40. The Council is not planning to retrospectively adjust the MRP calculations for assets currently in the calculation with lives of more than 40 years, this includes Market Walk. If the changes to the calculation of MRP were to be implemented retrospectively by the Council it would have a £100k negative impact on the revenue budget, predominantly due to the shopping centre.

41. The changes to the MRP calculation remain purely guidance for the Council. There is nothing preventing the Council from continuing to use 50 years however it may result in an adverse audit opinion as part of accounts closure.

COMMENTS OF THE MONITORING OFFICER

42. No Comment

GARY HALL
CHIEF FINANCE OFFICER

Background Papers			
Document	**Date**	**File**	**Place of Inspection**
CIPFA "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition"	December 2017	Electronic	Town Hall

Report Author	Ext	Date	Doc ID
James Thomson/Michael Jackson	5025/5490	16/01/18	

Appendix 1 Consultation on the proposed changes to the prudential framework of capital finance – December 2017

The consultation provides changes to and draft guidance of:

- Local Authorities Investment Code
- Minimum Revenue Provision Guidance

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability (paragraphs 12-16)

The revised guidance retains the requirement for an Investment Strategy to be prepared at least annually. However, in recognition that the CIPFA consultation on the Prudential Code introduces a new requirement for local authorities to prepare a Capital Strategy, the revised guidance specifically allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Question 1: Do you agree with the proposed change? If not why not; and what alternative would you propose?

Chorley Council has no objection

Principle of Contribution (paragraph 17)

The core function of a local authority is to deliver statutory services to local residents. Where a local authority chooses to invest in non-core activities, management time and resource will be diverted from that core function. Where a local authority is investing in a yield bearing investment, the contribution may be the net return that can be invested in core activities. However, the Government is aware that investments made by local authorities may have more than one objective and as a result a local authority may have a different risk appetite to that it would have if investing solely for yield. For this reason the Government believes that a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions is important.

Question 2: Do you agree that it is important for local authorities to disclose the contribution that investment activities make to their core functions? If not why not; and what alternative would you propose?

Question 3: Are there any other measures that would increase the transparency of local authority financial and non-financial investments that you would suggest for inclusion in the Investments Guidance to assist scrutiny by the press, local taxpayers and councillors?

Chorley Council has held property investments for many years, the income from which forms a core part of its budget. It will be impossible to define what is “core” and “non-core” in a meaningful and helpful way.

The Revised Guidance on Local Government Investments suggests it does not want to prescriptive. Chorley Council supports this approach and does not believe it is possible to benchmark meaningfully against similar investments by other authorities due to the often complex nature of each investment.

Use of indicators to assess total risk exposure (paragraphs 18-20)
The Government believes that it is important that Councillors or the equivalent, understand the total exposure of their local authority due to borrowing and investment decisions and that this information is presented in such a way that allows them to compare any change in exposure from year to year.

For this reason the Government proposes introducing a new requirement to include quantitative indicators that will allow assessment of exposure. The Government recognises that different local authorities will have different financial positions and risk appetite. For this reason the Government does not propose to specify particular indicators or thresholds.

Question 4: Do you agree with the introduction of a requirement to enable Councillors to assess total exposure from borrowing and investment decisions? If not why not; and what alternative would you propose?
Question 5: Do you agree with the decision not to specify indicators or thresholds? If not why not; and what alternative would you propose?
The Council supports the disclosure of risk exposure and rate of return from its financial investments to Councillors. It also supports disclosures to the public so long as it does not jeopardise any commercial confidentiality or if it reduces the potential rate of return by weakening the Council's bargaining position.

Chorley Council agrees that specific indicators and thresholds should not be introduced as the consultation rightly states that the level of risk appetite is specific to each local authority.

Extension of principle of Security, Liquidity and Yield to non-financial investments (paragraphs 21-36)
The Government believes that where local authorities invest in non-financial assets, they should apply the principles of prioritising security and liquidity over yield in the same way that they are required to do for financial assets.
The Government recognises that the risks to security and liquidity for non-financial assets are different to those for financial assets. For this reason the Government proposes the following definitions for non-financial assets:

- **Security**: the revised guidance recognises that a local authority will normally have an asset that can be used to recoup capital invested. Therefore, the revised guidance requires local authorities to consider whether the underlying asset is impaired and if it is, to detail the actions planned or in progress to protect the funds invested.
- **Liquidity**: the revised guidance requires local authorities to set out the procedures for ensuring that funds invested in a non-financial asset can be accessed when they are needed.

Question 6: Do you agree with the extension of the principles of security and liquidity to non-financial assets? If not why not; and what alternative would you propose?
Question 7: Do you agree with the definitions of liquidity and security for non-financial assets? If not why not; and what alternative would you propose?
Chorley Council does not object to the definitions of liquidity or security however it must be noted that when considering an investment in non-financial assets the balance between yield, security and liquidity will be very different than for financial assets. Para 22 of the draft guidance states:

The generation of yield is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with these priorities.

Chorley council believes it is a decision for each individual council to consider what the optimum balance is for yield, security and liquidity. In some circumstances it is probable that yield will be a more important consideration than liquidity however it will always be the case that all 3 principles will be considered when making an investment.

Therefore Chorley Council does not agree with the extension of these principles to non-financial assets.

Introduction of a concept of proportionality (paragraphs 37-39)
The Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. Given the nature of assets that local authorities are investing in this could leave them exposed to macro-economic trends. For example a decline in retail rental yield may leave a local authority that is highly dependent on retail rental income to deliver core services with a structural funding deficit.

For this reason the Government proposes requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. Specifically

- detail the extent to which funding expenditure to meet the core functions of the local authority is dependent on achieving the expected net yield
- detail the local authority's contingency plans should it fail to achieve the expected net yield

Question 8: Do you agree with the introduction of a concept of proportionality? If not why not; and what alternative would you propose?
Chorley Council agrees with the overall concept of proportionality

Chorley council does not object to principle of the additional disclosures outlined in the draft guidance however the requirement to state what level of core functions are funded through expected yield should be removed. The Council believes the risk to the council's balanced budget of not generating investment yields will also be outlined in the Council's MTFS.

Chorley council does object to the following disclosure as any borrowing for investment purposes should be more than self-financing and so not impact on other borrowing capacity.

- Where a local authority has funded investment activity through prudential borrowing, the Strategy should detail the opportunity costs of using that borrowing capacity for investment rather than service delivery activity.

Borrowing in advance of need
Borrowing solely to invest rather than to deliver statutory services or strategic objectives has always been considered to be borrowing in advance of need. The Government believes that it is appropriate for the revised Guidance that recognises this and requires

additional disclosure by local authorities who borrow solely to invest in revenue generating investments.

Question 9: Do you agree that local authorities who borrow solely to invest should disclose additional information? If not why not; and what alternative would you propose?

The draft guidance states "Borrowing solely to invest in a yield bearing opportunity is borrowing in advance of need."

Under the current (2010) guidance it is clear that "borrowing in advance of need" relates solely to financial investments and financial instruments whereas investments such as commercial property rightly count as capital expenditure as they involve the acquisition of a physical asset and as such are eligible for funding from borrowing.

If the new guidance were to extend borrowing in advance of need to non-financial investments this would have a disastrous effect on the services Chorley Council could provide to its residents. It is a necessity for the council to continue to invest in yield bearing non-financial assets so as to balance the budget in future years and to therefore protect the services Chorley Council's residents. This is solely as a result of the continued large scale funding reductions from central government experienced over the past 7 years, including the recent changes to New Homes Bonus allocations.

The guidance states that if the council should invest in a yield bearing opportunity the Strategy should explain the policies in investing the money borrowed, including management of the risks. Chorley council supports full disclosure of information where this does not impair commercial confidentiality.

Capacity, skills and culture

The Investments Guidance has always required disclosure of the steps Treasury Management professionals have taken to ensure that they have sufficient knowledge and expertise to be able to take sensible decisions. The Government believes that it is sensible to extend this requirement to statutory officers, Councillors and other key individuals in the decision making process.

Question 10: Do you agree with the extension of the disclosure requirement on steps taken to secure sufficient expertise to include all key individuals in the decision making process? If not why not; and what alternative would you propose?

This seems to be an unnecessary burden. This disclosure arguably goes beyond the requirements of the Financial Conduct Authority in specifying requirements for local authorities to elect to act up to professional investor status under MiFID II, where decisions are delegated to officers, and so it is hard to see the justification for this. The disclosure requirement should be aligned with local decision making and specified locally.

<u>Minimum Revenue Provision Guidance</u>
Definition of 'Prudent Provision' in the MRP Guidance (paragraphs 19-22) Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires local authorities to make "prudent provision". The current MRP Guidance explains that "provision for the borrowing which financed the acquisition of the asset should be made over a period bearing some relation to that over which the asset continues to provide a service". The thinking behind this principle is that MRP is the cost that LAs recognise in their accounts instead of depreciation and therefore prudent provision should align to depreciation as far as is relevant.

Given that the purpose of MRP is to make prudent provision for debt the Government believes that this definition is slightly misleading. For this reason the Government proposes to change the definition of prudent provision to one that requires local authorities to set MRP in a way that covers the gap between the Capital Financing Requirement and the amount of that requirement that is funded by income, grants and receipts.

In doing so, local authorities will be able to better align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides a benefit.

Question 11: Do you agree with the change to the definition of the basis of MRP? If not why not; and what alternative would you propose?
We agree that the definition should be based on the borrowing requirement in the capital finance requirement.

Meaning of a charge to the revenue account (paragraphs 24 & 25)
Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires local authorities to make a charge to a revenue account. There have been some reports of local authorities who have determined that they have previously overpaid and as a result have made a credit to the account for MRP.
The Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the Regulations. For this reason, the Government has included a clear statement in the updated Regulations that a charge to the account should not be a negative charge.

Question 12: Do you agree that the Guidance should clarify that a charge to an account cannot be a credit? If not why not; and what alternative would you propose?
There may be circumstances in which an MRP charge should be a credit, if a correction is required to deal with overprovision in previous years. Though Chorley Council does not anticipate having to make such a correction, we suggest that there should be flexibility to do so and to seek agreement of the external auditors.

Impact of changing methods of calculating MRP (paragraphs 26 & 27)
The Government continues to believe in the importance of allowing local authorities to have the flexibility to change the methods that it uses to calculate MRP from time to time.
However, the Government has concerns that some local authorities have been changing methodologies, not because the change would better allow them to make prudent provision, but instead to reduce their annual charge and in some cases to allow them to defer payments into future years. The Government does not believe that either of these rationales for changing methodologies are prudent.

For this reason, the Government has decided to clarify the approach to be adopted when changing the methodologies used to calculate MRP. Under the updated code, local authorities will be allowed to offset overpayments of MRP against charges in future years. However, the revised guidance makes it clear that an overpayment cannot be calculated retrospectively.

For example, if a local authority calculated MRP of £15m in 2013-14 and decided to charge £20m of MRP, it would have a £5m overpayment that could be offset against charges in future years. However, if the local authority changed its methodology in 2016-17 and based on the revised calculation determined that it should have charged £12m in 2013-14, it would still have a £5m overpayment that could be offset.

Question 13: Do you agree that changing MRP methodology does not generate an overpayment of MRP? If not why not; and what alternative would you propose?
This should be a matter for each council and their external auditor. There may be cases where preparation of the current year's statement of accounts leads to errors in calculation of MRP in earlier years being identified. If the errors were material the previous year's figures would be restated. If not material, the correction would be made in the current year. Every council should have the flexibility for a credit back to the local authority if that is appropriate.

Introduction of a maximum economic life of assets (paragraph 41)
Two of the four recommended options for calculating MRP in the Guidance use asset life as the denominator. The Government has concerns that some local authorities may be setting artificially long asset lives to reduce the annual charge for MRP and thereby deferring revenue costs into future years.

The Government does not believe that this is a prudent approach and for this reason the updated Guidance includes a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The useful economic lives have been selected with commonly used practices in depreciation accounting in mind.

Question 14: Do you agree that the guidance should set maximum useful economic lives for MRP calculations based on asset life? If not why not; and what alternative would you propose?
Chorley Council supports this in principle, provided that the years specified in the guidance are seen as a guide rather than an absolute maximum. There should be flexibility to take account of local circumstances applying to specific assets, which may have maximum useful lives longer than those suggested in the guidance.

Question 15: Do you agree with the maximum useful economic lives selected? If not why not; and what alternative would you propose?
Chorley Council does not agree with a maximum useful life of 40 years for assets other than freehold land. We have specific examples of assets where the useful life has been identified by our valuer to be longer than suggested in the draft guidance. Our external auditors have already accepted as being prudent longer periods for charging MRP. To reduce the MRP period by 10 years from 2018/19 onwards would not cost the Council any more in total, but rephasing of MRP would add to budget pressure in the short term. In the longer term the asset would continue in use but no MRP would be chargeable in later years.

Implementation timetable

The Government would like both updated codes to come into force for the 2018-19 financial year.

Question 16: Do you agree that the codes should be implemented in full for 2018-19? If not, are there any specific proposals where implementation should be deferred, and what would be the implications of not doing so?

Chorley Council does not agree that the Local Authorities Investment Code and MRP Guidance should be implemented in full for 2018/19. Some of the proposed changes would have an effect on revenue budget provision in 2018/19. Preparation of that budget began several months ago, and will be at an advanced stage of completion at the point the proposals are finalised. To make budget changes at a late stage could be disruptive.

We would wish to brief members of the Council about the changes, offering training where appropriate. If the update code and guidance are adopted for 2018/19, there will be insufficient time to advise members about the changes before a number of reports reflecting the changes are presented to them.

Chorley Council suggests that implementation of any changes should be deferred to financial year 2019/20.

Chorley Council

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	24th Jan 2018

CLOSURE OF ACCOUNTS 2017/18

PURPOSE OF REPORT

1. To provide an update on the progress of preparation for the closure of accounts 2017/18 as per the request of the Governance Committee in September 2017.

RECOMMENDATION(S)

2. To note the contents of this report

EXECUTIVE SUMMARY OF REPORT

3. The Accounts and Audit Regulations 2015 set out new deadlines for the publication of the 2017/18 statement of accounts. The draft accounts must be completed and signed by 31st May 2018 with the final audited accounts uploaded by the 31st July.

4. The 2016/17 closedown process made a lot of progress in closing the accounts by the 31st May however the draft accounts were submitted on 15th June 2017.

5. Preparation for the 2017/18 closure of accounts is underway and has built on the lessons learnt from 2016/17. A project plan and closure timetable has been created with tasks allocated to relevant finance team members. Some of the notes to the accounts are being completed as part of the budget monitoring process.

6. Some tasks, this includes resolving difficulties reconciling the debtor system to the financial ledger, are to be undertaken in January.

7. The changes required as part of the new Code of Practice 2017/18 are relatively straightforward when compared to the large number of changes in 2016/17. This will further aid the early closure of the accounts.

Confidential report Please bold as appropriate	Yes	**No**

Key Decision? Please bold as appropriate	Yes	**No**

REASONS FOR RECOMMENDATION(S)
(If the recommendations are accepted)

8. To provide the Governance Committee with an update to the progress of the 2017/18 closedown process.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

9. Not applicable

CORPORATE PRIORITIES

10. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

11. The Accounts and Audit Regulations 2015 set out new deadlines for the publication of the 2017/18 statement of accounts.

Stage	2016/17 Accounts Deadline	2017/18 Accounts Deadline
Chief Finance Officer to sign and date the draft statement of accounts	30 June	31 May
Publication of the statement of accounts	30 September	31 July

12. The Code of Practice 2017/18 requires Chorley Council to make some minor changes to the statement of accounts. These are significantly less complicated when compared to the changes required during the 2016/17 statement of accounts.

CLOSURE 2016/17

13. The closure of accounts 2016/17 was the final practise for the Council to complete a draft statement of accounts by 31st May.

14. Work was undertaken prior to the beginning of the 2016/17 closedown to meet this deadline including the drafting of a detailed closure checklist, dealing with high risk issues such as valuations, earlier on in the closedown process and allocating notes to the statements to officers at an early stage to ensure there was sufficient capacity and expertise.

15. Despite improvements in the closure processes the draft accounts were submitted to Governance Committee on 15th June.

16. The majority of the accounts and notes were complete by the end of May. However a technical issue, outside of the authority's control, surrounding the cash flow statement relating to the land swap the Council completed on 31st March delayed closure. In addition, contact from the HCA on 12th June resulted in a change in the treatment of a grant Chorley Council had received. This resulted in the £2.4m grant being recognised in 2016/17 rather than 2017/18 and resultantly changed the core statements and some of the supporting notes further delaying the draft accounts being submitted to Governance Committee until 15th June

CLOSURE 2017/18

17. Through revisiting the closedown process in 2016/17 the finance team has created a revised closedown timetable and as per last year allocated tasks, including notes to the accounts, to individuals within the team. Every relevant member of staff is now aware of their responsibilities and their deadlines during the closedown process.

18. One of the lessons learnt from 2016/17 was, where possible, to incorporate working papers into the routines of the finance team. Of the forty expected notes to the accounts eight are incorporated into the budget monitoring process. As a result of this only minor amendments to these notes are expected at year end.

19. Financial systems have undertaken training sessions with requisitioners and budget managers to ensure that purchase orders are up to date and invoices processed as quickly as possible. In addition, the management accounts team have reviewed outstanding purchase orders to ensure the ledger is up to date and the raising of accruals at year end is a less time-consuming task.

20. The District Valuer has been appointed as the Council's external valuer of property assets. A list of assets that require valuation has been agreed by Property and Financial Services and this has been sent to the valuer. Draft valuations are expected to be completed by the end of February with the full valuation reports to be received by the end of March. Subsequent draft notes to the accounts should then be completed close to year end.

21. There are two sub-projects proposed as part of the closure of account in 2017/18 that will require additional work between finance and non-finance teams:

    a. There were reconciliation problems in 2016/17 between the creditor and debtor system reports and the general ledger reports. Revisions to these reports will require work between the finance systems, treasury management and debtor teams. Work will begin in January and conclude in February.

    b. The financial accountancy team will continue to work with the South Ribble colleagues to ensure that reconciliations required for accounts closure are completed promptly at year-end.

22. Regular audit liaison meetings have been set up with the external auditors. In these meetings any potential risks to the timely closure of accounts, especially surrounding the Council's large capital investments, can be discussed and resolved.

<u>The Code of Practice and the 2017/18 Accounts</u>

23. There were many changes to the Code of Practice in 2016/17 including changes to the core statements and additional notes. The changes in 2017/18 are relatively simple, with minor actions required, as highlighted below.

Amendments	Description	Action
Section 2.2 Community Infrastructure Levy	Clarification of the treatment of revenue costs and any charges received before the commencement date	None Required already accounted for as stated
Section 3.1 Narrative Reporting	Introduce key reporting principles for the Narrative Report	Most principles already included, additional sections to be added where necessary
Section 3.4 Presentation of Financial Statements	Clarification of the reporting requirements for accounting	Additional sections to be added with

	policies and going concern reporting	reference to financial resilience and sustainability
Section 3.5 Housing Revenue Account	Directions 2016 disclosure requirements for English authorities	None Required
Section 4.2 Lease and Lease Type Arrangements	Clarification of lease accounting relevant to Scottish authorities.	Not relevant.
Section 4.3 Service Concession Arrangements	Changes to disclosures in respect of PFI & similar schemes relevant to Scottish authorities.	Not relevant.
Section 7.4 Financial Instruments – Disclosure and Presentation Requirements	Amendments reflect Scottish regulations and provide clarification of disclosures.	No changes to financial reporting requirements.
Section 6.5 Accounting and Reporting by Pension Funds	Additional disclosures of pension fund investment management transaction costs.	Not relevant

Comments from External Audit

24. The draft accounts were submitted to external audit on 15th June 2017. The audit concluded on the 28th September 2017. Grant Thornton will provide a verbal update to the Governance Committee in this meeting as to how they will meet the reduced timeframe they have, approximately six weeks from the completion of the draft statement of accounts, to complete the audit in 2017/18.

NEXT STEPS

25. The closure of accounts 2017/18 will be managed as a project through the MyProjects system. Regular progress of closure project will be reported to the Director of Policy and Governance and Chief Executive/Chief Finance Officer.

26. A members learning hour will be arranged prior to the draft statement of accounts being presented to the Governance committee on 30th May 2018.

IMPLICATIONS OF REPORT

27. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

28. The Accounts and Audit Regulations 2015 dictate that the draft accounts must be completed and signed by 31st May 2018 with the final audited accounts uploaded by the 31st July. This report outlines the Councils progress to date as well as the changes required as part of the 2017/18 Code of Practice.

29. The closure of accounts 2017/18 will be managed as a project through the MyProjects system. Regular progress of closure project will be reported to the Director of Policy and Governance and Chief Executive/Chief Finance Officer.

COMMENTS OF THE MONITORING OFFICER

30. No Comment

GARY HALL
CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
James Thomson	5025	16/01/18	

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Chorley Council

Report of	Meeting	Date
Director of Policy and Governance	Governance Committee	24 January 2018

ANNUAL GOVERNANCE STATEMENT – PROGRESS ON MANAGEMENT ACTIONS

PURPOSE OF REPORT

1. To advise members of the progress of the management actions recommended in the Annual Governance Statement.

RECOMMENDATION(S)

2. To note the report.

EXECUTIVE SUMMARY OF REPORT

3. The Annual Governance Statement (AGS) is a report, forming part of the Statement of Accounts, which assesses the Council's adherence to it's governance policies.
4. The AGS makes recommendations for improvements of this performance for implementation in the form of Management Actions.
5. This report will inform members what work has been undertaken to implement the Management Actions.

Confidential report Please bold as appropriate	Yes	**No**

CORPORATE PRIORITIES

6. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	X

BACKGROUND

7. The Council's AGS was adopted as part of the Statement of Accounts. It identified that overall the Council complied with our governance framework but advised of 4 thematic areas for improvement and 5 management actions. These are contained on the table below.

Theme	Agreed Improvement	SMART Actions & Milestones
1. Information Management	1.1 To ensure that there are clear document retention guidelines	- Develop program of work to replace SharePoint

	which are complied with by Services.	corporately - Utilise document management system within the new application.
	1.2 To ensure that the Council is fully compliant with the Data Protection Act and Freedom of Information requirements.	- GDPR new requirements in legislation are to be in place by May 2018. Action Plan to be implemented to ensure compliance within the timescales - More effective use of the information champions.
2. Risk Management	2.1 Review and update all Health & Safety risk assessments	- Review & update documentation - Arrange awareness training
3. Corporate Policies	3.1 To ensure that all employees are aware of the requirements of corporate policies.	- Rolling programme of briefings on corporate policies are to be included in core brief messages
4. Equality & Diversity	4.1 To further embed equality and diversity throughout the Council	- Raise awareness of need to complete IIA for any new policies - To refresh approach by ensuring that Equality comments are incorporated into all appropriate reports

8. Each action will be addressed in turn.

INFORMATION MANAGEMENT – TO ENSURE THERE ARE CLEAR DOCUMENT RETENTION GUIDELINES WHICH ARE COMPLIED WITH BY SERVICES AND TO ENSURE THAT THE COUNCIL IS FULLY COMPLIANT WITH THE DATA PROTECTION ACT AND FREEDOM OF INFORMATION REQUIREMENTS

9. These actions are falling within the project to implement the new General Data Protection Regulations for 25 May 2018.
10. An officer has been appointed to oversee implementation and this will include a review of the Council's data use policy and data retention policies. Information Technology Services have already begun a data audit and individual services will be required to undertake a data deletion exercise in line with existing data retention policies before there being a further exercise to ensure compliance with the GDPR.
11. The Council as part of the project is also implementing training for all staff on the requirements of the GDPR.
12. By the implementation date the Council will
    a. Have a data use policy compliant with the requirements of the GDPR
    b. Have service specific data retention policies
    c. Have trained all staff on the requirements of the GDPR
    d. Have procedures in place to respond to requests for data.
13. The outstanding actions to include the development of Sharepoint, a corporate document management process and a reconsideration of the use of Information Champions will all be considered as part of the GDPR Implementation project.

RISK MANAGEMENT – REVIEW AND UPDATE ALL HEALTH AND SAFETY RISK ASSESSMENTS

14. Although this appears straight forward this is actually a significant piece of work.
15. Initially services and teams were assessed by reference to size and likelihood of risk with those areas carrying the highest risk considered first.

16. Work has been undertaken with team leaders in Streetscene to assess the current risk assessments. This highlighted that they were of inconsistent quality. Group learning was undertaken with the teams to identify areas of good practice, with the team leaders encouraged to develop new risk assessments and a more standardised template.
17. Training was a key factor in this (rather than simply updating a document). What was apparent was that there needed to be a change in the culture whereby a risk assessment was not seen as a document that was reviewed every 6 or 12 months. Steps were taken by the Health and Safety Adviser to embed a health and safety approach. Risks were to be assessed every time the activity was undertaken with any learning being recorded on the Risk Assessment.
18. Communication has been encouraged both between staff and the team leaders but between the teams also with everyone encouraged to speak up if they identify a risk or witness poor practice.
19. Whilst the action proposed has not been implemented as envisaged by the AGS, the work by the Health and Safety Advisor and officers she has worked with has had much more value. The approach of staff to Health and Safety is now more productive and by ensuring the teams take ownership of the risk assessments personally not only have the documents improved but staff approaches to risk have improved too.
20. A programme has been set up which will be implemented over the course of the next 2 years which will realise the same benefits of embedding this approach across the remaining areas of the Council.

CORPORATE POLICIES – TO ENSURE THAT ALL EMPLOYEES ARE AWARE OF THE REQUIREMENTS OF CORPORATE POLICIES

21. The proposed action was to include a “policy of the month” onto the Council’s Core Brief. Core Brief is an internal staff update document which informs staff of important work or issues that have arisen in the preceding month or are likely to arise in the following month. Core Brief should be given to staff verbally by managers and it is encouraged to bring services together to enable a sharing of information.
22. This has been implemented.

EQUALTIY AND DIVERSITY – TO FURTHER EMBED EQUALITY AND DIVERSITY THORUGHOUT THE COUNCIL

23. The purpose of this action specifically related to decision making of the Council, to ensure that Equality and Diversity were to be properly considered.
24. A number of actions have been undertaken as part of delivering the council’s Equality Scheme including developing further training for staff, raising awareness through internal communications including core brief and on The Loop, reviewing our approach to equality monitoring and continuing to assure the completion of Integrated Impact Assessments. To ensure that not only was equality and diversity considered but also demonstrated through evidence, decision making templates have been amended to ensure there is a comment relating to Equality and Diversity on all service delivery and policy implementation decisions. This work will continue as set out in the Equality Scheme action plan.

IMPLICATIONS OF REPORT

25. This report has implications in the following areas and the relevant Directors’ comments are included:

Finance		Customer Services	
Human Resources		Equality and Diversity	X
Legal	X	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

26. None

COMMENTS OF THE MONITORING OFFICER

27. None

Rebecca Huddleston
DIRECTOR OF POLICY AND GOVERNANCE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Chris Moister	5160	15 January 2018	***