

Public Document Pack

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Date: Wednesday, 20 January 2021

****Virtual Meeting**

Dear Sir or Madam

The Audit Committee – Thursday, 28 January 2021, 10.30 am – Virtual meeting by Teams

A meeting of the Audit Committee will take place as indicated above. Councillors will be sent a Teams Meeting invitation to place the meeting in their Calendar and can then access the meeting from the link in that calendar item.

Please Note that any member of the press and public may listen in to proceedings at this 'virtual' meeting via the weblink below –

<https://youtu.be/qv8xcDG1FCg>

The agenda is set out overleaf.

Yours faithfully

Assistant Director Governance and Monitoring Officer

To: Members of the Committee

Councillors: John Cato (Chair), Sandra Hearne (Vice-Chairman), Patrick Keating, Marcia Pepperall and Richard Westwood.

This document and associated papers can be made available in a different format on request.

Agenda

1. **Public Participation (Standing Order 17 as amended by SO 5A)**

To receive written submissions from any person who wishes to address the Committee. The Chairman will select the order of the matters to be received.

Please ensure that any submissions meet the required time limits and can be read out in five minutes (up to a maximum of 30 minutes).

Requests and full statements must be submitted in writing to the Head of Legal and Democratic Services, or to the officer mentioned at the top of this agenda letter, by noon on the day before the meeting and the request must detail the subject matter of the address.

2. **Apologies for absence and notification of substitutes**

3. **Declaration of Disclosable Pecuniary Interest (Standing Order 37)**

A Member must declare any disclosable pecuniary interest where it relates to any matter being considered at the meeting. A declaration of a disclosable pecuniary interest should indicate the interest and the agenda item to which it relates. A Member is not permitted to participate in this agenda item by law and should immediately leave the meeting before the start of any debate.

If the Member leaves the meeting in respect of a declaration, he or she should ensure that the Chairman is aware of this before he or she leaves to enable their exit from the meeting to be recorded in the minutes in accordance with Standing Order 37.

4. **Minutes 19 November 2020 (Pages 5 - 10)**

19 November 2020, to approve as a correct record (attached)

5. **Matters referred by Council, the Executive, other Committees and Panels (if any)**

6. **External Audit Update (Pages 11 - 60)**

Annual Audit Letter from the Council's External Auditor (attached)
Audit Progress Report and Sector Update – report from the Council's External Auditor (attached)
Re-energising Local Public Audit – report from the Council's External Auditor (attached)

7. **Risk Management Update (Pages 61 - 72)**

Report of the Director of Corporate Services (attached)

8. **Senior Management Review**

Verbal report from the Interim Director of Finance

9. Treasury Management Strategy 2021/22 (Pages 73 - 124)

Treasury Management Workshop Report - report of the Director of Corporate Services (attached)

10. Internal Audit - Audit Committee Consultation (Pages 125 - 128)

Report of the Head of Audit West (attached)

11. Urgent business permitted by the Local Government Act 1972 (if any)

Any item of business which the Chairman is of the opinion should be considered at the meeting as a matter of urgency by reason of special circumstances (to be specified in the Minutes). For a matter to be considered as an urgent item, the following question must be addressed:

“What harm to the public interest would flow from leaving it until the next meeting?” If harm can be demonstrated, then it is open to the Chairman to rule that it be considered as urgent. Otherwise the matter cannot be considered urgent within the statutory provisions.

Exempt Items

Should the Audit Committee wish to consider a matter as an Exempt Item, the following resolution should be passed -

“(1) That the press, public, and officers not required by the Members, the Chief Executive or the Director, to remain during the exempt session, be excluded from the meeting during consideration of the following item of business on the ground that its consideration will involve the disclosure of exempt information as defined in Section 100I of the Local Government Act 1972.”

Also, if appropriate, the following resolution should be passed –

“(2) That members of the Council who are not members of the Audit Committee be invited to remain.”

Mobile phones and other mobile devices

All persons attending the meeting are requested to ensure that these devices are switched to silent mode. The chairman may approve an exception to this request in special circumstances.

Filming and recording of meetings

The proceedings of this meeting may be recorded for broadcasting purposes.

Anyone wishing to film part or all of the proceedings may do so unless the press

and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman.

Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting.



Draft Minutes

of the Virtual Meeting of the

Audit Committee

Thursday, 19th November 2020

held via Microsoft Teams.

Meeting Commenced: 10:30 Meeting Concluded: 13:50

Councillors:

P John Cato (Chairman)
P Sandra Hearne (Vice Chairman)

P Marcia Pepperall
P Richard Westwood
P Patrick Keating

P: Present
A: Apologies for absence submitted

Other members: Councillors Caroline Cherry, Mark Crosby, Mike Solomon.

Also in attendance: Barrie Morris and Gail Turner-Radcliffe (Grant Thornton)

Officers in attendance: Mark Anderson (Corporate Services), Stephen Ballard (Corporate Services), Hazel Brinton (Corporate Services), Peter Cann (Audit West), , Richard Penska (Corporate Services), Mike Riggall (Corporate Services), Melanie Watts (Corporate Services), Jeff Wring (Audit West)

AUD Chairman's Welcome

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The Chairman welcomed everyone to the second virtual meeting of the Audit Committee.

He explained the procedures to be followed at the meeting and confirmed that decisions taken at this virtual meeting would have the same standing as those taken at a physical meeting of the Council in the Town Hall.

The Chairman reminded everyone that the meeting was being livestreamed on the internet and that a recorded version would be available to view within 48 hours on the North Somerset Council website. The meeting had started slightly later than the scheduled time due to technical difficulties with members connecting to the meeting.

At the invitation of the Chairman the Democratic Services officer took a roll call of councillors to confirm attendance for the benefit of those in the meeting and members of the public watching online.

AUD 11 Election of Vice-Chairman for the Municipal Year 2019-20 (Agenda item 1)

Resolved that: Councillor Sandra Hearne be elected as Vice-Chairman of the Audit Committee for the Municipal Year 2020-21.

The Chairman expressed his thanks to Councillor Richardson as outgoing Vice-Chairman.

AUD 12 Declaration of disclosable pecuniary interest (Standing Order 37) (Agenda Item 4)

None.

AUD 13 Minutes of the meeting held on 7 July 2020 (Agenda Item 5)

Resolved: that the minutes of the meeting be approved as a correct record.

AUD 14 Statement of Accounts 2019-20 (Agenda Item 7)

A representative of the interim Director of Finance and Property presented a summary of the Head of Corporate Accountancy's report on the Statement of Accounts 2019/20. He summarised the adjustments that had been agreed with the Council's external auditor. He noted that the external audit was now substantially complete, and no further amendments were expected. He explained the additional support given to members to facilitate their role in reviewing and approving the Statement of Accounts and Annual Governance Statement and drew members' attention to reports received from the council's external auditors.

The representative of the interim Director of Finance and Property informed the Chairman that the external auditors had requested the "Informing the Risk Assessment" letter signed by the Chairman on behalf of the committee and sent to the external auditors be taken as part of the consideration of the Statement of Accounts 2019/20 and that the request to use electronic signatures be formally resolved.

The Chairman ruled that the "Informing the Risk Assessment" letter sent to the council's External Auditor be considered under Item 12 as urgent items of business under the Local Government Act 1972.

Note: Minute AUD 19 refers.

Barrie Morris of Grant Thornton highlighted the key message of the external audit reports which was the background against which the Statement of Accounts had been prepared and the external audit undertaken. He and Gail Turner-Radcliffe presented the Audit Findings Report, drawing members attention to key areas and noting the focus of work on the valuations of property, plant and equipment and net pension liabilities and the impact of Covid-19 on the economy and thus the valuations. The representatives from

Grant Thornton noted that their audit work was now complete and highlighted their Action Plan and Recommendations to members. They noted that their opinion on IT General Controls which had highlighted a theoretical but unexploited weakness in respect of segregation of duties for superusers was still to be incorporated into their report.

Members asked and had queries answered on the following areas of the Accounting Statements and Annual Government Statement: whether the work on property, plant and equipment valuations was complete; the leisure centres valuation and error in those due to incorrect floor plans being used - additional procedures have now been put in place; valuations on the council-owned shopping centres and noted the Property Investment Board takes regular assessments as part of their duties; monitoring of the capital budget 19/20 and the risk register of issues around the capital budget; the detail behind the Adult Social Care budget and the increase in Homecare clients; Key Performance Indicators (KPIs) and how the metrics are chosen for inclusion in the report; Education and Children's Safeguarding KPIs; the proportion spent on welfare issues; property, plant and equipment valuation and movement; the value of property investments in relation to pension assets; accounting treatment of Dedicated Schools Grant with which the External Auditors disagree; Business Rate arrangements under the City Region Deal; members' and senior officers' business interests; investment properties, level of expenses and net yield ; the council's savings programme and contract management.

Resolved:

- 1) that the Chairman and Chief Financial Officer sign the Statement of Accounts 2019/20 with electronic signatures;
- 2) that the Letter of Representation be approved;
- 3) the Statement of Accounts for 2019/20 be approved, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work and assurance by the external auditors;
- 4) that arrangements are made for the Chair of the Council's Audit Committee and the Chief Financial Officer to electronically sign the Accounts for 2019/20 as representing a 'true and fair view' of the financial position as at 31 March 2020, following any amendments necessary upon quantification of the impact of any issues arising from on-going work and assurance by the external auditors; and
- 5) that arrangements be made for the Leader of the Council and the Chief Executive Officer to formally approve the Annual Governance Statement as part of the financial accounts with electronic signatures.

AUD External Audit Progress Report 2019-20 (Agenda Item 8)

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Barrie Morris from Grant Thornton drew members attention to areas of note in the External Audit Progress Report including fees; certification of claims and returns; completion of the Audit Finding Report 19/20 and the issuing of Auditors' Report to the council. He noted the sector update report which

included a revised Value for Money audit approach proposed by the National Audit Office for 2021/21 and the Redmond Review which incorporated recommendations on a new regulator; the scope to revise fees; a revision of the accounts publication deadline for Local Authorities to 30th September and the simplification of accounts. He added that a reorganisation of local government is underway for two-tier shire counties.

Members asked questions on audit fees and the impact of Covid-19 on the time taken to deliver the audit which were answered from both the perspective of the auditors and the interim Director of Finance and Property and included an acknowledgement of the efficiencies that could be developed in remote working between the council and its auditors. Questions and comments were also asked on the impact in practice on the council and officers of a sharper and more timely focus on review areas based on risk assessments and how the council can support the changes and on the appointment to the Audit Committee of independent members and skills required of those independent members.

Resolved: that the External Audit Progress Report 2019-20 be noted.

AUD 16 Treasury Management Outturn Report for 2019/20 and Mid-Year Report for 2020/21 (Agenda Item 9)

The representative of the Interim Director of Finance and Property presented the Treasury Management Outturn Report for 2019/20 which informed the committee of; the treasury management activities undertaken during the year; the treasury management indicators for 2019/20 and the commercial investment property valuations and returns for 2019/20. She drew members' attention to; the reporting framework under the Chartered Institute for Public Finance and Accountancy regulations (CIPFA); that the report confirmed that treasury activities were in accordance with the Treasury Management Policy approved by Council; the treasury management activities which complied with the agreed council strategy for the year; the activities of the treasury management team; the headline metrics for the given period; the summary of investment returns and borrowings and the strategic issues and risks facing the council in respect of investment and borrowing particularly in relation to commercial property.

Members asked questions and received answers on; the debt in relation to Avon County Council and the ability and the wisdom of restructuring the pay down period of the debt; whether the treasury management strategy will be reviewed considering future economic impacts and government policy changes and how the treasury management strategy is structured.

Resolved:

1. that the Treasury Management Out-turn Monitoring Report to 31st March 2020 be noted
2. that the treasury management indicators to 31st March 2020 be noted
3. that the commercial investment property valuations and returns for 2019/20 be noted

The representative of the Interim Director of Finance and Property presented the Treasury Management Mid-Year Report 2020/21 and noted the challenges to the team of the last six months including the impact of Covid-19 and the pressures on the council to deliver new services and existing services in a different way. She noted that the economic environment has resulted in the council maintaining more liquid funds due to very low interest rates and the need to act swiftly to emerging pressures which has had an impact on the council's revenue budget in respect of investment returns. She added however that the mitigations were in place to reduce the impact on the council's budget.

Members asked questions and received answers on; the Public Loans Works Board (PWLB) rate increase; the order of risks in respect of security, liquidity and yield and the impact of lower returns on the council's status as a "going concern" and consultation with outside bodies on treasury management as an opportunity to evaluate new ways of working.

The Chairman expressed his thanks to the Finance team for their work on the reports' presentation.

Resolved:

4. that the Treasury Management In-year Monitoring Report to 30th September 2020 be noted
5. that the treasury management indicators to 30th September 2020 be noted
6. that the commercial investment property returns to 30th September 2020 be noted

AUD 17 Internal Audit Performance Update Report Nov 2020 (Agenda Item 11)

The Chairman proposed a change to the order of the agenda and took item 11 next.

A representative from Audit West presented the Internal Audit Performance Update Report 2020/21. He drew members' attention to the sections on Completion of the Internal Audit Plan; the Audit Reviews Completed and Assurance Level Provided. He noted the in-year adjustments required to the Internal Audit Plan as a result of unplanned work particularly due to Covid-19 including the audit of grant payments paid as a result of the pandemic; the drop in the level of staff sickness throughout the council compared to last year; the 83% completion rate for audit reviews with the emphasis on home working by internal audit and council staff and the necessity to complete all audits remotely; the difficulty of remote working and the impact of this on the level of assurance that could be provided.

Members asked questions and received answers on the following: whether there was an opportunity to identify the areas of "satisfactory" internal audit opinion and how to aspire to improve these areas and the factors involved in determining the areas of internal audit focus in order to maximise the return on the council's investment in internal audit work.

Resolved:

1. that the progress in delivery of the 2020/21 Annual Audit Assurance Plan be noted
2. that the views from the Audit Committee on priorities for the remainder of the year be discussed with the internal auditors in due course

AUD Audit Committee Annual Report 2019-20 (Agenda Item 10)

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The Chairman presented the Annual Report which set out a summary of the work undertaken by the Committee in the previous year and provided a commentary over key areas of financial and corporate governance and associated assurance activities. He highlighted the benefits of the Audit Committee work to customers and residents and other areas of achievement including promoting access to the Audit Committee and to Audit Committee meetings to all members and scrutiny committees; identifying gaps in Audit Committee skills and undertaking training and embedding a Terms of Reference rewritten in line with best practice from CIPFA.

Resolved:

1. the Audit Committee approve the Audit Committee Annual Report 19/20 and
2. that the report be recommended to Council for receipt

AUD Urgent Items – Informing the Risk Assessment letter (Agenda Item 12)

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The Chairman drew members attention to the Informing the Risk Assessment letter that had been received that morning. The Chairman ruled that the letter be considered as an urgent item of business, the reason for urgency being the request by the council's external auditor that the item be considered as part of the committee's assessment of risk during the 2019/20 financial year.

Note: Minute AUD 14 refers

Members asked for clarification of the wording "standing orders are broadly being complied with" to which a response was provided by the representative of the interim Director of Finance and Property.

Resolved that the Informing the Risk Assessment letter be noted.

Chairman

The Annual Audit Letter for North Somerset Council

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Year ended 31 March 2020
December 2020



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Your key Grant Thornton
team members are:

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Appendices

A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at North Somerset Council (the Council) for the year ended 31 March 2020.

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 Committee as those charged with governance in our Audit Findings Report on 19 November 2020.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £7.25m, which is 2% of the Council's gross cost of services.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 19 November 2020.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings, investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

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

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 19 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of North Somerset Council in accordance with the requirements of the Code of Audit Practice on 19 November 2020.

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Working with the Council

Working remotely presented a number of challenges, for auditors and officers, including remotely accessing financial systems, video calling and additional procedures to verify the completeness and accuracy of information produced by the Authority. This resulted in considerably more audit time than initially planned.

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
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the financial statements to be £7.25m, which is 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £20k due to its sensitive nature.

We set a lower threshold of £0.35m, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is 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 was based on a thorough understanding of the Council's business and is risk based.

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

Audit of the Financial Statements

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>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 2 July 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence; and • engaged the use of auditor experts where auditor has deemed it necessary for asset valuations. 	<p>Our audit work has not identified any issues in respect of the Covid-19 significant risk.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>We rebutted the risk at the planning stage of our audit. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including North Somerset Council, mean that all forms of fraud are seen as unacceptable <p>No circumstances arose that indicated we needed to reconsider this judgement.</p>	<p>No circumstances arose that indicated we needed to reconsider this judgement.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. 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 therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>We have raised a control recommendation in respect of journals as journals posted by finance users do not require authorisation prior to being posted to the system and journals can be posted without a narrative being entered.</p> <p>Our testing of journal entries made in year did not identify any issues.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>Valuation of land and buildings (Rolling revaluation)</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£327m at planning stage and £354m in financial statements) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; wrote to the valuer to confirm the basis on which the valuation was carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our testing of valuation of land and buildings made in year found an error. We found that the valuation for leisure centres had been based on incorrect information. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£259m in the prior year and £268m at 31/3/2020) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report and; • obtained assurances from the auditor of the Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>No issues have been identified from our audit work on the valuation of pension fund net liability to date. We will be including an Emphasis of Matter paragraph into our audit opinion to draw the readers attention to the disclosures made around the estimation uncertainty in the valuation.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 19 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements on 2 July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The nature of the new remote access working arrangements, i.e. remote accessing financial systems, video calling and verifying the completeness and accuracy of information produced by the Council, resulted in additional time to complete the audit and, consequently, the cost of delivering the final audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 19 November 2020.

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

- We recommend that risk-based journal authorisation controls are implemented in the form of a preventive (system based) control which requires authorisation before posting to the general ledger, or a detective /corrective control such as a retrospective review of journal entries by an individual other than the poster. We would also recommend that a narrative is entered for each journal so that an audit trail is maintained.
- We recommend that management ensures that an appropriate audit trail of evidence is kept to support the underlying transaction.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in July 2020.

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

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

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

We have not exercised any of our additional statutory powers or duties.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of North Somerset Council in accordance with the requirements of the Code of Audit Practice on 19 November 2020.

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 April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Future Financial Sustainability</p> <p>Like many other similar local authorities, the financial outlook remains challenging. At month 7 the Council was forecasting a net overspend of £1m (0.64% of the budgeted position), although latest indications for Months 8 and 9 indicate that this position is improving. The main pressure is within the Children & Young People directorate. The 2019/20 revenue budget incorporates savings of £10.9m.</p> <p>The Council acquired its second asset as part of the commercial investment programme in 2018/19, financed by a long term lease with Legal and General. Its portfolio includes the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare.</p>	<ul style="list-style-type: none"> The Council's original net revenue budget for 2019/20 was £153.976m (before parish precepts) which included an increase of council tax of 2.75%. This was predicated on a savings target of £10.829m. This was approved at the February 2020 Council meeting. The final outturn position reported a nil overspend/underspend against the revised budget. The Council's main pressure point continues to be within the People & Communities – Children's & Young People Directorate with a reported overspend of £1.999m (£1.845 in 2018/19). This is the main pressure point for the Council and has been for a number of years due to the increases in demand for Children's Services. The variances within this directorate were reported as key risks within the council's budget planning process and have been closely monitored throughout the year. The pressures of the rising numbers and costs in children's social care are not one off in nature and are likely to continue into future years, reflecting national trends. Adult social care directorate reported a small overspend during the year of £50k (underspend of £122k in 2018/19). Given this is another demand led service this budget position is a small overspend and indicates effective in year monitoring and demand management for this service. The back-dating of the revised minimum revenue provision policy in 2017/18 gave the Council a £2.575m benefit in the 2019/20 financial year. Out of the savings plans identified in the initial budget, 90% were achieved. Where initial planned savings were not met within 2019/20, alternative savings and underspends mean this has not impacted the achievement of the overall budget position. The Council has a good track record of delivering against its budget despite the continued reduction in central government funding and the need to identify and realise significant savings each year. There is regular review and challenge at a member and officer level and there is evidence of robust financial management arrangements being in place. The Council approved its MTFP in February 2020 which covers the period up to 2023/24 and shows a budget gap of £19.017m in the latter years. The Council is currently reviewing its MTFP to consider the impact of Covid-19 on the finances. The Council is currently forecasting a £3.916m shortfall in funding in the financial year to 31 March 2021 and is working to close this gap. Montague Evans are the property management agents that act on behalf of the Council and the Council have had regular meetings throughout the financial year. The Council reports it budget monitoring to each meeting of the Executive Committee, which includes monitoring of investment properties. As no further commercial investments are currently under consideration, and the Commercial Strategy has been agreed and is in place, no further meetings of the Property Investment Board have taken place. 	<p>Whilst the Council continues to operate under significant financial pressures, in particular due to the impact of Covid-19, it has effective arrangements in place to routinely monitor its budget and has a good track record of delivering the required savings.</p> <p>We therefore conclude that overall the Council has appropriate arrangements in place to manage its financial sustainability. However, the impact of Covid-19 is not yet fully known. Consequently, the Council will need to maintain and strengthen its financial monitoring arrangements to ensure that funding and spending pressures are identified and acted upon swiftly.</p>

A. Reports issued and fees

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

Audit fees	Proposed fees
Council scale fee	£86,221
Additional proposed audit fee at planning stage	£20,350
Total proposed audit fees (excluding VAT) at planning	£106,571
Further additional fees proposed at completion	£15,986
Total proposed audit fees (excluding VAT) on completion	£122,557

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report	November 2020
Annual Audit Letter	December 2020

We confirm above our final fees charged for the audit and final reports issued.

The North Somerset Council Audit Plan presented in January 2020 included £20,350 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator in relation to our work on pensions and PPE. This is reflected in the total proposed audit fees at planning above.

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £15,986 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £122,557. This includes £9,350 in relation to the use of an auditor's expert around the valuations of investment property. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by four months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

We have discussed and agreed these additional fees with the Interim Director of Finance & Property. Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

A. North Somerset Council audit fee variations – Further analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	£86,221	
Increased challenge and depth of work	5,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE - valuations	9,350	The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations
New standards/developments	2,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we responded to the introduction of IFRS16.
Revised planning fee	£106,571	
Covid-19 and client delays	15,986	<p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We have also engaged an auditor's expert to review investment property valuations in light of Covid-19. Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed final audit fees	£122,557	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Teacher's pension return	£5,000
- Certification of Housing Benefits return	£15,776

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Non- audit services

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

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



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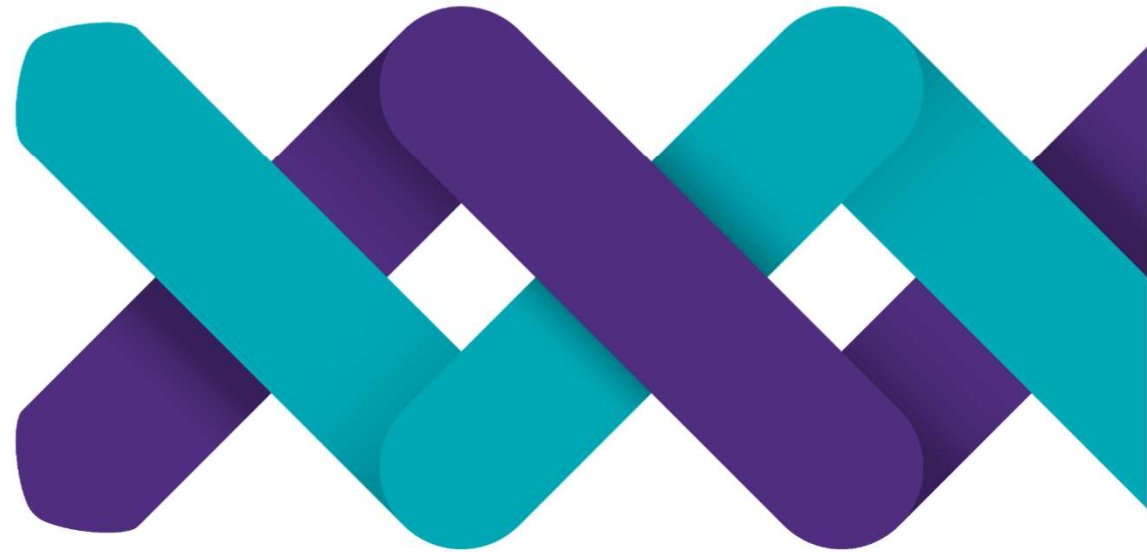
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Audit Progress Report and Sector Update

North Somerset Council Year ending 31 March 2021

January 2021

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Introduction



Jon Roberts

Engagement Lead

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This paper provides the Audit 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.

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

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



Gail Turner-Radcliffe

Engagement Manager

T 029 2034 7546

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Progress at January 2021

2019/20

We issued an unqualified audit opinion on the Council and the Group's financial statements on 19 November 2020.

We included an emphasis of matter within our audit opinion which referred to the disclosures that management had made regarding the material uncertainties for the valuations of property, plant and equipment and pension fund pooled property funds. Our audit opinion was not modified as a result of this emphasis.

2020/21

We will now begin to look to the 2020/21 financial year and begin our planning processes for the audit.

Our formal work will begin later in the year and in the meantime we will:

- continue to have regular discussions with management to inform our risk assessment for the 2020/21 financial and value for money audits
- review papers and latest financial and operational performance reports
- consider any reports from regulators

We expect to issue our audit plan summarising our approach to key risks on the audit in April 2021.

Value for Money

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Further detail on the NAO's revised approach to VFM work can be found here: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf>

Due to the change in approach, a fee variation will be needed for 2020-21 and your Engagement Team should be in touch shortly to discuss this.

The new Code of Audit Practice issued by the NAO can be found here: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Other areas

Meetings

We met with Finance Officers in January 2021 as part of audit planning for 2020/21. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Certification of claims and returns

Housing Benefit Subsidy claim - in accordance with procedures agreed with the Department for Work and Pensions (DWP). We are currently working with the Housing Benefits team to complete the work.

The DWP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit Committee in our Certification Letter in April 2021.

Teachers Pension's claim – We have completed our audit of the Teachers Pension's claim.

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report will be reported to the November Audit Committee.	November 2020	November 2020
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	November 2020
Annual Audit Letter This letter communicates the key issues arising from our work.	January 2021	January 2021
2020/21 Deliverables		
Fee Letter	April 2021	Not yet due
Audit Plan	April 2021	Not yet due
Audit opinion	tbc	Not yet due
Audit Annual Report	tbc	Not yet due

Sector update

Councils continue to try 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 operational issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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

Public Sector

Local
government

New NAO Code of Audit Practice for 2020-21

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- Page 33
- promote more timely reporting of significant issues to local bodies;
 - provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
 - provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
 - provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VfM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The '**Commentary on arrangements**' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Chief Operating Officer shortly.

To review the new Code and AGN03 click [here](#)

NAO



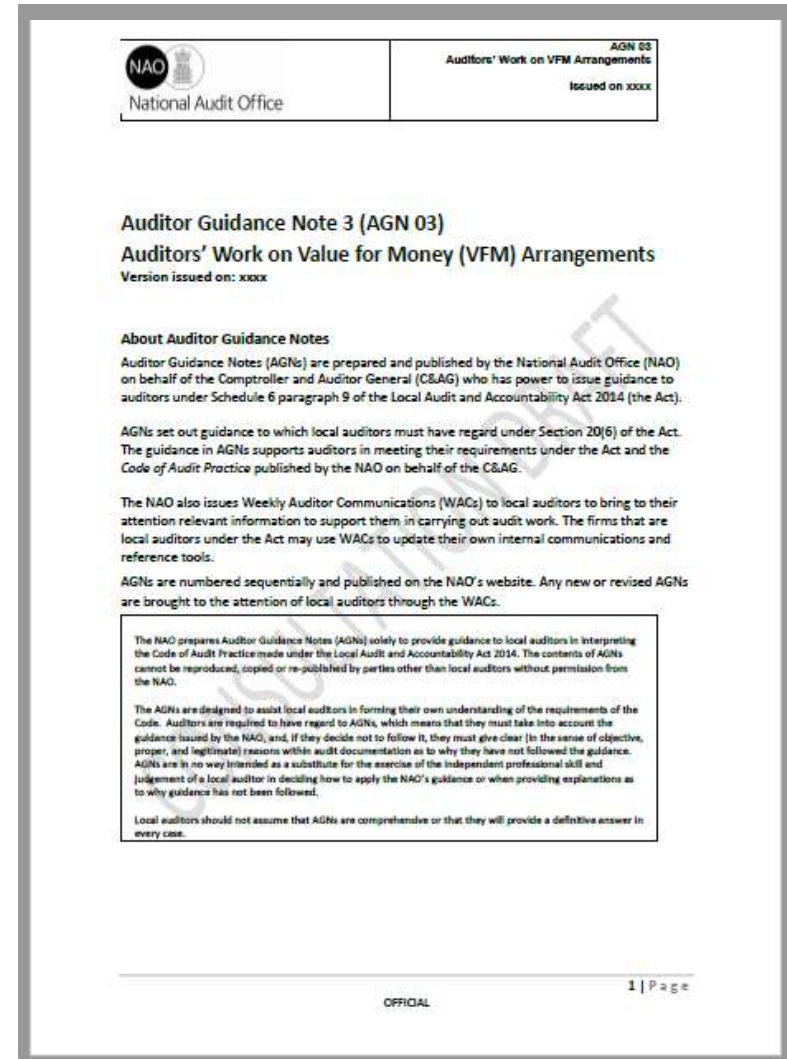
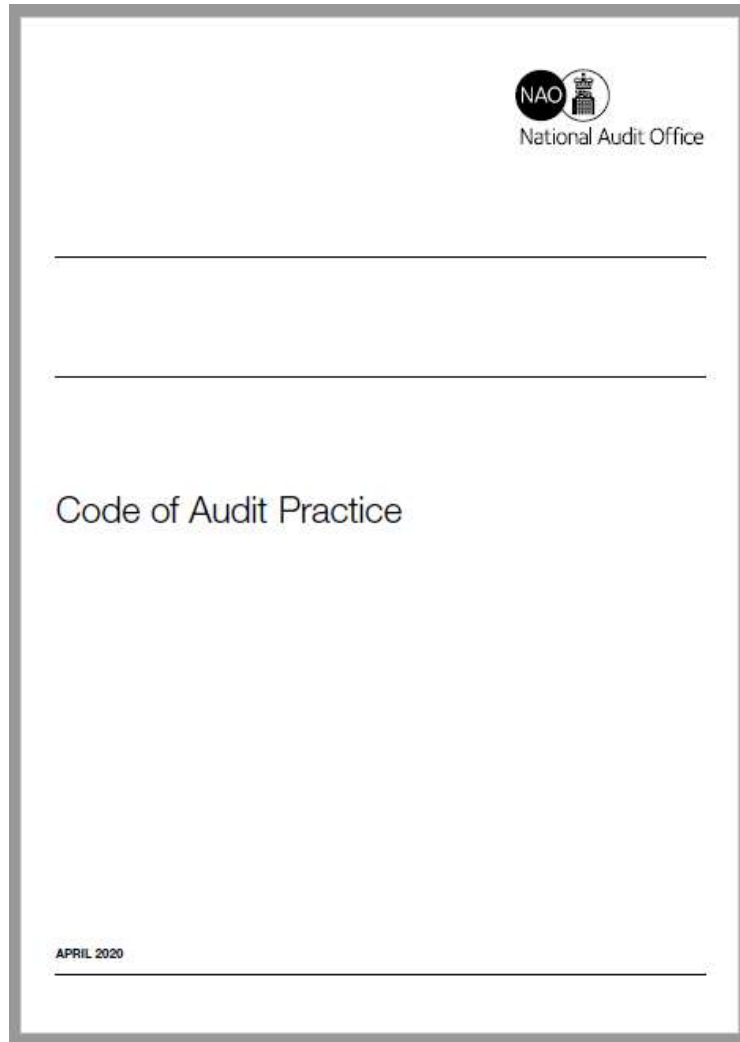
Value for Money update for Audit Committee on new arrangements 2020-21

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How have the NAO changed value for money work ?

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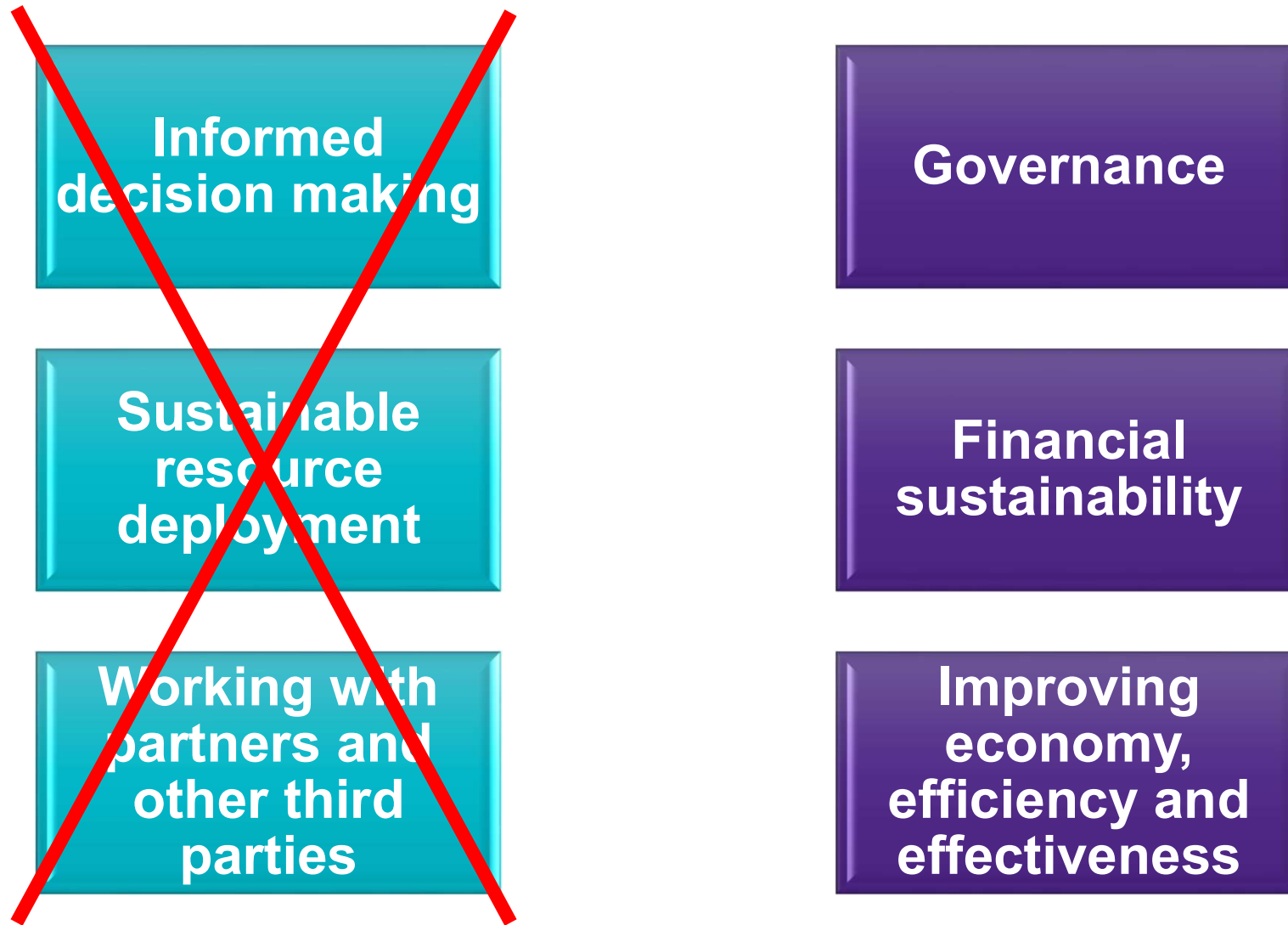


How is value for money work changing ?



VFM arrangements commentary and recommendations

The three criteria have changed...

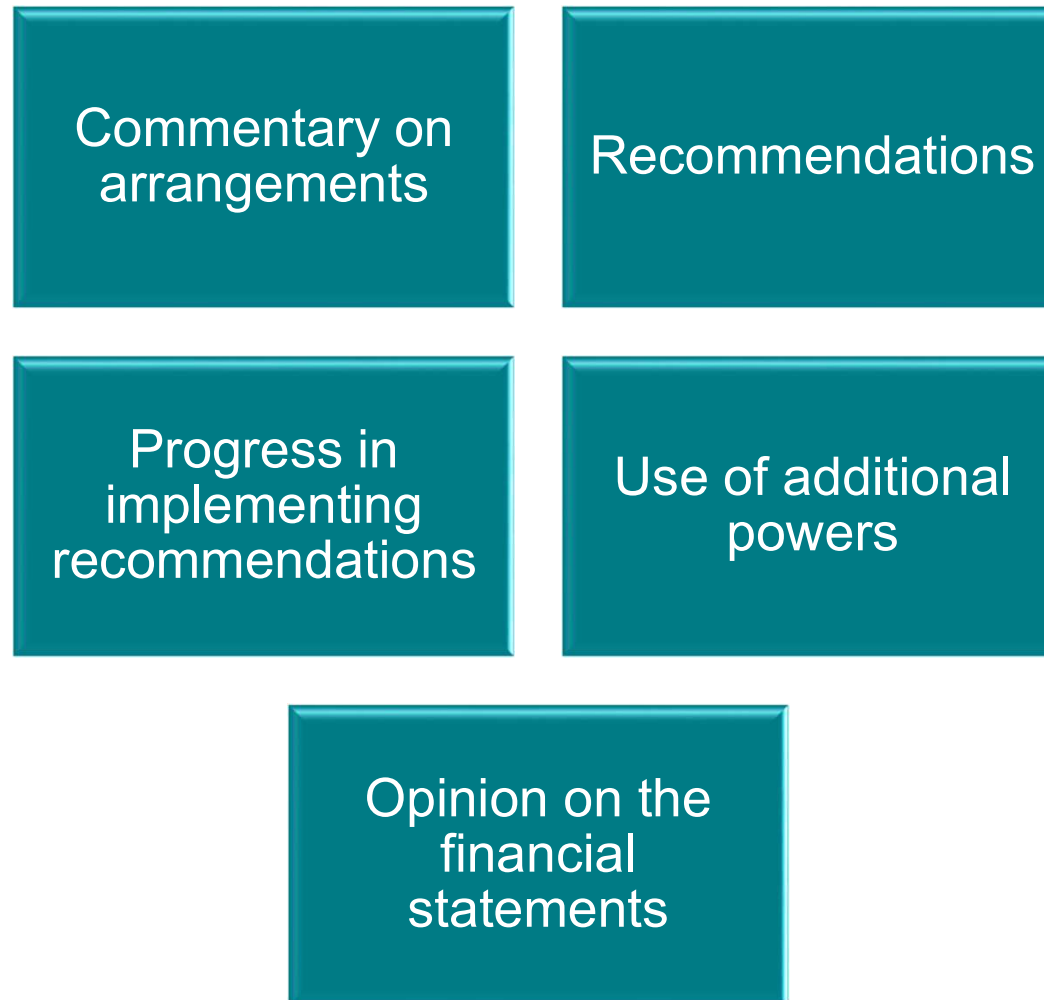


A key change in reporting...

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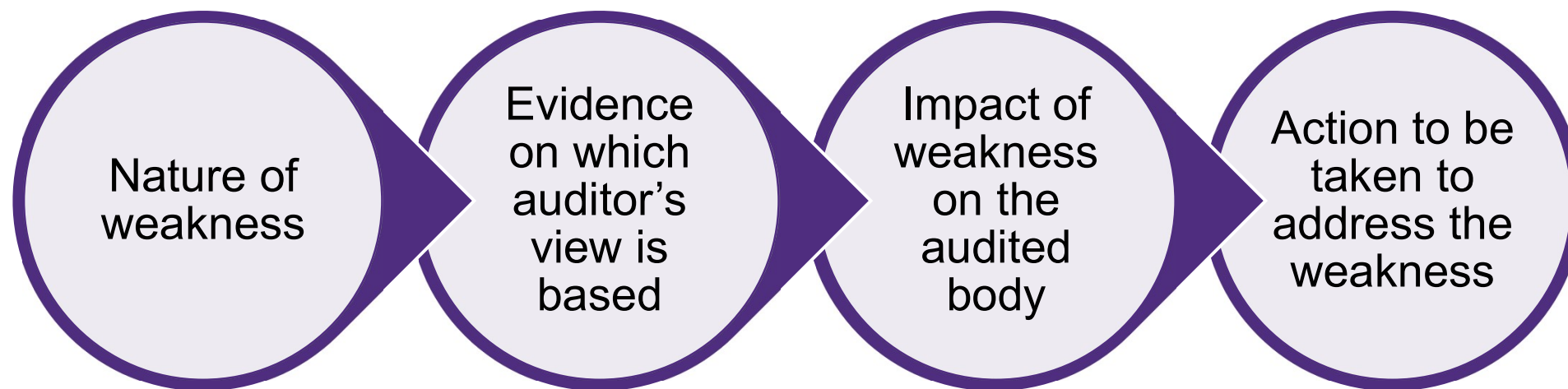


So what is in an Auditor's Annual Report ?



Recommendations

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Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings, Tamar Bridge, Cornwall Airport, inventory and group inventory and group land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

- Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:
- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;

- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Re-energising local public audit

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Jon Roberts
Head of Public Policy Audit



My career journey

A local auditor and proud of it

- Joined District Audit in July 1987
- RSM Robson Rhodes Bristol from 2002
- Made partner and set up Grant Thornton's Birmingham local audit team from 2007
- Back to Bristol
- Public Policy of Audit from 2018
- Still have a portfolio of audits



So why be an auditor?

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- Making a difference to tax-payers' money
- Variety of public bodies – LG, health, blue light, etc
- In different locations
- Test of professional mettle
- Broad skills-set: accounts, VFM, challenge
- In the public interest
- Just being there makes a difference

Audit under siege – a ‘Crisis’ in confidence in audit



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In the public sector ...

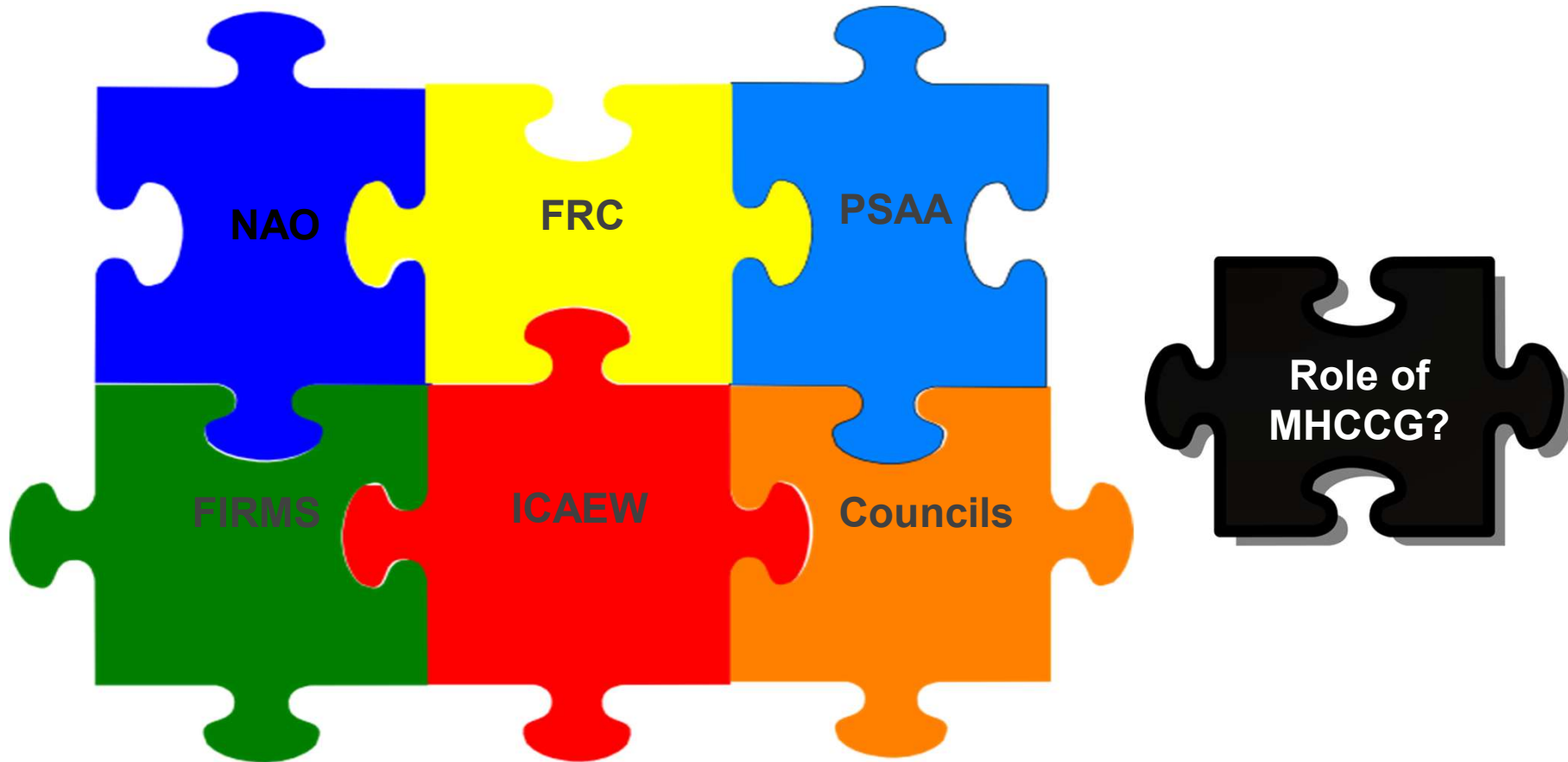
What did the Audit Commission ever do for us?

- Delivered audits
- Set the Code of Audit Practice
- Set fees
- Mandated work
- Regulated quality



Responsibilities under the Local Audit and Accountability Act

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Early close

Accounts and Audit Regulations

Draft Accounts	30 June	→	31 May
Published Accounts	30 September	→	31 July
Audited Accounts <u>target</u>	30 September	→	31 July

Full effect from Summer 2018

Local government has changed

Longer more complex accounts, lower fees

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The changing face of local government financial reporting – Birmingham City Council

	2008/09	2018/19
Auditor	Audit Commission	Grant Thornton
Length of financial statements (excluding opinion)	91 pages	219 pages
Length of audit opinion	3 pages	12 pages
Date opinion signed	Feb 2010 (11 months after year end)	September 2019 (6 months after year end)
Scale fee for audit opinion	£700,000	£241,000
Audit fee – grant claims	£300,000	£100,000

Regulator demanding more

- Regulators' role over firms
- The FRC's expectations for auditors
 - Increased scepticism and challenge
 - Increased focus on PPE, Pensions and other areas to the standards of the FTSE350
 - More robust reporting
 - More consistent audit quality

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2019 Summer of discontent

- Over 40% audits not signed at 31 July
- More work = fee variations
- Accounts preparation and quality slippage
- Retention of audit teams under strain – highly employable people

**The position was not sustainable ...
and then came Covid19**

A market-only regime

PSAA Review of sustainability in the Audit Market (March 2020)

- A number of firms have left the market
- For those that remain: long hours, more regulation, increased pressure
- External audit an increasingly unattractive profession
- How do we attract and retain the CIPFA accountants and auditors of the future?
- Where is the next generation coming from?

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Redmond to the rescue

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

James Brokenshire

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Review to cover: reporting, governance, audit quality and scope. Focus on users and sustainability.

What do I like?

Recognition that everyone plays their part:

- councils
- audit committees
- regulators/stakeholders
- CIPFA

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Creates the conditions and expectation for firms to invest:

- timetable
- work content and status
- fees



But what else?

- Do it once – do it properly
- Involve the NHS
- Mandatory independent appointment for all
- Accounts simplification – WGA and the PPE ‘food chain’
- Increase market participation by former and new suppliers
- Focus on the urgency – in anticipation of legislation

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 29th January 2021

Subject of Report: Risk Management

Town or Parish: All

Officer/Member Presenting: Richard Penska Interim Director of Finance

Key Decision: No

Reason:

Information item

Recommendations

The Audit Committee consider and note the Corporate Risk Management arrangements and those exercised over the COVID 19 pandemic and Brexit.

1. Summary of Report

The report provides the Audit Committee with following Risk Registers:

- a. Corporate Risk Register
- b. COVID 19 Risk Register
- c. EU Transitions Risk Register

These registers are used by the Corporate Leadership Team (CLT) to respond to, manage and mitigate risks emerging in a challenging operating environment. There is inevitably a degree of duplication within the registers, for example some risks contained within the Corporate Strategic Risk Register may be exacerbated by COVID or EU transition and will therefore appear in both.

The report is submitted to the Audit Committee to provide assurance that risks are being reviewed and mitigated where possible and to allow the Committee to seek further assurances on risks they may wish to focus on in their formal forward plan or internal briefings.

2. Policy

The council's Financial Regulations stipulates that "Sound governance requires effective and efficient management of risk and maximising opportunities, covering all forms of risk, not just financial" and that "The Section 151 Officer shall report all strategic risks (threats and opportunities) to the Corporate Management Team, the Audit Committee and the Executive as appropriate".

3. Details

The Corporate Risk Register, attached at Appendix 1, covers the key strategic risks for the council and is formally reviewed on a quarterly basis by CLT as part of its review of quarterly performance monitoring. The risks themselves are continually managed by the identified risk owners and separate reports and updates provided to CLT within its weekly meetings. The register contains the following risks:

Risks
Risk that we do not maximise the opportunities to retain an influential role in the West of England area to deliver continued economic growth, skills and funding through the WEP/LEP & City Deal.
Risk that we are unable to deliver the priorities of the Council by not planning to meet the Medium Term Financial Challenge.
Risk that we do not manage budgets effectively in-year by not implement and delivering the transformational projects required to meet the Financial Challenge
Risk that over reliance on IT & Digital provision does not constrain the flexibility and adaptability of services to implement transformational change to support customers and clients of the Council
Risk that despite protecting the Council's systems and essential data from Cyber attacks, malicious attempts to damage critical services within the Council could be disruptive.
Risk that we are unable to secure sustainable funding for the MetroWest scheme and expose the Council to unnecessary financial risk
Risk that we do not possess the appropriate procurement & commissioning skills & capacity or design appropriate processes and systems to manage external providers/contractors and deliver on key priorities for the Council.
Risk that we do not work effectively in partnership with the Health Sector in supporting joined up services to the most vulnerable in our community, e.g. use of the BCF and joint commissioning with Health.
Risk that we do not fulfil our statutory duties to safeguard Children and Adults.
Risk that we are unable to meet the increased costs of looking after children with complex needs in a sustainable way whilst safeguarding the most vulnerable.
Risk that we do not manage the market demands and demographic changes on the cost of childrens and adult social care within available resources.
Risk that we do not ensure our Economic Plan delivers a cohesive economic strategy to support employment and economic growth across the area and reduce inequalities.
Risk that we do not deliver sustainable solutions to the housing needs for the wider community as detailed in the Council's development plan and meeting our targets for affordable housing.
Risk that we do not plan for and manage investment in our infrastructure at a local and regional level to meet housing & transport needs in our community including delivery of key projects.
Risk that the Council does not adapt its own operations to reduce the impacts of Climate Change and provide a community leadership role to reduce carbon emissions.
Risk that we are unable to recruit and retain appropriate levels of staff to ensure delivery of services to the public and prevent reduced performance, increased sickness and staff turnover.

Risk that we are unable to adequately safeguard the Health, Safety and Welfare of our staff
Risk that we are unable to protect customer and citizen data and ensure compliance with GDPR (Data Protection Act 2018).
Risk that the Council's reputation is severely damaged or subject to legal challenge arising from a failure in Corporate Governance, i.e. inability to make essential decisions or failure to engage key stakeholders in key decisions or changes to service delivery.
Risk that negative consequences of a no deal Brexit cannot be mitigated adequately.
Risk that we are unable to respond to major incidents and protect the community and ensure continued operation of critical services in the case of emergencies.
Risks to the council's operational effectiveness due to the demands of the pandemic.

The COVID and EU Transitions Risk Registers are reviewed on a fortnightly basis as part of the council's emergency response to both these issues. The emergency response is primarily focussed on COVID, the management of this response has necessarily generated frequent liaison meetings with partners in order to ensure that council actions are informed by the latest intelligence and are co-ordinated and consistent across the region. CLT continues to meet at least weekly to co-ordinate the COVID response, and informally weekly with the Executive to keep Executive Members apprised. The council's COVID Risk Register is attached at Appendix 2 and includes the following risks:

Risks
Viability of our providers, contractors, suppliers including concerns around sustainability of key markets and failure to provide essential services.
In year - Council financial viability – liquidity, sustainable budget position.
MTFP 21/22 onwards Council financial viability – liquidity, sustainable budget position.
Safeguarding of vulnerable adults & children during lockdown.
Infection prevention and control (including PPE) within the Care Sector.
Widening of inequalities across the District with service/population impacts.
Advice and enforcement activity for regulatory services.
Failure to capture & maximise opportunities (e.g. community engagement) and continue to use additional capacity generated by volunteers and community groups
Ability to transition the public environment into safe & vibrant spaces (transition out of lockdown)
Recessional economic impacts & recovery including impacts on the housing market.

Further decline of Town Centres and High Streets in particular WSM.
Long term impacts on public transport infrastructure and providers and ability to maintain progress around active travel.
Delivery of public facing services through transition and service reconfiguration.
Ability to effectively work remotely/ Workforce management.
Support employee mental health & wellbeing.
Ability to transition into a new way of working within an office.
Ensuring that Risk Assessments are completed and all mitigating measures are followed for different working arrangements - office working, home visiting, reception opening, etc .
Increased cyber security threat during crisis.
Increased of COVID infection cases within workforce.
Mobilisation of Government grants - particularly Business grants and Free School Meals assistance.

The EU Transitions Risk Register is attached at Appendix 3 and covers the following risks:

Risks
The council has insufficient resources to manage our organisational risks around Brexit
Assistance is needed by the Environment Agency or Food Standards Agency from council health and safety and reg services officers.
Council staff who are EU citizens have not applied for settled status and/or may leave the UK.
ICT Hardware and support suppliers based in the EU may impact supply of goods and services.
Data flow between EU and UK may be illegal if we leave without a deal given the gap between placing GDPR into DP 2019 law.
An increase in demand for information from the community on subjects such as settled status scheme and government preparedness for Brexit.
Inconsistency of communications at a local level versus a national level.
Waste was previously exported to Sweden and the Netherlands. This was a risk due to uncertainty of export and delays.
Initial change in environmental targets and law may not be understood.
Increase in food export certificates.
Port health function – food.
Potential Food shortages.
Potential Fuel shortages.
Potential Medicine shortages

Availability of veterinary medicine
Imports regulatory function - animal feed
Imports regulatory function - organic products
Reduction in council tax collection rates affecting MTFP
Reduction in business rates affecting MTFP
Increase risk of public disorder and public protests
Increase in hate crimes/reduced community cohesion
Concern local business are not prepared for Brexit and Business Continuity plans do not reflect Brexit risk
Impact on local infrastructure such as, sea/air ports and transport routes ability to deliver key supplies.
Potential Increased costs for care homes
Children's Services impacts

4. Consultation

Not applicable.

5. Financial Implications

None specifically related to this report.

Costs

N/A

Funding

N/A

6. Legal Powers and Implications

None specifically, but individual risks will potentially have legal implications.

7. Climate Change and Environmental Implications

None specifically related to this report

8. Risk Management

Risk Management is an essential component of the council's local code of corporate governance. Significant risks to the council can occur which include lack of internal control, failures of governance, failure to follow statutory obligations or make poor decisions. A sound risk management framework assists the council in helping to identify risks, mitigate those risks and improve decision making and resource allocation.

9. Equality Implications

None specifically related to this report

10. Corporate Implications

Failure to establish a sound risk management framework and manage risks may result in an inability to protect the council's assets and resources, ensure statutory obligations are complied with and provide assurance to officers, members and the public of the soundness of the council's corporate governance

11. Options Considered

Not applicable

Author:

Richard Penska, Interim Director of Finance

Appendices:

Appendix 1 – Corporate Risk Register

Appendix 2 – COVID Risk Register

Appendix 3 – EU Transitions Risk Register

Background Papers:

None.

Theme	Risk	CLT LEAD	DLT LEAD	Q2 2020/21		Inherent risk	Mitigating actions	Residual risk	Q2 to Q3 change
				Inherent risk	Residual risk				
Partnerships	Risk that we do not maximise the opportunities to retain an influential role in the West of England area to deliver continued economic growth, skills and funding through the WE/LEP & City Deal	Jo Walker	N/A	HIGH	MEDIUM	HIGH	Electing members and senior officers continue to actively engaged in the W&E Joint Committee, LEP and liaise with colleagues regularly in WECA to ensure NSC is engaged and can influence and align as necessary to maximise outcomes for the area. NSC is also a member of the Western Gateway and continues to work closely with other LAs across the sub region and region, particularly around economic recovery and renewal, which includes infrastructure, transport, skills, supporting businesses and employment.	MEDIUM	NO CHANGE
Financial Management	Risk that we are unable to deliver the priorities of the Council by not planning to meet the Medium Term Financial Challenge	Richard Penska	Mel Watts	HIGH	HIGH	HIGH	MTFP for 2021 - 2024 drafted for Executive and Council approval in February 2021. The spending review and draft settlement, along with the council's transformation and savings plans will provide the council with a robust balanced budget for 2021/22. Uncertainty and therefore risk remains for future years as the economic impacts of the COVID and Brexit are unknown as well as Government future funding plans.	MEDIUM	DECREASE
Financial Management	Risk that we do not manage budgets effectively in-year by not implement and delivering the transformational projects required to meet the Financial Challenge	Richard Penska	Mel Watts	HIGH	MEDIUM	HIGH	The month 9 Budget Monitor is due to be reported to Executive in February 2021 and will project a balanced position for 2020/21, whilst the COVID pandemic continues to impact on the council's in-year finances current projections confirmed that the additional grants received from Government and the council's own cost mitigations will cover these additional cost pressures and loss of income.	MEDIUM	NO CHANGE
Information Management	Risk that over reliance on IT & Digital provision does not constrain the flexibility and adaptability of services to implement transformational change to support customers and clients of the Council	Richard Penska	Stuart Anstead	HIGH	MEDIUM	HIGH	ICT & Digital provision has proved to be an effective enabler in the council moving to remote working. Service delivery and customer contact has been redesigned as a result of COVID, some of these changes will be sustained in the future. The Council's Transformation Programme for 2021/22 will include further projects to support digital inclusion and remodel customer contact.	MEDIUM	NO CHANGE
Information Management	Risk that despite protecting the Council's systems and essential data from Cyber attacks, malicious attempts to damage critical services within the Council could be disruptive.	Richard Penska	Stuart Anstead	HIGH	MEDIUM	HIGH	Reasonable levels of assurance against low level criminal activity and self-inflicted damage can be attained by following the principles laid out by Government Digital Services and the National Cyber Security Agency. Maintaining PSN compliance and Cyber Essentials Plus accreditation also forces the council to address the key areas of cyber risk which includes the ongoing education of the workforce, and the testing of readiness to detect and report attacks. PSN compliance certificate in place. The council's Corporate Leadership recently undertook a Cyber Incident Business Continuity exercise and will continue to refine its incident management processes.	MEDIUM	NO CHANGE
Infrastructure	Risk that we are unable to secure sustainable funding for the MetroWest scheme and expose the Council to unnecessary financial risk	Richard Penska	Mel Watts	HIGH	HIGH	HIGH	Funding commitments from Central Govt and initial risk share with WECA agreed. Council's additional contribution identified through a rephrasing of Business Rate pool. Procurement estimated costs (GRIP 4) identified a further deficiency in level of funding, this is in part mitigated by contingency within the project budget, but more recently exacerbated by COVID 19 delays in the DSO process and requisite statutory processes. Further cost certainty will develop as the scheme progresses through the DCO process and the procurement approach is finalised.	HIGH	NO CHANGE
Contract Management	Risk that we do not possess the appropriate procurement & commissioning skills & capacity or design appropriate processes and systems to manage external providers/contractors and deliver on key priorities for the Council	Richard Penska	Mark Roddan	HIGH	MEDIUM	HIGH	Contract Management performance monitoring in place in order to provide increased DMT & CLT visibility on contract management effectiveness. Contract management training commenced with a defined group of council staff, paused during the initial months of the pandemic, but has recently restarted and due to be completed by March 2021.	MEDIUM	NO CHANGE
Partnerships	Risk that we do not work effectively in partnership with the Health Sector in supporting joined up services to the most vulnerable in our community, e.g. use of the BCF and joint commissioning with Health	Hayley Verico	Gerald Hunt	HIGH	HIGH	HIGH	Whilst the pandemic created considerable pressures it also provided opportunities for integrated working with health colleagues in both commissioning and provider organisations. There is commitment from across the health and social care sector to take these opportunities which is being backed up by joint actions. Harnessing the opportunities afforded during in covid, a Care Provision Programme Board has been established and is being chaired by the Interim DASS and has begun to scope opportunities for joint commissioning across BNSSG and with CCG.	MEDIUM	DECREASE
Safeguarding	Risk that we do not fulfil our statutory duties to safeguard Children and Adults	Sheila Smith / Hayley Verico	Carolann James	MEDIUM	MEDIUM	MEDIUM	We have continued to meet our safeguarding responsibilities - the pandemic has meant that we had to risk assess very carefully and whilst numbers of referrals reduced we continued to respond to all safeguarding concerns.	MEDIUM	NO CHANGE
Social Care	Risk that we are unable to meet the increased costs of looking after children with complex needs in a sustainable way whilst safeguarding the most vulnerable	Sheila Smith	Carolann James	HIGH	HIGH	HIGH	Since February we have seen a gradual reduction in the number of children whom we care for: 220 down from 244. Unlike many other LAs we have not seen a rise in recent months since children returned to school but there continues to be pressure arising from the costs of care although mitigations are in place i.e. re-commissioning of specific accommodation types and a renewed energy in recruiting more foster carers.	HIGH	NO CHANGE
Social Care	Risk that we do not manage the market demands and demographic changes on the cost of children and adult social care within available resources	Sheila Smith / Hayley Verico	Gerald Hunt	HIGH	HIGH	HIGH	The pandemic has had a significant impact on many providers of care homes for older people who now have an occupancy rate, on average, of 85% - whilst this has been the consequence of a downturn in demand we are expecting a rise in the cost of such care going forward. Domiciliary care providers have experienced an increase both in people coming forward to work in the sector and in requests for care packages so there are not the same pressures. The pandemic has brought forward our thinking about reshaping the market as potential service users are indicating a wish to remain in the community. This links to the work of the Care Provision Programme Board. With regard to children and young people's placement costs, there has not been the same pressure as in adults to date. Work has begun on a regional basis to look at how we might stimulate the market to provide placement choice/sufficiency.	HIGH	NO CHANGE
Local Economy	Risk that we do not ensure our Economic Plan delivers a cohesive economic strategy to support employment and economic growth across the area and reduce inequalities	Lucy Shomali	Alex Hearn	HIGH	HIGH	HIGH	New Economic Recovery and Renewal Strategy has been developed and signed off. This addresses business recovery and skills and employment issues across North Somerset in the context of the pandemic with key focus on a digital, green, healthy and inclusive economy. Steering Board being set up with representatives from key sectors, business ambassadors and business networks. Strong read across to the wider W&E Economic Recovery and Renewal Taskforce with officers and Members involved and ensuring NS is fully represented. Series of shorter term measures also being developed - particularly for high streets, and town centres and skills - to support businesses to re-open as lockdown eases and social distancing can be maintained. Close working between Economy Team and Finance to ensure Small Business and Discretionary Business Grants schemes administered. Regular reporting dashboards for the Economic Plan, Employment and Skills Strategy and Visitor Economy Action Plan has been developed, with updates every fortnight to the Chief Executive and content being used as the basis for discussions with the North Somerset Economic Recovery Group. In addition an Employment and Skills Taskforce has been established to focus on bringing together the partners that can tackle disadvantage and improve residents resilient in a challenging labour market. Despite the series of interventions, monitoring and collaborative working economic recovery remains a high risk due to the third rational lockdown and uncertainty over when restrictions will be eased.	HIGH	NO CHANGE
Housing	Risk that we do not deliver sustainable solutions to the housing needs for the wider community as detailed in the Council's development plan and meeting our targets for affordable housing	Lucy Shomali	Alex Hearn	HIGH	HIGH	HIGH	Following withdrawal of the JSP the North Somerset Local Plan process commenced in April 2020 with a programme anticipating formal adoption in 2023. This will be developed alongside a Spatial Development Strategy for the WECA UAs. The initial issues and options stage (known as Challenges and Choices) has been undertaken in two phases during summer and autumn 2020 through comprehensive consultation with residents, businesses and stakeholders. Team worked closely with SPEDR to develop a strong consultation and engagement strategy which was delivered in context of social distancing measures. Consultation on the Choices staged closed in December 2020 and will be used to inform the proposed spatial strategy for agreement by Members in Spring 2021. Development Management Team has continued to process Planning applications during lockdown period and Planning & Regulatory Committee continues to meet virtually in a streamlined form. Ongoing engagement with Homes England on the delivery of their Weston Town Centre sites.	HIGH	NO CHANGE
Infrastructure	Risk that we do not plan for and manage investment in our infrastructure at a local and regional level to meet housing & transport needs in our community including delivery of key projects	Lucy Shomali	Alex Hearn	HIGH	MEDIUM	HIGH	HIF funding for Banwell Bypass and Secondary school funding agreement concluded and project team in place for delivery. Detailed Business Case under preparation for A38 MRN improvements. Close working with WECA and associated transport bodies on public transport infrastructure including Strategic Rail and Bus Strategies and Mass Transit Applications. Need to address gaps in digital infrastructure as a priority as part of economic recovery work. Successful funding has been secured in support of Active Travel. Government have also indicated they are moving to local authority allocations from 22 rather than bidding for the distribution of future funds with more details expected shortly. Parklands Educate Together primary school opened in permanent building Sept 2020. North South Link continues to progress well, although impacts of Covid have resulted in a slight delay to completion to Spring 2021. Agreement on delivery of health centre at Parklands reached. Weston Town Centre enhancements (Alexandra Parade): approach agreed including de-scoping/delay of Station Road elements. Start on site expected imminently. Critical short-term risk is the viability of bus services when we move into the post-COVID world and emergency Government support begins to be withdrawn. Mitigating this will involve close work with both bus operators and WECA given many services in NS operate cross-boundary.	MEDIUM	NO CHANGE
Sustainability	Risk that the Council does not adapt its own operations to reduce the impacts of Climate Change and provide a community leadership role to reduce carbon emissions	Lucy Shomali	Alex Hearn	HIGH	MEDIUM	HIGH	Climate Emergency Strategy and Action Plan developed. Climate Emergency Strategy and Action Plan developed. Method established for NS to measure progress and performance in overall emissions. Additional work required to identify progress indicators across areas - will allow us to monitor progress more quickly. New steering group established, includes Chief Exec, Leader, portfolio holder, director and project manager - to meet quarterly. Carbon Literacy training established and available for booking on CPD. Team leaders urged to nominate representatives to attend in order to support team plans. Energy efficiency audits of corporate estate underway, recommendations will need to feed into capital programme and asset strategy.	MEDIUM	NO CHANGE
Workforce Planning	Risk that we are unable to recruit and retain appropriate levels of staff to ensure delivery of services to the public and prevent reduced performance, increased sickness and staff turnover	Nick Brain	Su Turner	MEDIUM	MEDIUM	MEDIUM	No current recruitment issues and no increase in turnover. Staff sickness is low. No immediate concerns.	LOW	DECREASE
Health & Safety	Risk that we are unable to adequately safeguard the Health, Safety and Welfare of our staff	Nick Brain	Su Turner	LOW	LOW	LOW	Increased demands due to COVID. Work through the Transitions Steering Group to ensure robust H&S processes in place including new Home Working policy.	MEDIUM	INCREASE
Information Management	Risk that we are unable to protect customer and citizen data and ensure compliance with GDPR (Data Protection Act 2018)	Nick Brain	Stuart Anstead	MEDIUM	MEDIUM	MEDIUM	Technical protections in place and updated. PSN checks compliance. Staff compliance with security monitored and reported to Statutory Officers and CLT. Risk level of medium given rise in use of social media comms platforms for business use and the associated acceptance of risk by the organisation.	MEDIUM	NO CHANGE
Corporate Governance	Risk that the Council's reputation is severely damaged or subject to legal challenge arising from a failure in Corporate Governance, i.e. inability to make essential decisions or failure to engage key stakeholders in key decisions or changes to service delivery	Nick Brain	Stuart Anstead	LOW	LOW	LOW	Constitution review underway for report to future meetings of Council. Acceptance of use and risk around increased use of new platforms/Apps.	LOW	NO CHANGE
Central Government	Risk that negative consequences of a no deal Brexit cannot be mitigated adequately	Nick Brain	Emma Diakou	MEDIUM	MEDIUM	MEDIUM	See EU transitions risk register. A deal was agreed before the end of the transition period. The internal planning group remains in place as a response group, meeting fortnightly. No significant issues so far apart from the demand upon Trading Standards and Regulatory Services which continues to be high and poses a resource risk.	MEDIUM	NO CHANGE
Emergency Management	Risk that we are unable to respond to major incidents and protect the community and ensure continued operation of critical services in the case of an emergency	Matt Lenny	N/A	MEDIUM	MEDIUM	HIGH	Supplementary COVID plan in place to cover transport/evac/welfare/shelter, however training paused due to resource issues. Action plan to be reviewed during Q4 to consider timescales.	MEDIUM	NO CHANGE
Emergency Management	Risks to the council's operational effectiveness due to the demands of the pandemic	Matt Lenny	N/A	HIGH	MEDIUM	HIGH	See COVID-19 risk register. Staff absence has remained below projected levels but increased capacity has been needed across numerous areas.	HIGH	NO CHANGE

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North Somerset		COVID RISK REGISTER - Q3 2020/21				APPENDIX 2			
HIGH LEVEL DASHBOARD									
Nr	Theme	STRATEGIC & CORPORATE RISKS - SUMMARY	CLT LEAD	CURRENT OVERALL STATUS				COMMENTARY ON CURRENT STATUS	
				Low	Med	High	Very High		
1	Contract Management	Viability of our providers, contractors, suppliers including concerns around sustainability of key markets and failure to provide essential services.	CLT - Richard Penska					HIGH	The Procurement Team continue to work with Service Leads and Contract Managers to assess the ongoing viability of providers and contract sectors, and reporting back to CLT as part of the contract monitoring performance reporting. Known areas that present significant risks are Care Sector, Transport, Glass services, waste and PPE. Additional support will be required to ensure services and to support the Leisure providers and Pensions, these are yet to be funded via monthly market - although our providers are covered by COVID grant. A bid for financial support for leisure services has been submitted to Sports England and the results are awaited. The ability of our key business is an immediate risk.
2a	Finance	In year Council financial viability – liquidity, sustainable budget position	CLT - Richard Penska					Medium	COVID 19 impacts continue to be tracked and modelled and indicators to meet budget gap identified dependent on future levels of Gov funding. Revised budget seen to fall on 20% job and month 3's results is believed end year position. The Council continues to receive earmarked grants to support a number of COVID activities.
2b	Finance	MTFP 21/22 onwards Council financial viability – liquidity, sustainable budget position	CLT - Richard Penska					Medium	MTFP 21/22 is showing an improved position following recently government funding announcements. Overall the improvement in Gov funding and ability to raise a 7% NSC project will enable the Council to set a balanced budget for 21/22. Although the use of the one year settlement and the prospect of future austerity will create financial pressure and uncertainty into the medium term.
3	Safeguarding	Safeguarding of vulnerable adults & children during lockdown	CLT - Sheila Smith & Hayley Verico					HIGH	There is a safeguarding risk in the Strategic Risk Register and whilst there will always be risk, there are both operational and strategic implications. The Safeguarding Adults Board and the Safeguarding Children's Partnership are in place with a range of sub-groups and multi-agency quality assurance systems which reduce that strategic challenge of an organisations with responsibilities for safeguarding vulnerable children and adults. Both of these groups have met during the Covid-19 lockdown period and received qualitative and quantitative data in regard to how agencies are discharging their responsibilities. In consultation with the police and other partners, the Council has agreed to continue to meet through video, but to meet face to face where possible and particularly in relation to children. It is not thought to be a high risk by the safeguarding group. However, the impact of the current situation on the mental health of vulnerable adults and children is a concern. As time has progressed children and families are being seen face to face taking the actions advised and local support is being provided where it is possible. Workers have had contact virtually using digital devices. All child protection referrals are responded to, with only those cases requiring a face to face visit. The Council has a range of support services in place to support vulnerable adults and children who are in need. Workers undertake risk assessments on all children who have a social worker or family support worker. It is important to recognise that there may be children in the community who are in need because they have not been referred to school although where this is the case the school will refer to Children's Services if they have any concerns in relation to the child, and who may be in need of immediate, harmful situations. An 'inbound' and 'outbound' local guidance, change the way we see an increase in referrals - increase the number of referrals is always going up but we are confident that a return to previous levels can be expected in a timely manner. It will only be if the number goes significantly above the norm that additional referrals would need to be put in place e.g. moving additional staff into the Front Door or Children's Services (subject to the Referral and Assessment Team's Children's Services capacity in the Adults Safeguarding Unit). Adult Social Care had a joint meeting chaired by the Safeguarding Manager with PPS which all high risk cases are discussed. Face to face safeguarding assessments are completed based on a risk assessment.
4	Public Health/Social Care	Infection prevention and control (including PPE) within the Care Sector	CLT - Matt Lenny					MEDIUM	Weekly group meeting including public health and adult social care alongside health education to review care home needs and ensure capacity of infection prevention and control measures and advice. The current vaccination programme for care staff and residents will greatly reduce the impact of the risk.
5	Equality	Widening of inequalities across the District with service/population impacts	CLT - Matt Lenny					HIGH	Future planning will use PHE tools and local data sources to identify and track areas of risk, e.g. Mair presentation for chronic illness, mental health and wellbeing needs or digital service provision/coordination. Issues being addressed through BNSIG Healthier Together partnership at local and BNSIG wide health and Wellbeing Board forums. More work to be done to ensure awareness to disabled actions to target key locations and population groups. NWB meeting planned for September which will review inequalities risk against LGA targets for reducing NWB activity. Actions will be identified through this meeting to ensure actions are coordinated with the authority and with partners e.g. GDC.
6	Regulatory Services	Advice and enforcement activity for regulatory services	CLT - Matt Lenny					HIGH	Teams have been proactively communicating with key audiences with PPE guidance. Activity remains high but will be deferred. Enforcement activity heightened during the periods of additional lockdown.
7	Operations	Failure to capture & maximise opportunities (e.g. community engagement). Continue to use additional capacity generated by volunteers and community groups	CLT - Jo Walker					MEDIUM	The work with our communities and voluntary sector continues via NCT Together and other existing pre-Covid relationships. We are exploring how, through remote discussions and our partners how we can use our credit experience to strengthen relationships and support the council with demand for services whilst also strengthening community resilience. 'Empowering Communities' is a safeguarding theme within the Council's 2021/22 Transformation Programme.
8	Local Economy	Ability to transition the public environment into safe & vibrant spaces (transition out of lockdown)	CLT - Lucy Shomall					MEDIUM	Continued office groups are managing and implementing car parking, highway social distancing measures, safely reopening leisure venues and immediate Economic Recovery measures. This has become a rapid and high intensity programme of work and is significantly diverting resources from business as usual and strategic aims. Includes a strategic approach to licensing and trading. Significant local and member expectations being managed through transparent engagement including establishment of a Member Reference Group.
9	Local Economy	Recessional economic impacts & recovery including impacts on the housing market	CLT - Lucy Shomall					HIGH	Local Plan must provide diversification of residential products including counter cyclical products to manage market fluctuations. Continued work on Clifton regeneration. PPS - Future Economy Steering Group set up with wide business engagement. Publication via Executive in September. NSC - working with regional partners and Housing England about interventions in housing market to introduce counter cyclical products into the market. Working with housebuilders and PPS to understand 'how to' been building.
10	Local Economy	Further decline of Town Centres and High Streets in particular WSM	CLT - Lucy Shomall					HIGH	Lockdown exacerbated and accelerated existing trends toward contraction, consolidation and diversification, with increase of online consumption and delivery. Planning policy and place-making programmes will be targeted to capture opportunities to facilitate change of use and consolidation of activity.
11	Local Economy	Further decline of Town Centres and High Streets in particular WSM	CLT - Lucy Shomall					HIGH	Waste Planning Strategy adopted by September Exec. Package of post lockdown measures implemented over the summer. Likely collapse in WSM property values could significantly exacerbate estate inequalities and public health concerns in the town centre without intervention, but with fundamental market failure will require public sector intervention, for which need capital and revenue support will be needed.
12	Infrastructure	Long term impacts on public transport infrastructure and providers and ability to maintain progress around active travel	CLT - Lucy Shomall					HIGH	Strategic repositioning of Somerset Centres through business plan and capital projects could be a key enabler in WSM Work with the including development of Somerset Centres Concept with submission of business case in FY21 to the Local Enterprise Partnership. Significant increase in visibility of public transport systems during social distancing and recovery beyond. Will require substantial support for services, promotion and infrastructure from NSC and Central Government. Similar operators risk of collapse remains. Much of our resources directed to COVID response and September reallocation of HFTT. Working and cycling active delivery response programming of LTP Capital Programme and increased messaging in Traffic. Further work to be done on active travel and recovery planning. Copying particular activities significant economic benefits as per DTI studies. PT should also consider other forms such as a Service and Demand Response functionality.
13	Operations	Delivery of public facing services through transition and service reconfiguration	CLT - Richard Penska					MEDIUM	Risk Assessments are in place for all services that are operational and Service Leaders are monitoring the safety and demand of operations.
14	Workforce	Ability to effectively work remotely/Workforce management	CLT - Su Turner					MEDIUM	National lockdown has prompted a marked reduction in staff numbers attending the offices and some premises (Bey Cafe, Carpark) to close on 20 November. The Gateway will continue to operate an agreed only reduced service and consideration to being given to essential Care Contact Hours. Libraries are open only for contact 'Click & Collect'.
15	Workforce	Support employee mental health & wellbeing	CLT - Paul Morris					HIGH	Staff are able to work remotely both home and from office that are unable to do so will be encouraged to return to the office when the offices are reconfigured to support social distancing. The Transition Steering Group are reviewing the effectiveness of arrangements and other staff support to be in place in the interim period. Staff wellbeing arrangements are being finalised and a strategic review of accommodation is underway. Policy updates being progressed along with associated risk assessment responses. School closures and term scheduling is impacting on the work lives of staff with children.
16	Workforce	Ability to transition into a new way of working within an office	CLT - Richard Penska					MEDIUM	Office can re-open with operating procedures as set out in the Government Safe Working Environment guidelines. However, the occupancy levels will need to be kept 20% of previous levels to meet safe distance working requirements. There is likely to be not only a home working continues for large numbers of staff. E-learning training packages being developed to provide support and guidance on expected ways of working.
17	Workforce	Ensuring that Risk Assessments are completed and all mitigating measures are followed for different working arrangements - office working, home visiting, reception opening, etc	CLT - Nicola Dixon					MEDIUM	Generic Risk Assessments are in place for Buildings, Schools, Nurseries, Reception, Outside Working, Home Visiting, Volunteering employees. Some revision of risk assessments required due to reclassification of the medical 'vulnerable' (over 80).
18	Workforce	Increased cyber security threat during crisis	CLT - Richard Penska					HIGH	In mitigation we are mainly relying on existing arrangements although we increased the number of intelligence leads. These now include NSCC (and its sector forum, CISP) NHS Security The South West WAMP (now a very active Slack workspace for cyber security) NHS LGA We also exchange information with Devon and South Devon on a regular basis. We have also implemented the Protective DNS service at the end of the year. This is supported by NSCC and prevents us from being able to receive computer names of known malicious sites into computer addresses and hence stops visits or communication with them. We have a list of one case which has managed a large number of attempts to get a malicious site from within the network. National situation continues to create concern in this area as recent cyber attacks across the public & private sector are evident. CLT undertakes an emergency planning exercise in a cyber ransomware attack on 4th December and will consider feedback.
19	Workforce	Increased of COVID infection cases within workforce	Su Turner					HIGH	We are seeing an increase in staff testing positive for Covid, or self-testing as a result of fear and trace contacts. Those who have tested positive and are unable to be identified as Trace contacts, those who self-test positive are identified as 'Fear' but this is not limited to those who have tested positive. As a result the HR Team are keeping separate records of return positive cases involving our staff. This is completed with Business Intelligence data that is linked to those testing in their Somerset. Upon notification, HR email a checklist of actions managers should take and also who return Health Protection, Health and Safety and Facilities. Due to the increasing infection rate it has become more likely that our staff will be unable to attend work as a result of illness with someone who has tested positive. The impact will be greatest where whole teams/work locations are affected.

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Theme	Risk	Risk timescale	Initial risk	Mitigating actions	Residual risk December 2020	Residual risk Jan 2021	Direction of travel	Outstanding actions	CLT lead	Officer lead
Workforce and key operations	The council has insufficient resources to manage our organisational risks around Brexit	Immediate	HIGH	A deal has been agreed. The NSC key officers group continues to meet fortnightly to consider any combined intelligence and outstanding risks. Sufficient capacity internally to manage organisational risks but increased demand on Trading Standards and Regulatory Services following this deal. Risk status remains high.	HIGH	HIGH	NO CHANGE	None	Jo Walker	Emma Diakou
Workforce and key operations	Assistance is needed by the Environment Agency or Food Standards Agency from council health and safety and regulatory officers	Immediate	MEDIUM	This risk has increased given port activity which has impacted on staffing resources for local councils. Linked in to the risk around increased demand within Trading Standards and Regulatory Services.	HIGH	HIGH	NO CHANGE	None	Matt Lenny	Jane Day
Workforce and key operations	Council staff who are EU citizens have not applied for settled status and/or may leave the UK	Medium term	HIGH	Deadline for applications extended to July 2021. Analysis of data shows that there have been a significant number of applications across North Somerset. Modelling against projected population showing no immediate concerns.	LOW	LOW	NO CHANGE	Continued comms	Jo Walker	Vanessa Andrews
Workforce and key operations	ICT Hardware and support supplies based in the EU may impact supply of goods and services.	Immediate	MEDIUM	No current issues reported.	MEDIUM	LOW	DECREASE	None	Richard Penska	Mike Riggall
Workforce and key operations	Data flow between EU and UK may be illegal if we leave without a deal given the gap between placing GDPR into DP 2019 law.	Immediate	HIGH	Data adequacy not part of the EU deal but transition period in place. The Microsoft data is now all held in the UK. Review of NSC systems shows no concerns.	MEDIUM	LOW	DECREASE	None	Nicholas Brain	Mike Riggall and Mike Newman
Workforce and key operations	An increase in demand for information from the community on subjects such as settled status scheme and government preparedness for Brexit	Medium term	MEDIUM	No increased demand. However, we continue to signpost to national sources.	MEDIUM	LOW	DECREASE	None	Jo Walker	Vanessa Andrews
Workforce and key operations	Inconsistency of communications at a local level versus a national level	Medium term	MEDIUM	National messaging has been amplified at local level through social media comms.	MEDIUM	LOW	DECREASE	None	Jo Walker	Vanessa Andrews
Legal and regulatory	Waste was previously exported to Sweden and the Netherlands. This was a risk due to uncertainty of export and delays.	Immediate	HIGH	There is no impact as waste is now treated locally at Avonmouth and without the need to export. In the event of the treatment facilities being unavailable (i.e. due to shutdown/maintenance), the contingency are facilities normally within the south-west/South Wales. There is no requirement to export.	LOW	LOW	NO CHANGE	None	Lucy Shomali	Colin Russell
Legal and regulatory	Initial change in environmental targets and law may not be understood.	Immediate	MEDIUM	Legal framework not affected by Brexit - environmental targets are mirrored in UK legislation and government have already done this. Permits and licences will continue to apply as now. Some legislation will be converted from EU to UK law after Brexit. This will require a directors decision.	LOW	LOW	NO CHANGE	None	Nicholas Brain	Dee Mawn
Legal and regulatory	Increase in food export certificates	Immediate	HIGH	Additional capacity provided in advance to ensure resource is available but significantly increased workload for Regulatory Services.	HIGH	HIGH	NO CHANGE	None	Matt Lenny	Jane Day
Supply chain	Port health function - food	Immediate	MEDIUM	Delegated to Bristol and they have received additional funding to mitigate this. However, given uncertainties around mutual aid an AMBER rating remains. Significantly increased workload which may impact our resources if central gov require qualified officers.	HIGH	HIGH	NO CHANGE	None	Matt Lenny	Jane Day / Gareth Mellors
Supply chain	Food shortages	Immediate	HIGH	No significant food shortages reported post EU transition.	MEDIUM	LOW	DECREASE	None	Matt Lenny	Emma Diakou
Supply chain	Fuel shortages	Immediate	LOW	Fuel bunkering in place in North Somerset to support council staff. No reported issues post EU transition.	LOW	LOW	NO CHANGE	None	Matt Lenny	Alex Stafford
Supply chain	Medicine shortages	Immediate	HIGH	No reported disruption post EU transition.	MEDIUM	LOW	DECREASE	None	Hayley Verico	Mike Newman
Supply chain	Availability of veterinary medicine	Immediate	MEDIUM	No reported issues post EU transition.	MEDIUM	MEDIUM	NO CHANGE	None	Matt Lenny	Gareth Mellors
Legal and regulatory	Imports regulatory function - animal feed	Immediate	MEDIUM	National regulations introduced to replace the EU's harmonised feed laws. The Trading Standards Manager is leading the national dialogue on feed controls with Government agencies (FSA/DEFRA).	MEDIUM	MEDIUM	NO CHANGE	None	Matt Lenny	Gareth Mellors
Legal and regulatory	Imports regulatory function - organic products	Immediate	HIGH	As of 31 December officers lost access to the present (web-based) EU system for endorsement of incoming goods. The UK replacement is paper-based. Liaison with known agents/importers of organic feed to inform of proposed arrangements. Clarification with NSC post room as to what is needed. Area of very high risk due to lack of information on new arrangements and resilience and capacity around internal resource.	HIGH	HIGH	NO CHANGE	None	Matt Lenny	Gareth Mellors
Finance and economy	Reduction in council tax collection rates affecting MTFP	Medium term	HIGH	MEDIUM for BREXIT alone but RED when combined with COVID. See COVID Risk Register.	MEDIUM	MEDIUM	NO CHANGE	None	Richard Penska	Mel Watts
Finance and economy	Reduction in business rates affecting MTFP	Medium term	HIGH	MEDIUM for BREXIT alone but RED when combined with COVID. See COVID Risk Register.	MEDIUM	MEDIUM	NO CHANGE	None	Richard Penska	Mel Watts
Civil contingencies	Increase risk of public disorder and public protests	Immediate	HIGH	No increase in public disorder or protests reported.	MEDIUM	LOW	DECREASE	None	Lucy Shomali	Howard Pottery
Civil contingencies	Increase in hate crimes/reduced community cohesion	Immediate	HIGH	We have strong resilience with regards support for victims of hate crime should reported incidents go up. Analysis of data shows no immediate concerns.	MEDIUM	MEDIUM	NO CHANGE	None	Lucy Shomali	H Pottery / V Andrews
Finance and economy	Concern local business are not prepared for Brexit and Business Continuity plans do not reflect Brexit risk	Immediate	HIGH	Ongoing work with LEP via Growth Hub via Economy team for comms out to business. General comms via Twitter and Facebook pre transition. Working with major food businesses who do export to ensure compliance. Risk remains high due to lack of clarity on terms of the deal.	HIGH	HIGH	NO CHANGE	None	Lucy Shomali	Jane Harrison
Legal and regulatory	Impact on local infrastructure such as sea/air ports and transport routes ability to deliver key supplies	Immediate	MEDIUM	No reported increases in traffic post EU transition.	MEDIUM	LOW	DECREASE	None	Lucy Shomali	Colin Medus
Workforce and key operations	Increased costs for care homes	Medium term	HIGH	The ongoing situation for the care home sector has been reported regularly via weekly reporting to council's Executive Team and the Adult Social Care Executive Member. Additionally, there have been briefings to Adult Social Care and Hospital Oversight Scrutiny Panels, on the impact on Adult Social Care and the consequences for social care providers. Service Continuity and Care Market Self-Assessment has been completed. Review of actions aligned to COVID will also align with Brexit but there is no immediate concern beyond the challenges already in place.	HIGH	HIGH	NO CHANGE	None	Hayley Verico	Gerald Hunt
Workforce and key operations	Children's Services	Medium term	LOW	Guidance for local authorities is available on topics including planning for transition, looked-after children, school admissions, international child protection and asylum, recruiting and employing staff from overseas and the EU settlement scheme and UK immigration system. Guidance for schools is also available and being shared via the Noticeboard.	LOW	LOW	NO CHANGE	None	Sheila Smith	Mike Newman

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 28 January 2021

Subject of Report: Treasury management risk workshop

Town or Parish:

Officer/Member Presenting: Steve Ballard

Key Decision: N/A

Reason: Not an Executive decision

Recommendations

The Audit Committee is requested to **note**:

1. the key messages from the treasury management member training workshop held on 13 January 2021,
2. that Members recognised that the Council's treasury management team would continue to work within the Council's current Treasury Management Strategy, and accepted that it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing sufficient mitigation of risk,
3. that information supporting the investment strategy will be subject to on-going review, by officers and members, supported by the Council's treasury management advisors.

1. Summary of Report

- 1.1. The purpose of this report is to note the key messages arising from the treasury management member training workshop, jointly provided and facilitated by Finance Officers and Arlingclose, the Council's treasury management advisors, to members of the Audit Committee on 15 January 2020, and to summarise discussions relating to the preparation of the Strategy for 2020/21.

2. Policy

- 2.1. The Council's Treasury Management and Capital Strategies link directly into its revenue and capital budget planning processes, and seek to identify and manage associated risks and optimise financial opportunities.

3. Details

- 3.1. Audit Committee members attended a training workshop on 'Treasury management risk' on 13 January 2021. The workshop was also attended by the Council's treasury management advisors, Arlingclose.

3.2. The objectives of the workshop were:

- to build on previous Member training and discussions
- to support Members in their role of providing scrutiny of the Council's treasury management activities
- to provide Members with an understanding of the key risks associated with the Council's Treasury Management Strategy, and
- to seek feedback from Members on the appropriateness of the current Treasury Management Strategy, the balance of risk and return being achieved, and the Council's future appetite for risk, to inform development of the Treasury Management strategy for 2021/22.

3.3. The content of the presentation, attached at Appendix 2, was:

- an overview of treasury management
- the role of full Council and the Executive in approving the Treasury management strategy
- how Audit Committee Members provide scrutiny of treasury management arrangements
- the content to the Council's Treasury Management Strategy
- the different types of treasury management risks, their likely impact, and the mitigating arrangements put in place through the Council's Treasury Management Strategy
- Arlingclose's overview of the economic outlook, including forecasts for inflation and interest rates
- an overview of investment management, including investment management objectives – security, liquidity, then yield, and the choices available between risk and return
- Arlingclose benchmarking the Council's investment portfolio, including mix of investment types and the level of investment returns achieved
- Arlingclose benchmarking of the sources of borrowing used by the Council, and
- an overview of the options for sources of future borrowing.

3.4. Members discussed issues arising during the presentation with officers and the Arlingclose team, notably:

- Treasury management risk register – A copy of the latest Treasury Management risk register was included in the presentation. Members asked about the arrangements for update and review of the Treasury management risk register.
- Treasury management risks – The presentation included details of the range of treasury management risks that the Council is exposed to, and the mitigating arrangements maintained by the Council to mitigate these risks. Members discussed the various risks and mitigating arrangements. Treasury management risks discussed included:
 - Credit risk
 - Liquidity risk
 - Interest rate risk
 - Inflation risk
 - Regulatory and political risk

For information, details of the limits included in the Treasury Management Strategy in relation to Credit risk as included at Appendix 1.

- Risk appetite – Discussions with Arlingclose indicated that the Council currently has a relatively low level of risk in its Treasury management portfolio, when compared to other authorities. Members expressed understanding of the reduced returns available in current market conditions, but there was no call to increase the level of risk in the Council's investment portfolio in order to increase returns. Members recognised that the Council's treasury management team would continue to work within the Council's current Treasury Management Strategy, and accepted that it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing sufficient mitigation of risk.
- Economic outlook – Discussion was focused upon Arlingclose's expectations in this area across the medium term, including the possibility of negative interest rates and what that might mean for the Council. Inflation risk was also discussed and officers agreed that the current Strategy effectively mitigated this risk although Council's exposure to interest rate risk would be further reviewed and included within performance monitoring arrangements over the course of the next year to ensure that the Council can respond swiftly on an on-going basis.
- Treasury-related investments - Arlingclose provided benchmarking data on the level of investment returns achieved which can be a tool to review performance. This showed that the Council's arrangements for managing its investment portfolio delivered returns in the mid-range when compared to other authorities, although the benchmarking recognised that councils achieving higher returns generally had a higher risk appetite and higher proportions of their investments in pooled funds.
- Pooled fund investments – Details were shared on the Council approach to manage inflation risk within the Strategy, which is largely covered through a spread of investment products including the use of Pooled Funds. The Council has allocated £10m to be held in medium term investments, with the aim of providing a return in excess of inflation. Arlingclose provided data on the performance of these investments and noted that cumulative returns to date have recovered the loss in capital value arising due to the initial bid/offer spread, and the recent impact of Covid. Members indicated that they were satisfied that the Council's strategy of retaining these investments in the medium term was achieving its objectives.
- Non-treasury commercial investments – Members were advised that non-treasury investments are included within the scope of Treasury Management reporting (as that is a requirement under the Code), although the Council's Constitution allocates responsibility for the strategic oversight of commercial investment decision-making to the Property Infrastructure Board (PIB), with the scrutiny role to the Community and Corporate Organisation Policy and Scrutiny Panel (CoCo). Audit Committee Members review the internal control framework supporting such commercial investments.
- Since 2018 the Council entered into two long-term non-treasury investments, with the objective of acquiring assets that would increase in value and also deliver annual returns into the revenue budget. Monitoring shows that in the period 2018-2020 financial returns were delivered in line with business cases although the

market value of these assets has fallen. The annual returns for North Worle in the current financial year have continued to be positive although the Sovereign Centre returns are below budget. Members discussed the way forward and were advised that a new business plan for the Sovereign Centre is due to be presented to the Executive in February 2021 which is fully integrated and aligned with the Weston Town Centre place-making strategy. Any developments will be included in Treasury Management reports to the Audit Committee.

- Borrowing – Members discussed the recent reduction in the PWLB interest rates, and the pros and cons of the available sources of borrowing. Officers highlighted that the need and timing of future borrowing remains uncertain as the capital strategy is developed, and agreed that before future borrowing is undertaken, officers would seek advice from the Treasury management advisor in relation to the potential costs of different options.
- Borrowing for yield – Past commercial investment property investment was funded through borrowing or finance leases, only after a robust business case was agreed providing a return above the cost of the investment. The government has now amended PWLB regulations to prevent councils using PWLB borrowing to finance property purchases for yield / income generation, rather than operational objectives. There are currently no plans to undertake further borrowing from other sources to finance investments with the aim to provide income generation.

3.5. Key outcomes / actions agreed during the workshop were:

- that the Audit Committee is requested to note the key messages from the Treasury Management Member training workshop held on 15 January 2020,
- that members recognised that the Council's treasury management team would continue to work within the Council's current Treasury Management Strategy, and accepted that it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing sufficient mitigation of risk,
- that the investment strategy, will be subject to on-going review, by officers and Members, supported by the Council's treasury management advisors.

4. Consultation

N/A

5. Financial Implications

5.1. Treasury management decisions, taken through the application of the Treasury Management Strategy, impact on both the revenue budget and the balance sheet in current and future years. Details of the financial implications of treasury management activities are included in the papers presented to the Executive

6. Legal Powers and Implications

6.1. Under the Local Government Act 2003, the Council may invest money or borrow money:

- for any purpose relevant to its functions, and
- for prudent financial management.

6.2. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017

Edition (the CIPFA Code) which requires it to approve a treasury management strategy before the start of each financial year.

6.3. The Treasury management Strategy is due to be presented to the Council's Executive at their February meeting. They will be requested to recommend approval of the Strategy by full Council.

6.4. The role of the Audit Committee in relation to Treasury Management is to:

- review the Council's arrangements for managing risk and maintaining an effective control environment
- receive and review reports:
 - Performance reports e.g. quarterly
 - Audit reports, acting on recommendations
- Challenge officers where appropriate

7. Climate Change and Environmental Implications

7.1. The impact of the Council's Treasury Management Strategy on Climate change and environmental implications was not directly discussed in the workshop, although it is a consideration within the proposed Strategy.

8. Risk Management

8.1. As noted above, the identification and mitigation of the risks associated with the Council's treasury management activities was central to the workshop presentation, and discussions between members, officers and the Council's treasury management advisors, Arlingclose.

8.2. The workshop included consideration of the arrangements to maintain the Council's Treasury Management risk register.

9. Equality Implications

9.1. None

10. Corporate Implications

10.1. The Council's Treasury management function operates within the Corporate Finance team.

10.2. The safeguarding of public money is critical to the Council's reputation, and the on-going development of the Council's Treasury Management Strategy is intended to address member and public concerns, and ensure an appropriate balance of return on investment whilst ensuring managing associated risks.

11. Options Considered

11.1. The workshop included discussion of the members' views on the Council's appetite for risk, which influences the development of the Council's Treasury Management Strategy, and subsequently the investment options open to officers.

11.2. As noted in the Key outcomes above, members agreed for the Council's treasury management team to continue to work within the Council's current Treasury Management Strategy, as it provides sufficient flexibility to allow investment opportunities to be considered, whilst providing mitigation of risk.

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Appendices:

Appendix 1 – Treasury management strategy criteria and limits

Appendix 2 – Treasury Management risk workshop presentation slides

Background Papers:

Treasury Management Strategy 2020/21

Treasury Management risk register

Guidance:

CIPFA – The Prudential Code for Capital Finance in Local Authorities 2018

MHCLG – Statutory Guidance on Local Government Investments (3rd edition) 2018

CIPFA – Treasury Management in Public Services – Code of Practice and cross-sectoral guidance notes 2017

CIPFA - Treasury Management in Public Services – Guidance notes for local authorities 2018

Appendix 1

Treasury management strategy criteria and limits

The Council minimises its exposure to credit risk through diversification, through the application of limits on the amount and period of its investments with individual counterparties, and in individual countries. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

	Overall Limit ¹	In-house Limit	Tradition Limit	Time Limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard and Poor's is:				
AAA	£30m	£30m	£0m	5 years
AA+	£25m	£25m	£0m	5 years
AA	£22m	£22m	£0m	4 years
AA-	£20m	£16m	£4m	3 years
A+	£18m	£14m	£4m	2 years
A	£16m	£12m	£4m	13 months
A-	£13m	£9m	£4m	6 months
The Council's Bank accounts	Net £9m	Net £9m	£0m	No limit
UK building societies whose lowest long-term rating is BBB and societies without credit ratings, that have an asset size of more than £0.4bn	£10m	£6m	£4m	6 months
UK building societies whose lowest long-term rating is BBB and societies without credit ratings, that have an asset size of more than £1bn	£10m	£6m	£4m	2 year
Money market funds ² and similar pooled vehicles whose lowest published credit rating is AAA	£15m	£15m	£0m	1 year
UK Central Government	no limit	unlimited	unlimited	no limit
UK Local Authorities ³	£15m	£10m	£5m	25 years
Pooled Investment funds	£5m per Fund Type	£5m per Fund type	£0m	N/A

¹ limits shown are per organisation

² as defined in the Local Authorities (Capital Finance and Accounting) Regulations 2003

³ as defined in the Local Government Act 2003

Appendix 2 - Treasury Management risk workshop presentation slides
Attached separately

Treasury Management Risk Workshop



- Audit Committee 13 January 2021

Agenda

Part 1 – Introduction and overview

- Overview of Treasury management
- Treasury management strategy
- Risk management
- Member question and answers

Part 2 - Arlingclose presentation:

- Investment management
- Debt management
- Member question and answers

Overview of Treasury management

Definition of Treasury Management

Management of the Council's

- Cash flows
- Banking arrangements
- Investments - Money market related transactions (short-term)
- Borrowing - Capital market related - transactions (long-term)

Effective control of the key risks

- i.e. Credit risk, Liquidity risk and Market risk – but there are other inherent risks

Pursuit of optimum performance

- Within the context of effective risk management profile ...
- Balance of **Security, Liquidity and Yield**
- In compliance with CIPFA Code of Practice



Legislation

Heavily regulated ...

Local Authorities MAY:

- invest money or borrow money:
 - for any purpose relevant to their functions
 - for prudent financial management

Local Government Act 2003 s1, s12

Local Authorities MUST:

- set and review affordable borrowing limits / authorised limits
- have regard to guidance published by CLG and CIPFA
 - CLG Investment Guidance
 - CIPFA Code of Practice on Treasury Management
 - CIPFA Prudential Code

Local Government Act 2003 s3, s14, s15

Local Authorities MUST NOT:

- exceed their affordable borrowing limit
- borrow in foreign currency
- mortgage their property as security for loans borrowed

Local Government Act 2003 s2, s13

- delegate the approval of an annual strategy to any committee or person

The Local Authorities (Functions and Responsibilities) (England) Regulations 2000



Role of the Council & Elected Members

Within North Somerset Council ...

Role of the (Full) Council

- Set the budget and capital programme
 - including debt and investment interest and Minimum Revenue Provision
- Approve the Capital Strategy
- Approve the Treasury Management Strategy (which includes the (Non-Treasury) Investment Strategy)
- Approve the Prudential Indicators
- Approve Treasury Management Indicators

Role of Executive

- Review and approve policies, strategies and budgets
- Decide the Council's appetite for risk and return

Role of Audit Committee

- Reviews the Council's **arrangements** for managing risk and maintaining an effective control environment
- Receive and review reports:
 - Performance reports e.g. quarterly
 - Audit reports, acting on recommendations
- Challenge officers where appropriate

Treasury Management Strategy 2021/22

Current / Live Treasury Management Strategy, was approved by Council in Feb 2020

Draft Treasury Management Strategy 2021/22 - to be considered by Executive in Feb 2021 – then by Council

Includes:

- Investment strategy
- Non-treasury management investment strategy
- Borrowing strategy
- Prudential indicators
- MRP policy statement

Links to other strategy documents

Capital Strategy

Capital Programme

MTFP & Revenue budgets

The TMS and the supporting Practices focus on the identification and management of **Treasury Management Risk**



Treasury Management Strategy 2021/22

Introduction

- Current treasury position
- Balance sheet projections
- Economic and credit outlook

Investment strategy

- Expected changes in the investment balance
- Objectives when investing (Security, Liquidity and Return)
- Definition of high credit quality
- How credit risk will be monitored and managed
- Limits on investments denoted as more risk
- Counterparty, country and group limits
- Time limits
- How liquidity will be managed
- Proposed strategy

Non-treasury investment strategy

Borrowing strategy

- Expected requirement
- Objectives when borrowing
- Approved counterparties
- Proposed strategy

Other

- Investment of money borrowed in advance
- Treasury advisors use and monitoring
- Training

'Prudential' and other Treasury Management Indicators

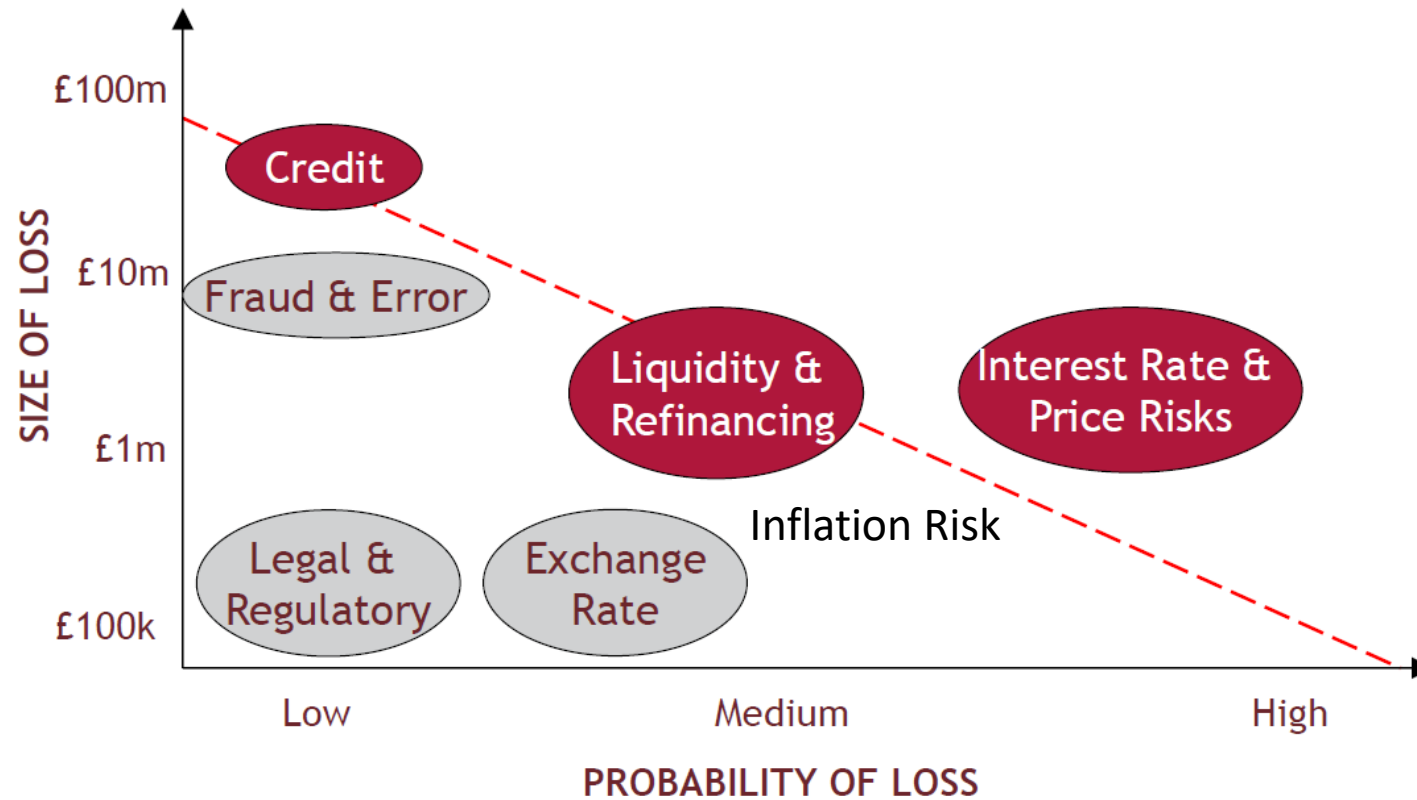
- Maturity structure of borrowing
- Sums invested for longer than 364 days

MRP policy statement



Treasury Management Risks

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Treasury Management Risk Register

Risk	Impact	Probability	Unmitigated risk	Mitigating arrangements:	Revised probability	Residual risk
Credit risk - Loss of principal and/or interest due to counter-parties not being able to meet principal / interest payments as they fall due. Includes losses due to 'bail in' requirements. - Potential delays in being able to access funds. - Emerging markets carry a higher risk of financial loss than more developed markets, as they may have less developed legal, political, economic or other systems.	5	4	20	- Measurement of risk (use of credit ratings, CDS spreads, balance sheet analysis). - Monitoring of TM advisor advice, news, discussions with brokers, and reacting to events (eg both trading and regulatory). - Setting appropriate lending limits per counter-party re amounts, period and country of investment. - Diversification between lenders, lender types, countries. - Exposure to equity and tradable debt instruments only through diversified funds.	3	15
Liquidity risk - Running out of accessible cash, leading to inability to make payments as they are due. - Needing to borrow at higher cost than otherwise available. - Needing to sell assets / investments at short notice / at lower prices.	4	2	8	- Daily cash flow forecasting. - Overdraft facility agreed. - Ready access to sources of cash from eg PWLB, other local authorities and banks and building societies. - <u> Holding investments that can be readily realised.</u>	1	4
Interest rate risk - Increasing interest rates lead to increase in cost of fixed rate and variable rate borrowing. - Decreasing market value of tradable fixed income investments (e.g. bonds) when interest rates rise. - Falling interest rates lead to lower return - Re-financing risk - Falling borrowing interest rates mean opportunity to re-finance borrowing at lower cost missed. - The use of derivatives may increase overall risk, by magnifying the effect of both gains and losses, leading to large changes in value and potentially large financial loss.	4	5	20	- Monitoring of TM advisor advice, news, discussions with brokers re economic outlook, and expected interest rate movements. - Taking into account uncertainty in future outcomes. - Monitoring of available / emerging sources of borrowing. - Maintaining suitable mix of fixed and variable interest rates for borrowing and investments. - Maintaining mix of maturity dates. - Monitoring of cost of re-financing borrowing compared to potential savings - Diversification of investment types. - Exposure to tradable debt instruments only through diversified funds. - Restriction of use of derivatives to stand-alone instruments that can be clearly demonstrated to reduce overall risk.	4	16
Inflation risk - The value of cash balances is eroded over time due to inflation (notably when interest rates on investments are lower than inflation)	4	4	16	- Monitoring of TM advisor advice, news, discussions with brokers re economic outlook, and expected inflation and related interest rate movements. - Identify balances not likely to be needed in the short term for operational cash flows, and invest these balances in longer term to generate sufficient income to at least match inflation.	3	12
Currency risk - The risk of loss from fluctuating foreign exchange rates when an investor has exposure to foreign currency or in foreign-currency-traded investments	1	0	0	- Local authorities are not allowed to borrow or invest in foreign currencies. All transactions must be in sterling.	0	0
Regulatory and political risk Risk that changes in regulations or legislation may have an adverse impact on the Council's finances, including: - Brexit - leads to uncertainty in the economic outlook, and hence uncertainty over future interest rates and economic growth, and hence inflation, and government expenditure. - Changes in PWLB / other borrowing rates impact on the Council's borrowing costs - Changes in PWLB regulations limit availability/criteria of borrowing. - Changes in MiFID 2 regulatory requirements may increase costs and decrease access to markets.	3	4	12	- Monitoring of TM advisor advice, news, discussions with brokers, and reacting to events (eg both trading and regulatory). - On-going professional training and development of treasury management officers. - On-going training and updates to members on Treasury Management. - Regular review and update of overall Treasury Management Strategy. - Regular review and update of mix of borrowing and investments held to ensure the portfolio continues to meet the objectives of the Treasury Management Strategy.	3	9

Treasury Management Risks

Credit risk

The risk of an investment counterparty defaulting or being exposed to bail in arrangements

- Page 90 Leading to loss of principal and/or interest
- Bail in rules are designed to re capitalise banks without impacting the public finances
- Shareholders and subordinated debt holders will bear brunt of losses
- Senior unsecured creditors, like the Council, may also be impacted, depending on scope of recapitalisation and structure of institution's balance sheet
- Secured investments, e.g. covered bonds, are exempt from being bailed in
- Rarely a 100% loss, but always a delay in return

Credit risk is managed by

- Measurement of risk (e.g. credit ratings, review of accounts, CDS spreads)
- Setting minimum investment criteria (eg credit ratings)
- Setting lending limits cash and time limits
- Diversification
- Exposure to equity and tradable debt instruments only through diversified funds
- Reacting to events (e.g. trading and regulatory statements)

Treasury Management Risks

Regulatory and political risk

Risk that changes in regulations or legislation may have an adverse impact on the Council's finances

Brexit

Leads to uncertainty in the economic outlook, and hence over future interest rates, economic growth, inflation, and government expenditure

Government / regulations

- changes in PWLB / other borrowing rates impact on the Council's borrowing costs
- changes in PWLB regulations limit availability / criteria of borrowing, notably re investing for yield

Regulatory and political risk is managed by

- Monitoring of TM advisor advice, news, discussions with

brokers, and reacting to events (eg both trading and regulatory)

- On-going professional training and development of treasury management officers
- On-going training and updates to members on Treasury Management
- Regular review and update of overall Treasury Management Strategy
- Regular review and update of mix of borrowing and investments held



Treasury Management Risks

Liquidity Risk

Risk of running out of accessible cash

- Missing making payments as they are due (operational expenditure and TM repayments)
- Not having available counter-parties to invest in
- Having to borrow at a higher cost
- Selling assets at a lower price to realise cash

Liquidity risk is managed by

- Cash flow forecasting
- Overdraft facilities
- Holding investments that can be realised quickly
- Access to convenient sources of cash (eg money market borrowing)
- PWLB and other sources of longer term borrowing

Treasury Management Risks

Interest Rate and Price Risk

The risk of movements in interest rates or the price of financial instruments having an adverse effect on the Authority's finances

Risk of rising interest rates (not expected in near future)

- High cost of new fixed rate borrowing
- Increased cost of variable rate borrowing

Risk of falling interest rates

- Lower return on new investments
- Early redemption costs on borrowing increase

Manage interest rate risk by:

- Suitable mix of fixed/variable rates and maturity dates
- Suitable mix of debt and investment types
- Monitoring of available / emerging sources of borrowing
- Monitoring of cost of re-financing borrowing compared to potential savings
- Not betting on a single future outcome
- Access to convenient sources of cash (eg money market borrowing)
- PWLB and other sources of longer term borrowing

Treasury Management Risks

Inflation Risk

The risk that the value of cash balances is eroded over time due to inflation

- Notably when interest rates on investments are lower than inflation

Page
4

Inflation risk is managed by:

- Monitoring of TM advisor advice, news, discussions with brokers re economic outlook, and expected inflation and related interest rate movements.
- Identify balances not likely to be needed in the short term for operational cash flows, and invest these balances in longer term to generate sufficient income to at least match inflation

Treasury Management Risks

Member Questions

How do we calculate and evaluate risk?

- S151 judgement, external training, TM advisers, CIPFA briefings, updated regulations, Member input re risk appetite

What KPI's are used? How frequently updated? How do we measure TM performance?

- Series of annual KPI's within TM Strategy and in-year and out-turn reports – how much invested, types of product and counter-party, duration, yield
- TM performance is measured through comparison to budgets, quarterly benchmarking through advisers, compare to Libor/Libid

What lessons can be learnt from TM performance issues?

- TM performance is largely achieving objectives – no capital losses above income returns; reduced exposure to credit risk in times of uncertainty; financial returns exceeded budget prior to Covid, when we re-prioritised liquidity over return cash management
- Non-TM performance – capital values and returns on commercial investment impacted by Covid and wider economic climate

TM Risk Register – metrics, processes, direction of travel?

- Reviewed by S151 Officer – considered alongside wider financial risks. DoT - we cannot alleviate or mitigate **all** risks identified – risks must be balanced



Treasury Management Risks

Member Questions

What investments are at risk, what happened, what lessons to learn?

- **ALL** investments retain some risk – different risk for different classes. No investment losses although lower returns in-year for some investment classes. We do have a diversified portfolio and relatively low risk approach to help mitigate. Could create smoothing reserve for the future?

What are the interest rate risks? How does this impact on the Council?

- Market currently providing very low to negative interest rates – impacts on returns and therefore the budget

What are the current balances? Do you think we have sufficient money? How do they fit with our objectives / current risks?

- Investments at December 2020: £114m in deposits, £30m in short term deposit accounts, £9m in property / multi asset funds. Non-Treasury commercial property investments £35m.
Borrowing at 31 December 2020: £147m with PWLB, £2m with Salix, £12m Ex Avon loan debt, £23m finance lease liabilities
- Short term balances are higher than in previous years – largely relating to Covid grant funding streams – uncertainty over timing of payments, more susceptible to interest rate risk and potentially counter-party risk as £ limits per investor

How does the local investment influence investment decision-making process?

- Treasury investments are not affected by local markets or investments
- Non-Treasury investments could be as they are subject to local capital values and investment returns



Treasury Management Risks

Member Questions

What changes are you proposing in the Treasury management strategy for 2021/22?

- Currently developing the TM strategy. The existing strategy has been largely successful – provides flexibility if needed. Hence no significant changes currently proposed.
- However, the impact of reduced returns on investment mean we need to consider scope to change our mix of investments, or even changes in the strategy to provide increased returns. May lead to different / increased risks.
- Hence need to discuss members appetite for increased risk.

Who reviews and approves the Council's Treasury management processes?

- Ultimately Director of Finance (and Property) is responsible for maintaining robust TM arrangements.
- Inclusion in risk assessment by Internal Audit for cyclical coverage in Audit Plan – rolling programme to review / assess range of risks.

Are officers with Treasury Management responsibilities professionally qualified?

- All officers with TM responsibilities, are professionally qualified (FCCA, CIPFA, CIMA, AAT)



Break for Arlingclose slides

Arlingclose will cover:

- Investment management
- Debt management

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Arlingclose Ltd:
Independent treasury management services

Treasury Management for Elected Members

North Somerset Council

13th January 2021

Nicholas Keeling

Page 99

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Registered in England No 2853836
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Arlingclose Limited provides independent advice



Agenda

- 1 Economic Overview
- 2 Investment Management
- 3 Debt Management

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Economic Overview

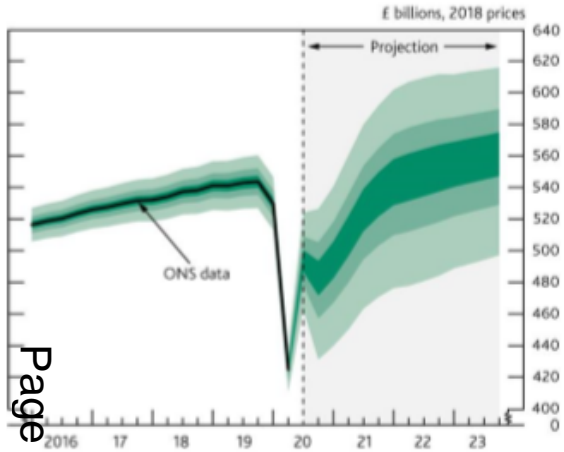
Interest Rate Outlook

Negative Rates

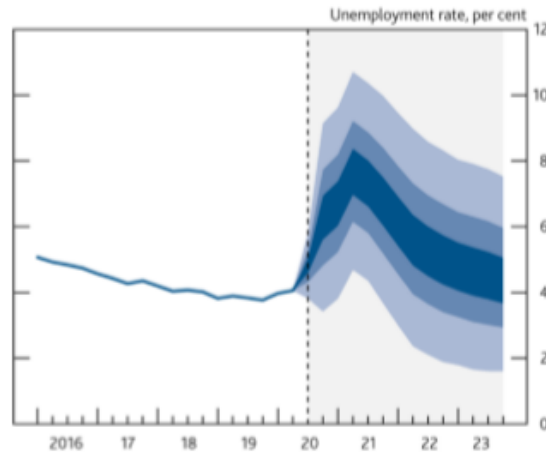
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BoE Monetary Policy Report - November 2020

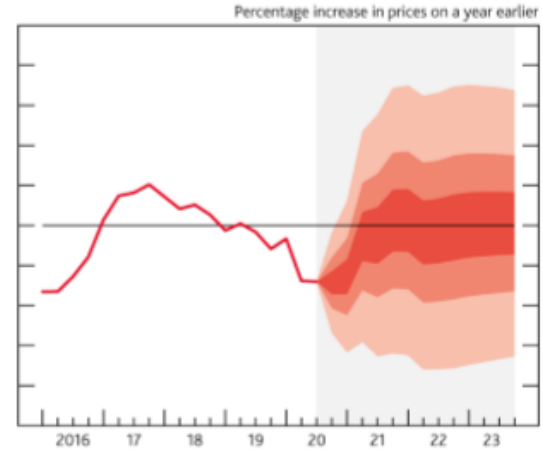
Outlook for UK GDP



Outlook for UK Unemployment



Outlook for UK CPI inflation



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There are signs that consumer spending has softened across a range of high-frequency indicators, while investment intentions have remained weak. Developments related to Covid will weigh on near-term spending to a greater extent than previously projected, leading to a decline in GDP in 2020 Q4. GDP will recover from Q1 2021.

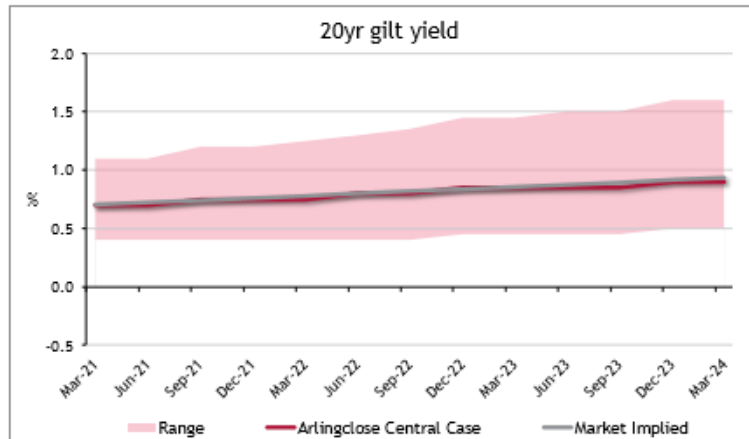
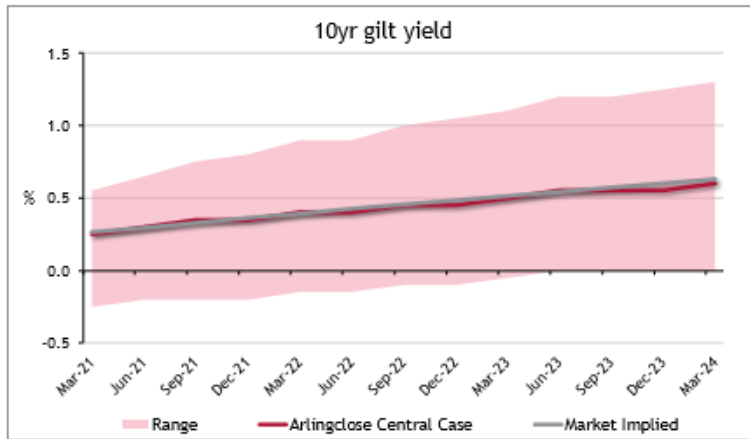
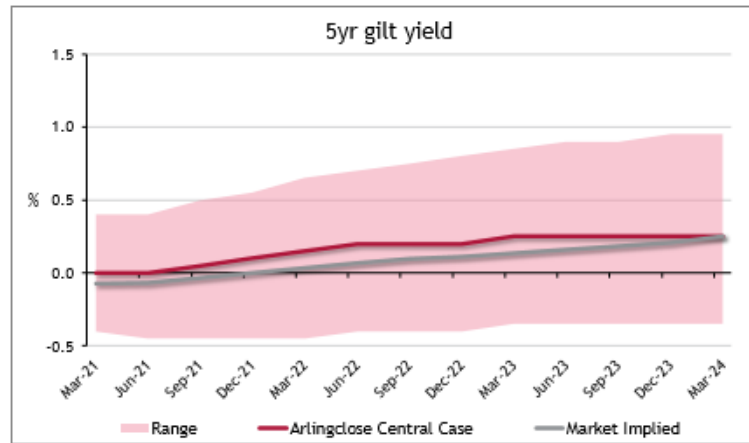
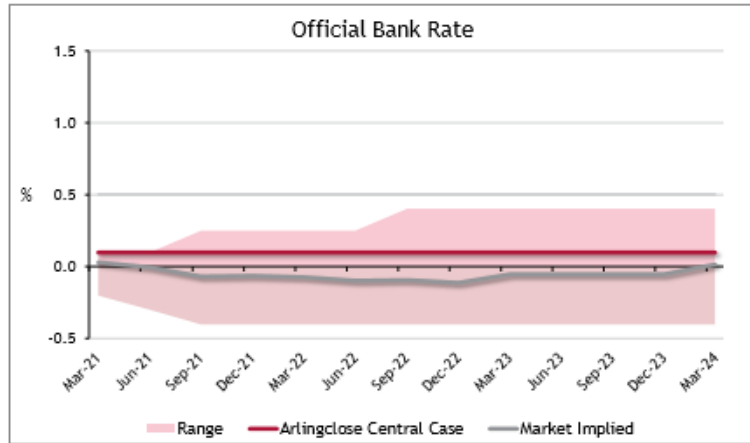
The extended Coronavirus Job Retention Scheme and new Job Support Scheme will mitigate significantly the impact of weaker economic activity on the labour market. The unemployment rate, however, is expected to peak at around 7¾% in 2021 Q2.

CPI inflation is expected to remain at, or just above, ½% during most of the winter, before rising quite sharply towards the target as the effects of lower energy prices and VAT dissipate.

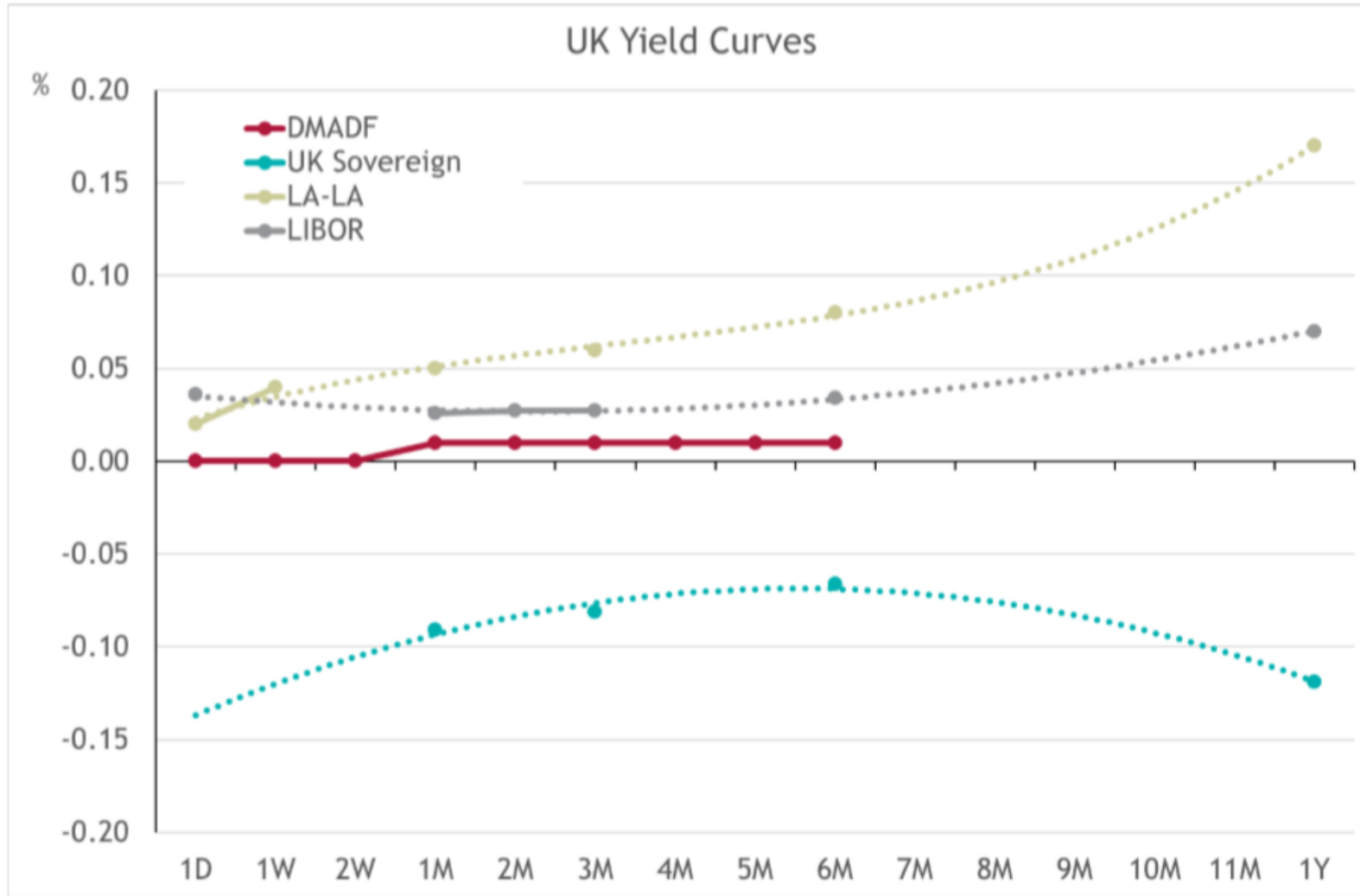
Arlingclose and Market Projections December 2020

Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risk around the Bank Rate forecast is weighted to the downside. The risks for the gilt yield forecasts are broadly balanced.

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



Yield Curves



Negative Rates

The UK is currently experiencing negative rates/yields

- Primarily across government securities, such as T-Bills and gilts (and DMADF)
- Driven by:
 - Expectations for BoE to set negative Bank Rate in the future
 - High demand for safe haven assets
 - Exacerbated by BoE asset purchases and excess liquidity

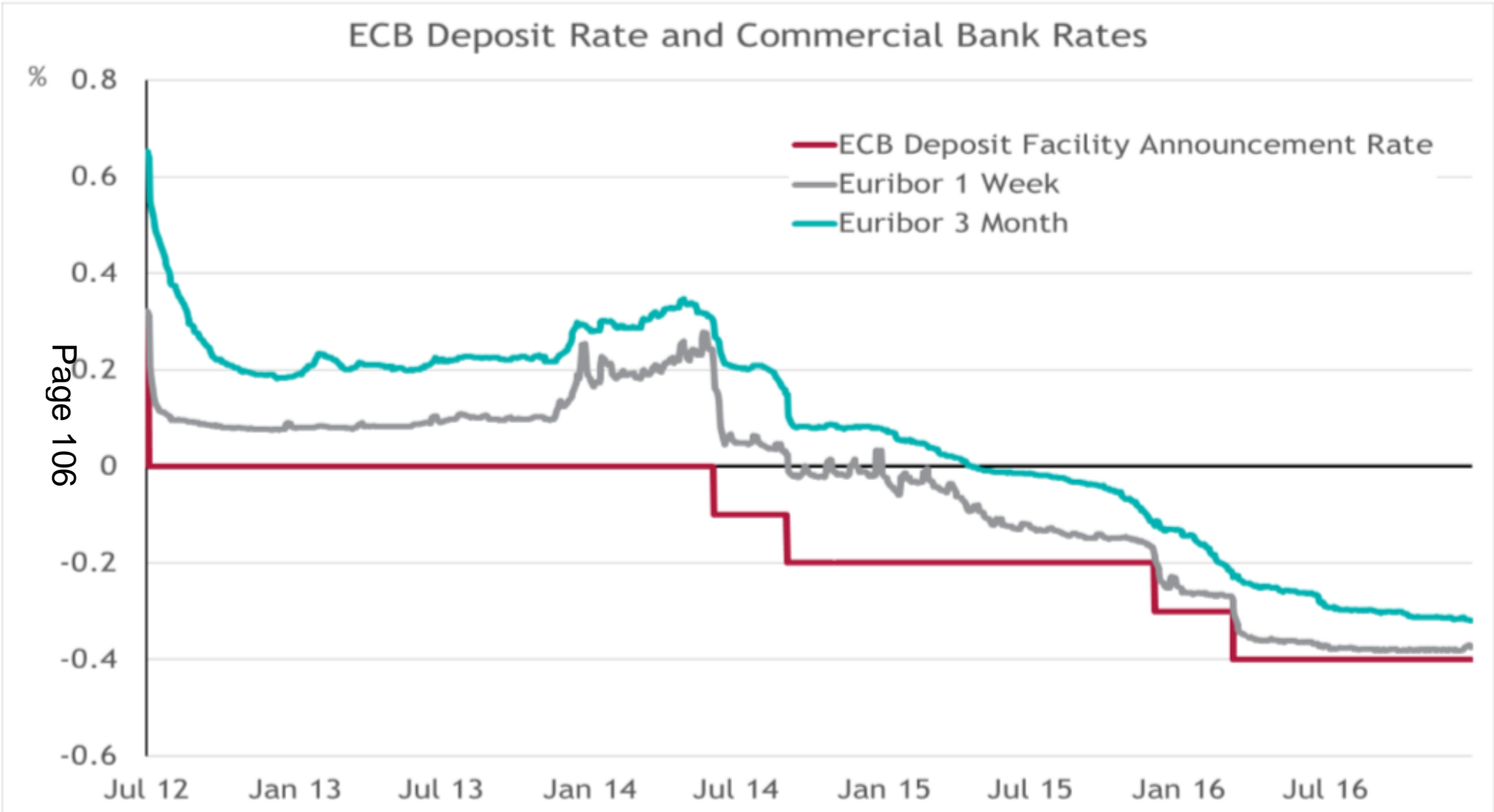
Difference between negative policy rates and negative market rates/yields

- Positive Bank Rate broadly maintains non-government rates at zero or above
- A negative Bank Rate will have a more pervasive effect on the market
 - A wholesale investor will experience negative rates across all short term investment options

Whether Bank Rate becomes negative or not, interest rates will remain low for a long time

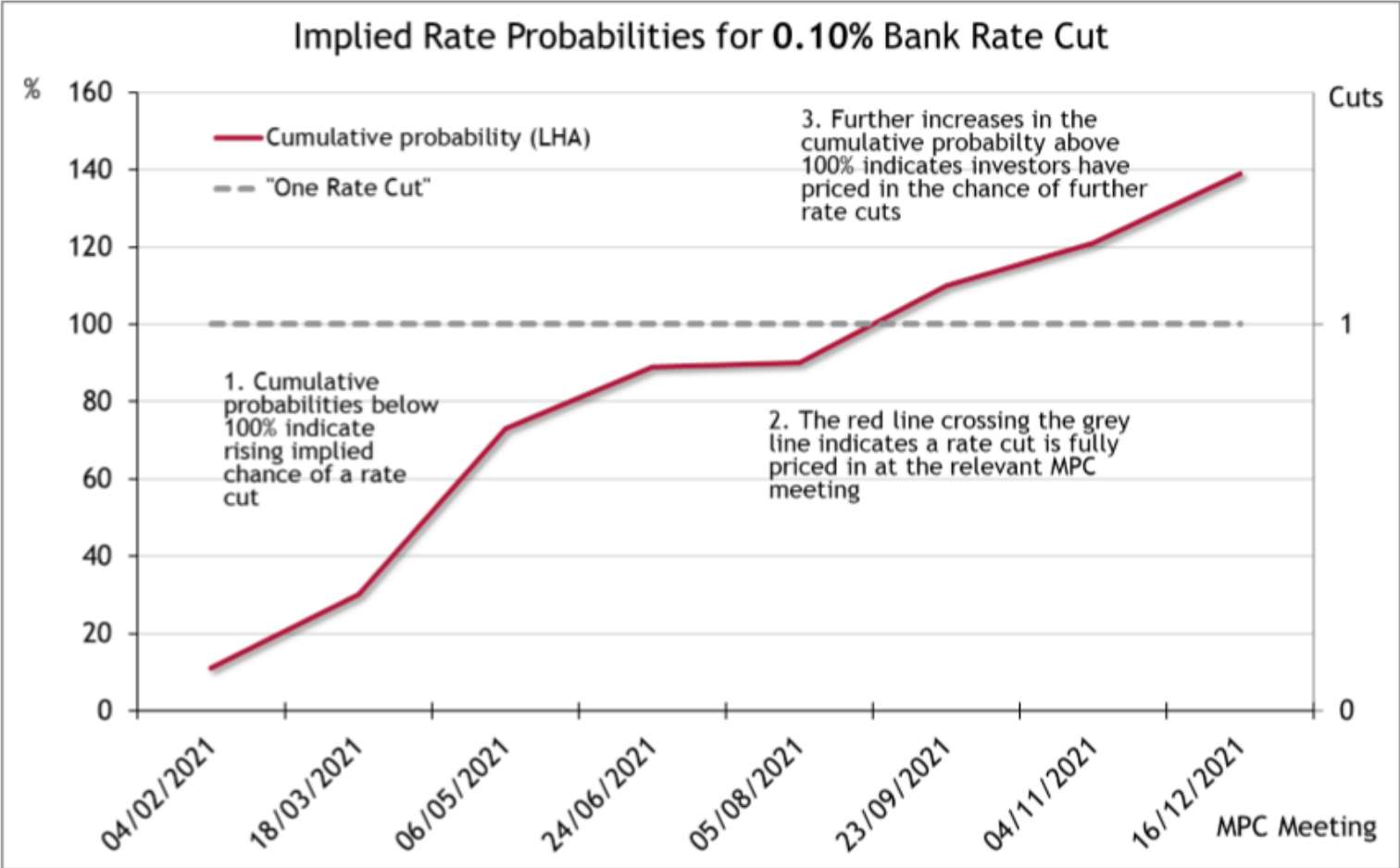
- Income levels from short term investments will remain low for the medium term

Negative Rates - Timing of Impact



Negative Rates - Market Expectations

- New lockdown has boosted market expectations of further reductions in Bank Rate
- High chance of a cut from mid-year and a further cut towards year end



Negative Rates in the TMSS

Negative returns on short term cash will conflict with the objective to maintain security

- Negative rates will likely take the form of reductions in principal amounts
- Rather than payments from the lender to the borrower

Arlingclose's template includes the following wording with regard to negative rates

“Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.”

Investment Management

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Investment Objectives

MHCLG - Guidance on Local Government Investments 2018

- Prudent investment policy has two underlying objectives:
 - (1) achieving **security** (protecting the capital sum from loss)
 - (2) then **liquidity** (ensuring funds are available when needed)
- Then consider what **yield** can be obtained consistent with those priorities

CIPFA - Treasury Management in the Public Services: Code of Practice 2017

- Policies and practices should make clear that effective management and **control of risk** are prime objectives of treasury management activities
- Ensure priority given to **security** and portfolio **liquidity** when investing treasury funds
- Pursuit of **value for money** in treasury management is valid for responsible organisations to employ in support of business and service objectives

Arlingclose - Treasury Management Strategy Template 2020-21 and 2021-22

- Strike a **balance between risk and return**, minimising risk of incurring **losses from defaults** and risk of receiving unsuitably **low investment income**
- Maintain the **spending power** of long-term cash balances

Risk versus Return

High Risk

High Return

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- Futures and Options
- Company Shares
- Property
- Corporate Bonds
- Bank Deposits
- Money Market Funds
- Government Bonds
- Government Deposits

Low Risk

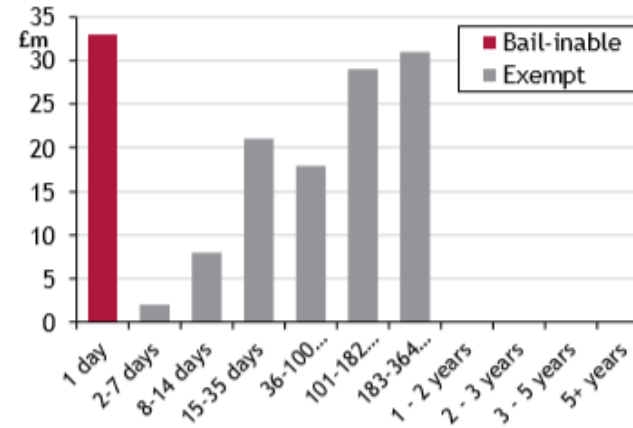
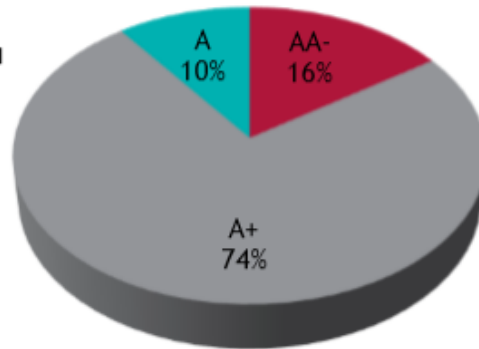
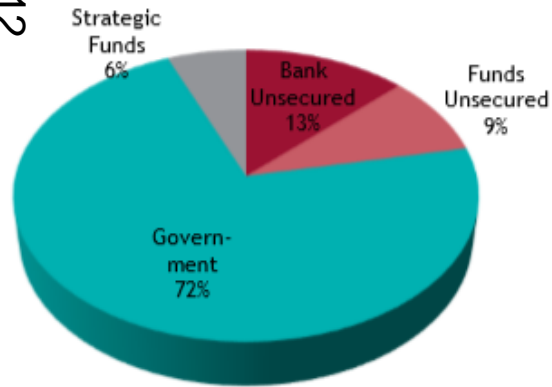
Low Return

Investment Portfolio

Summary of Investments - 31 December 2020

Type of Investment	Number	Principal	Total Return	Income Return	Days to Maturity	Days to Next Rate Reset	Average Credit Rating	Average Credit Score	Volatility
Bank Accounts	1	£ 5,000,000	0.01%	-	1	1	A+	5.0	-
Bank Deposits	2	£ 14,521,978	0.00%	-	1	1	A+	5.3	-
Money Market Funds	2	£ 13,542,857	0.00%	-	1	51	A+	5.1	-
Reverse Repo	-	£ -	-	-	-	-	-	-	-
DMO Deposits	7	£ 22,000,000	0.01%	-	17	17	AA-	3.7	-
Local Authorities	29	£ 87,000,000	0.31%	-	168	168	A+	4.6	-
Government Bonds	-	£ -	-	-	-	-	-	-	-
Covered Bonds	-	£ -	-	-	-	-	-	-	-
Corporate Bonds	-	£ -	-	-	-	-	-	-	-
Company Loans	-	£ -	-	-	-	-	-	-	-
Total Internal Investments	41	£ 142,064,835	0.19%	-	106	111	A+	4.6	-
Cash Plus and Short Bond Funds	-	£ -	-	-	-	-	-	-	-
Strategic Pooled Funds	3	£ 9,444,253	1.39%	3.99%	-	-	-	-	5.2%
Total Investment Portfolio	44	£ 151,509,088	0.27%	0.43%					

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Investment Portfolio

STRATEGIC POOLED FUND PORTFOLIO

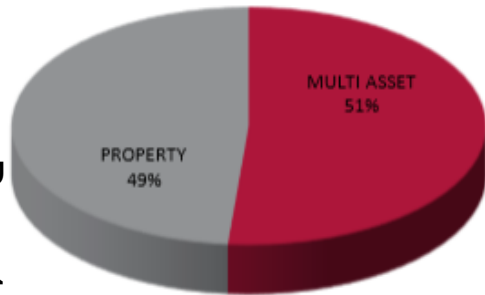
NORTH SOMERSET

From: 31/12/2019

To: 31/12/2020

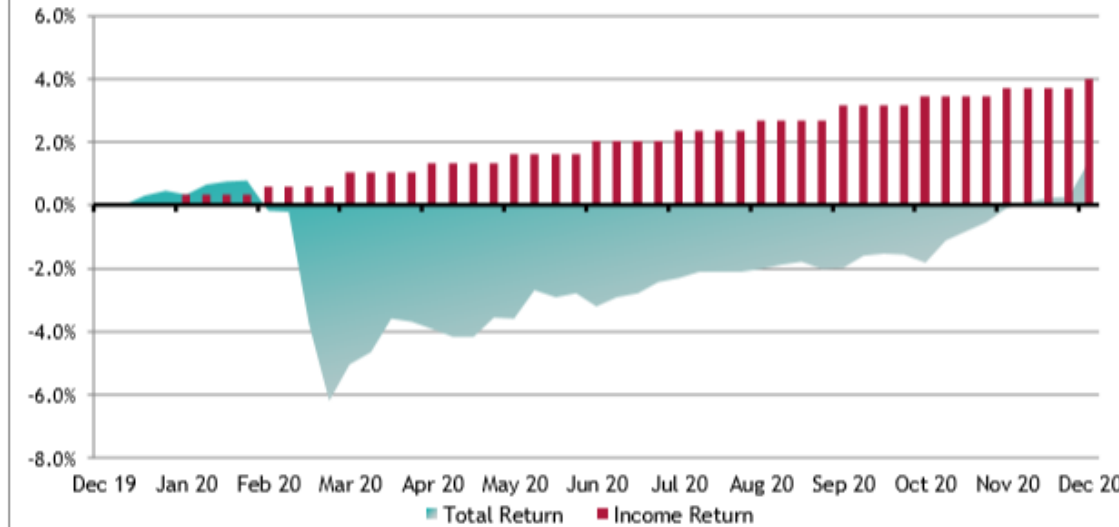
FUND NAME	ASSET CLASS	No of Units Held in Period	Current Value £	Capital Growth £	Dividends Earned £	Holding Period (yrs)	Capital Return	Income Return	Total Return	Volatility
CCLA - LAMIT PROPERTY FUND	PROPERTY	1,621,429	4,589,455	-236,080	198,739	1.0	-4.89%	4.12%	-0.77%	2.9%
NINETY ONE (INVESTEC) DIVERSIFIED INCOME FUND	MULTI ASSET	3,788,955	3,903,761	29,198	140,635	1.0	0.75%	3.63%	4.38%	9.7%
UBS MULTI ASSET INCOME FUND	MULTI ASSET	2,014,910	951,038	-45,537	47,955	1.0	-4.57%	4.81%	0.24%	15.6%
GRAND TOTAL			9,444,253	-252,419	387,328	1.0	-2.60%	3.99%	1.39%	5.2%

Asset Class Allocation



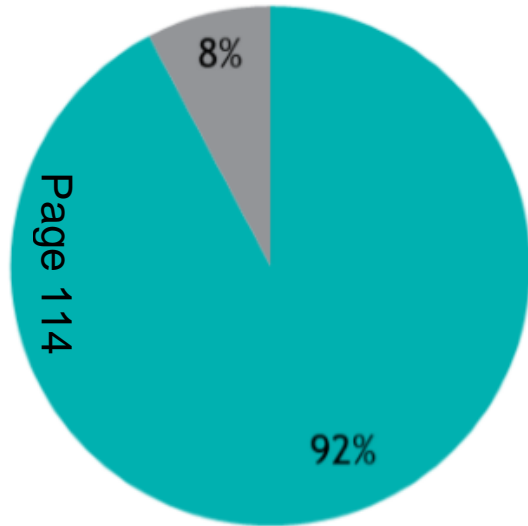
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Cumulative Return on Strategic Pooled Funds

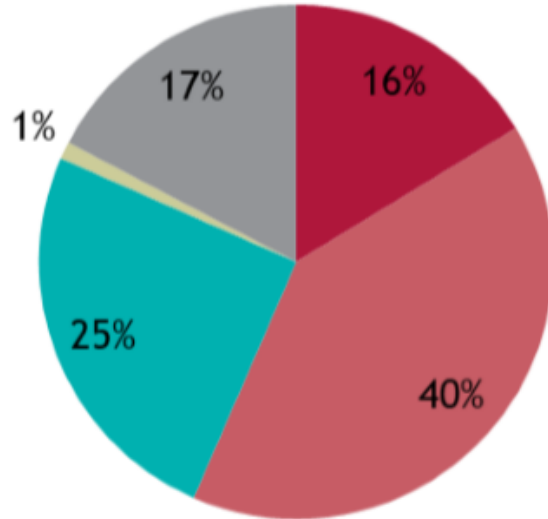


Local Authority Investments

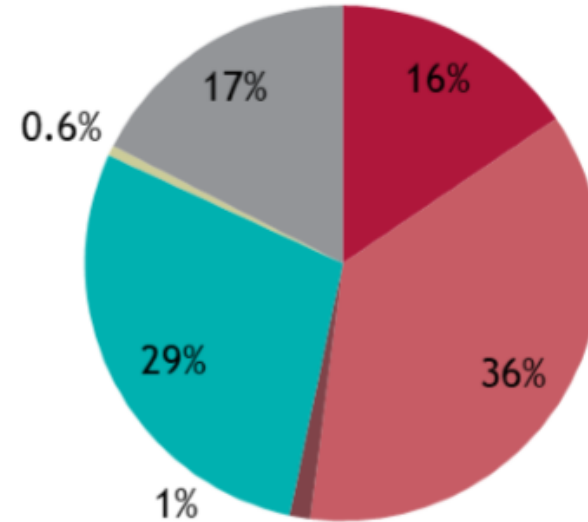
North Somerset



English Unitaries

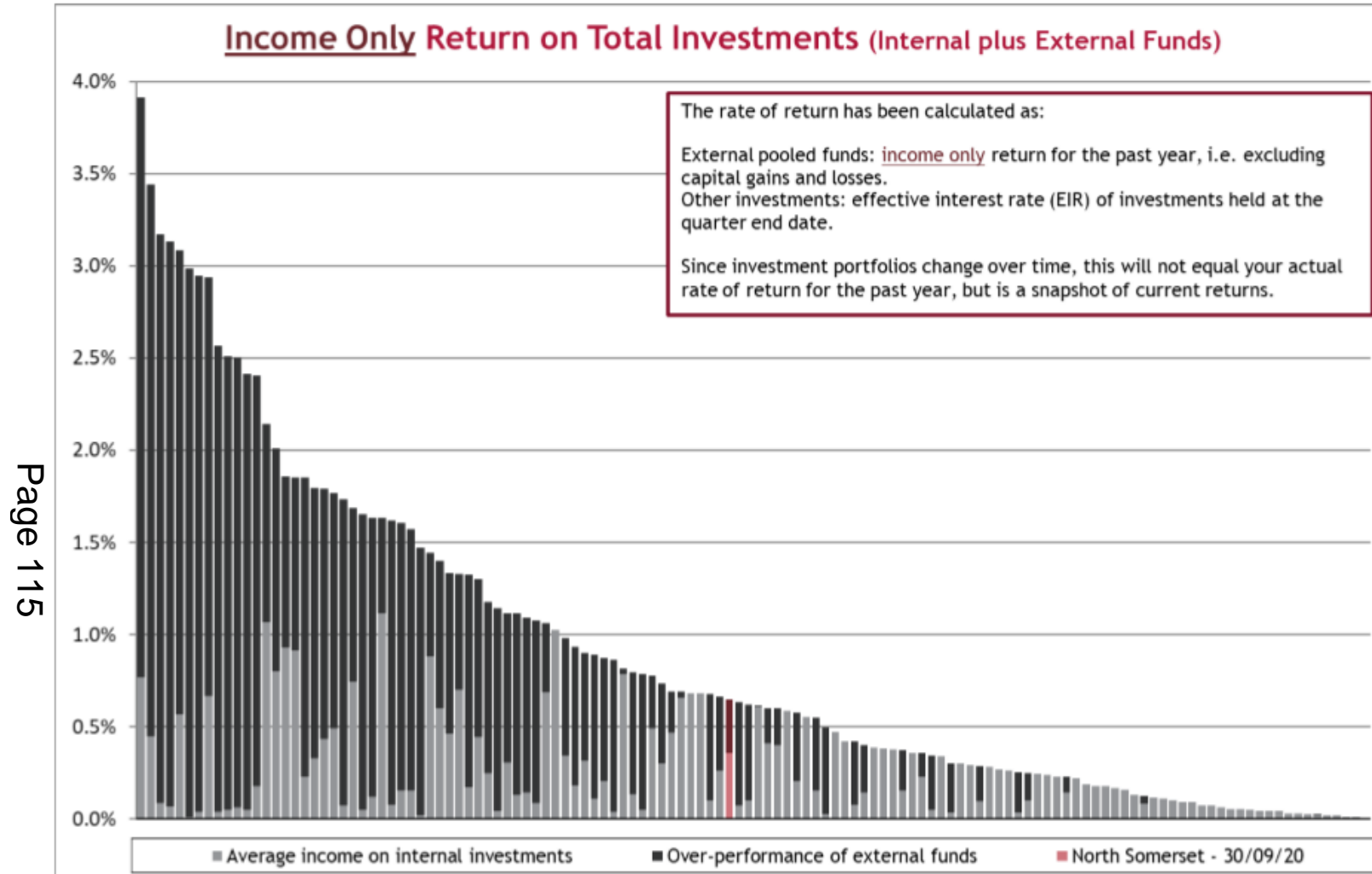


All Arlingclose Clients



As at 30 September 2020

Local Authority Investments



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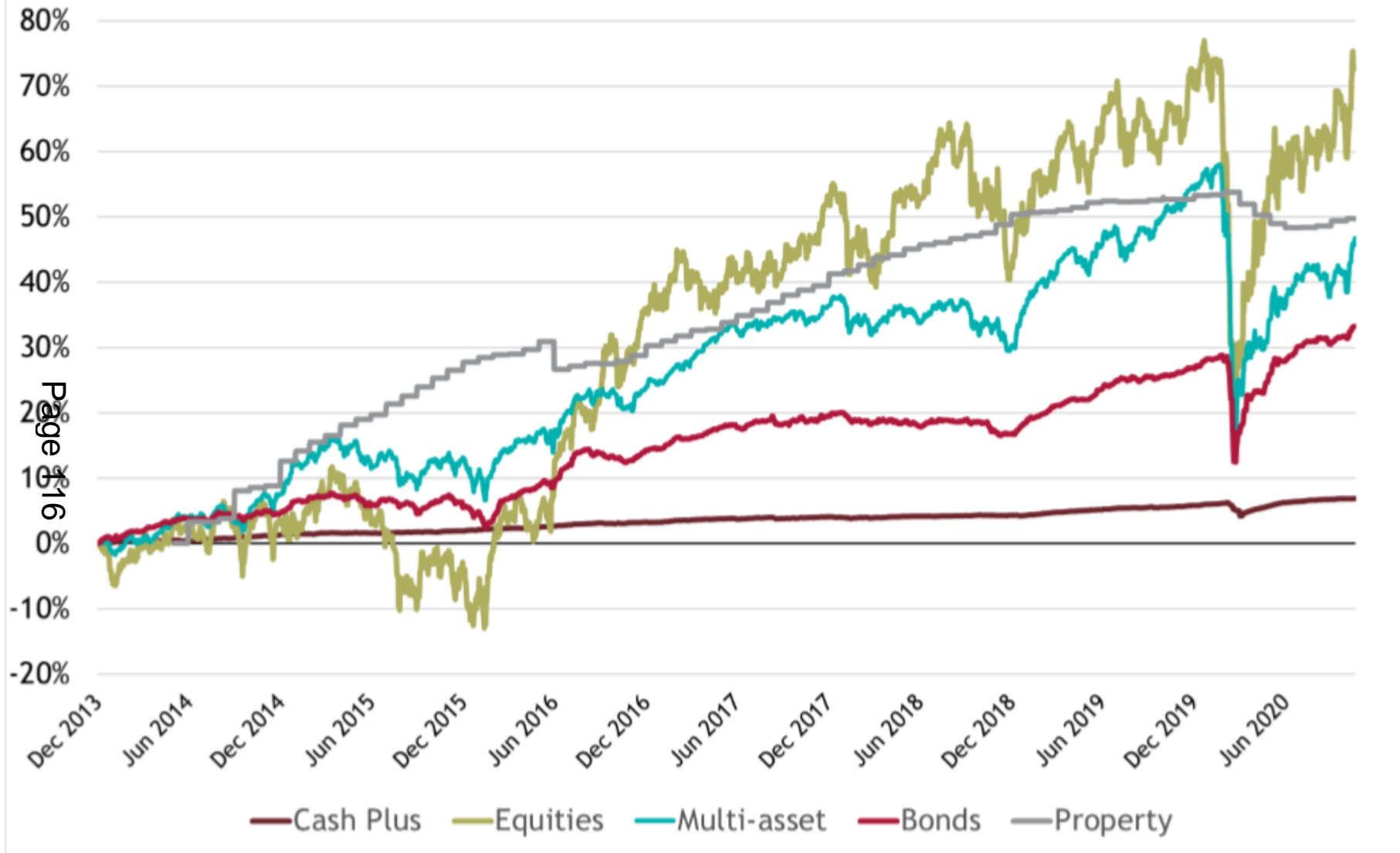
As at 30 September 2020

16

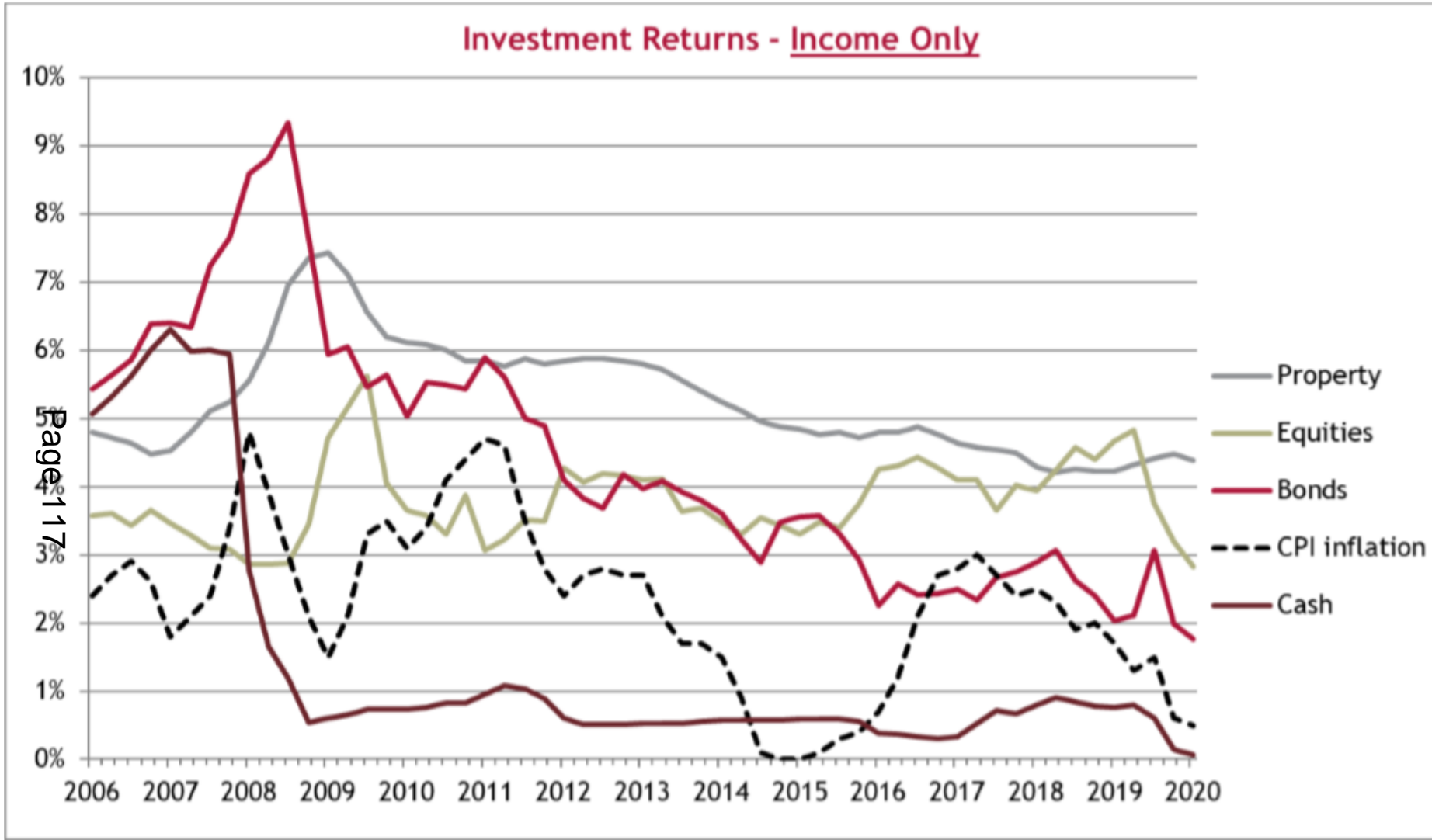
North Somerset Council Member Training
Confidential - not for disclosure to third parties



Example Cumulative Pooled Fund Returns



Asset Class Returns and Inflation



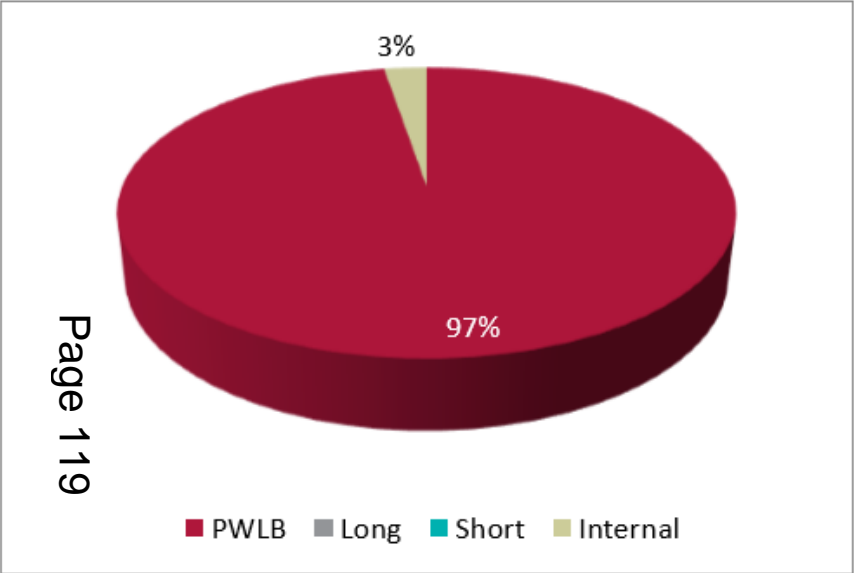
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Debt Management

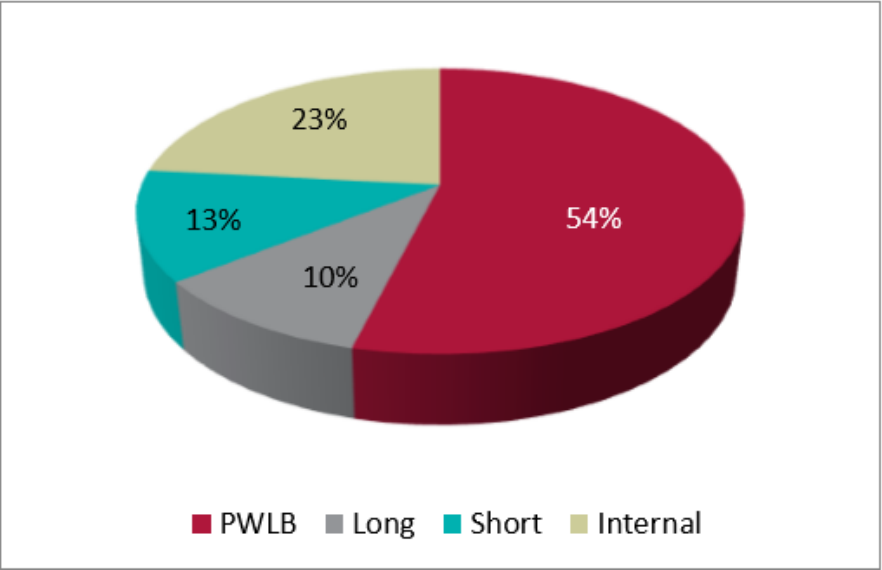
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Local Authority Borrowing

Loans CFR Financing - North Somerset



Loans CFR Financing - 49 Client Average



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As at 31 March 2020



Lenders / Types of Debt

Public Works Loan Board

- Convenient, but very expensive (for non-HRA borrowing)
- This could change with the outcome of the PWLB consultation

Local authorities

- Generally short term, but some lend for longer

Bond issues

- Expensive to arrange and administer
- Large size necessary
- Municipal Bond Agency - potentially an indirect and easier route to the capital markets

Commercial Loans

- Sources include pension funds, life insurance companies and other institutional investors
- Banks may also be interested for medium terms (up to 10 years)
- Borrower undertakes competitive process to drive borrowing costs down

Finance leases & Private Finance Initiative (PFI)

- Rent an asset for the majority of its useful life



PWLB - Proposed Future Lending Terms

Service Delivery



Regeneration



Debt For Yield



Land or Buildings:

- Let out at market rate
- No additional investment or modification
- Held indefinitely

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Refinancing Debt

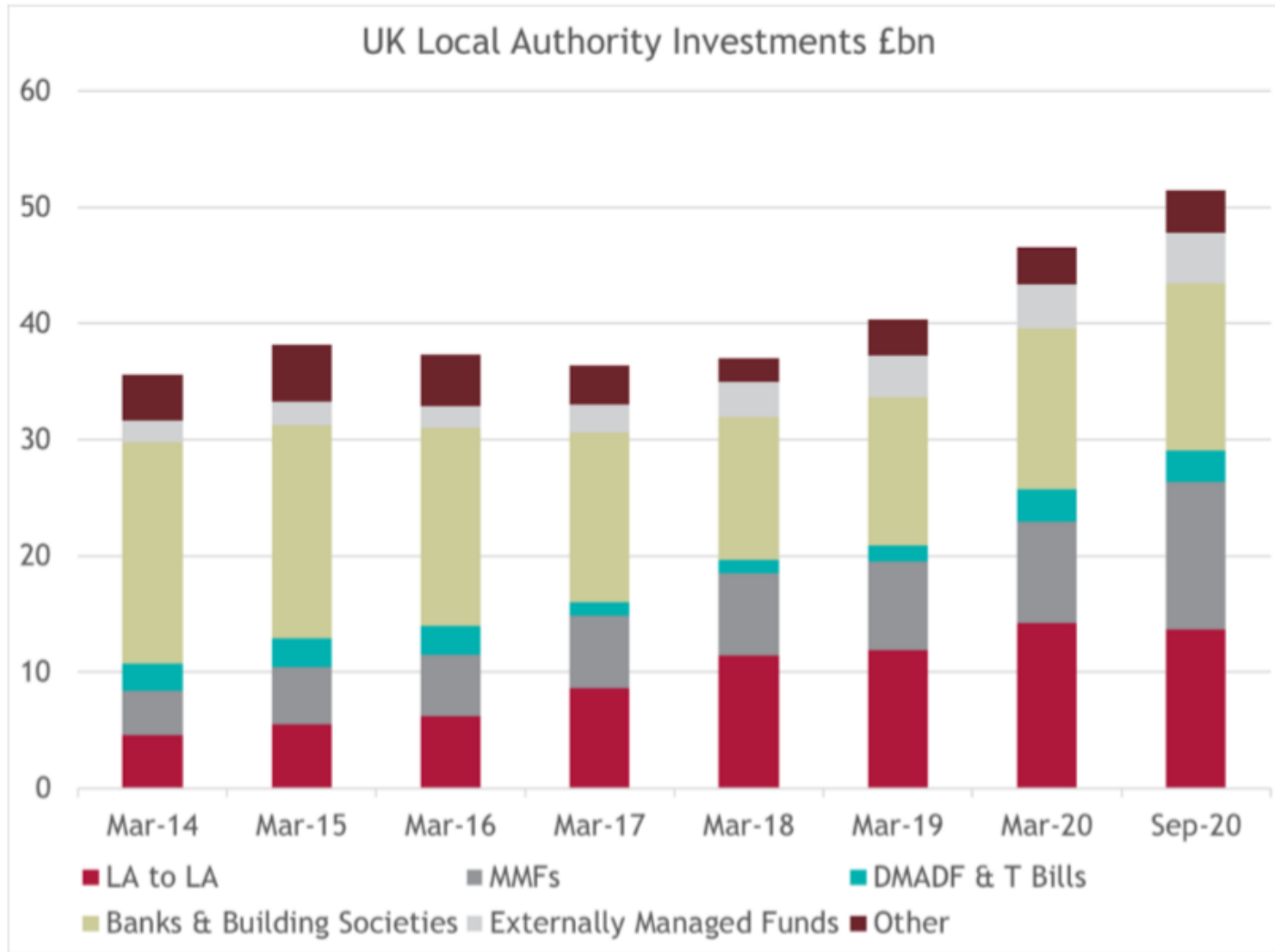


Housing



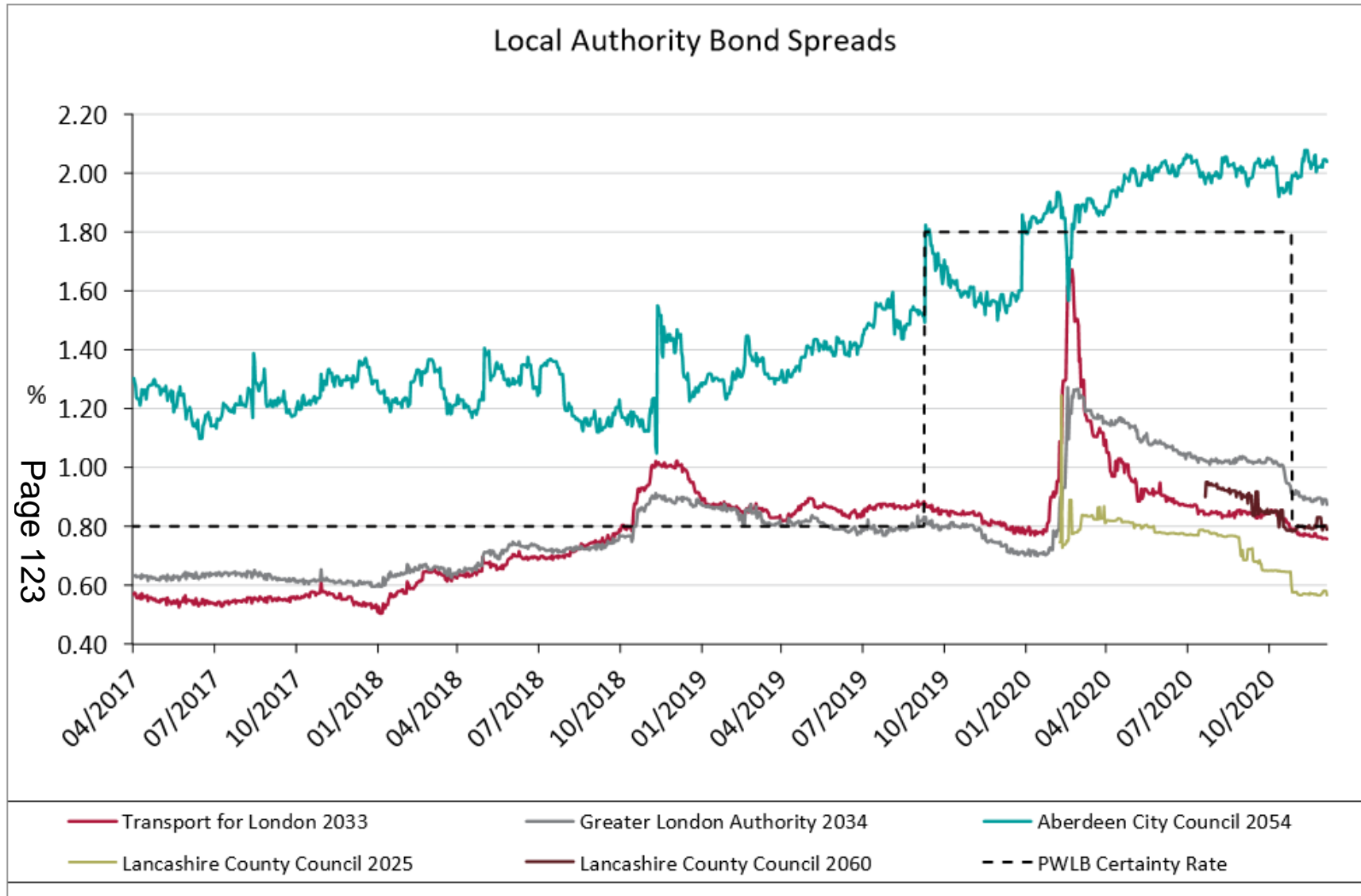
LA to LA Availability

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Source: MHCLG live tables on local government borrowing and investment; all UK

Alternative Funding Spreads



Thank you for Listening



All data has been sourced from Bloomberg and other publicly available information.

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North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 28 JANUARY 2021

SUBJECT OF REPORT: AUDIT PLAN – AUDIT COMMITTEE CONSULTATION

TOWN OR PARISH: NONE

OFFICER PRESENTING: PETER CANN - AUDIT WEST

KEY DECISION: NO

RECOMMENDATIONS

The Audit Committee is asked to:

- Comment on any areas or themes they would like to be considered in relation to the Internal Audit Plan for 2021/22.
- Note the intention to keep the plan under constant review, including a six month reassessment, in order to prioritise resources as required.

1. SUMMARY OF REPORT

This report updates the Audit Committee on the methodology used to create the Internal Audit Plan and asks for comments on areas or themes they would like to be considered within the plan for 2021/22. It also outlines the intended approach towards COVID-19 activity.

2. POLICY

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient in ensuring delivery of the council's objectives.

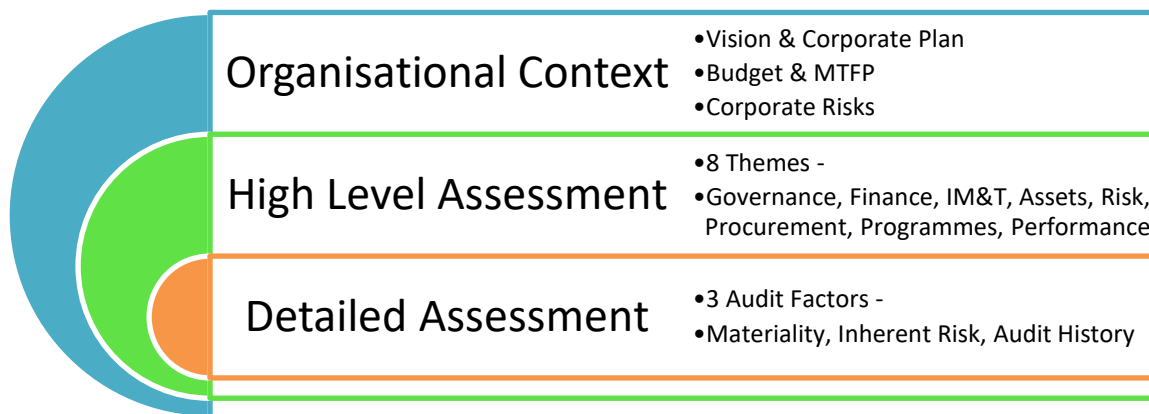
3. DETAILS

BACKGROUND - REASONABLE ASSURANCE MODEL

3.1 The planning process is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Chief Internal Auditor to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year. The model we use – the Reasonable Assurance Model - has previously been reported to the Committee in detail.

3.2 It was created and adopted in conjunction with a number of other councils in the South West and indeed its approach won a Public Finance award in 2017.

3.3 The outline of the model is as follows with the key elements in the middle section which introduced a high-level assessment of themes based on good governance.



3.4 COVID-19 and 6 Monthly Rolling Plan Review

3.4.1 During the 2020/21 financial year, members will recall that ongoing changes to planned work were required in order to redirect audit resources to unforeseen issues arising from the COVID-19 pandemic. It was then considered that the audit plan should be rebased for the rest of the financial year, now that a better understanding had been gained of the impact of COVID-19 and how resources should be subsequently prioritised. This was discussed and agreed at the November 2020 Audit Committee meeting.

3.4.2 It is the intention of the Internal Audit Service to follow a similar approach for the next financial year, so whilst the usual consultation process will follow and a full-year audit plan will initially be produced to cover the period 1st April 2021 – 31st March 2022, the plan will be kept under constant review and adjusted to cover any further unforeseen requirements over the first six months. A review of the annual plan at the six-month stage will then take place in order to adequately prioritise and resource the second half of the financial year. In addition to this, a COVID-19 contingency resource will also be held to help smooth any impact.

3.5 Consultation & Input – Audit Committee

The Audit Committee is a key stakeholder and ultimately approve the Audit Plan and therefore the purpose of the report is to obtain views and feedback on areas which the planning process can consider and take account of before it is finalised at the end of March.

In addition to Covid-19 factors around Financial Resilience, local economic impacts and broader financial assurance around the use of Covid-19 grants the Chartered Institute of Internal Auditors has drawn up ten key areas for 2021 which organisations should take account of in preparing their audit plans.

These are detailed below as a point of reference to help the committee in understanding where they feel audit coverage may be beneficial.

- Information security in the current Covid-19 work environment
- Regulatory requirements and the return to normal
- Delivery of Strategic Priorities following Covid-19

- Financial Resilience - Liquidity risk and cost-cutting amid depressed demand
- Managing talent, staff wellbeing and diversity challenges post pandemic
- Disaster and crisis preparedness: lessons from the pandemic
- Unprecedented economic volatility at National and Regional levels
- Supply chain disruption and third party solvency for critical suppliers
- Fraud and the exploitation of operational and economic disruption
- Climate change and delivery post pandemic

4. CONSULTATION

In developing and delivering the Annual Audit Assurance Plan the Internal Audit Service has consulted widely with officers and members and with the external auditors. Ongoing consultation will continue with the Audit Committee, including at six-months into the year.

5. FINANCIAL IMPLICATIONS

The resources directed at the Internal Audit plan will be reduced again for the coming year. For 2020/21 we were able to defer savings required for a year through a restructure, however these impacts will now be felt in the coming year and will overall result in a 7.5% - 10% reduction in audit coverage.

6. RISK MANAGEMENT

Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees, undetected fraud and inadequate coverage of risks arising from COVID-19. Internal Audit assists the council in identifying risks, improvement areas and recommending good practice.

7. LEGAL POWERS AND IMPLICATIONS

Accounts & Audit Regulations set out the expectations of provision of an Internal Audit service. This is supported by S151 of the Local Government Act and CIPFA Codes of Practice and the IIA professional standards for delivery of an adequate Internal Audit Service. Implications of not providing this service would include qualification of the Accounts, increase in External Audit fees, potential rise in fraud and corruption and misappropriation of assets and resources.

8. CLIMATE CHANGE & ENVIRONMENTAL IMPLICATIONS

The plan process will consider key risks (& opportunities) which will include an increased focus on Climate Change and report back on whether assurances can be given on the delivery of the organisations plan to mitigate the risk in this area.

9. EQUALITY IMPLICATIONS

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

10. CORPORATE IMPLICATIONS

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide assurance to officers and members of the council's corporate governance.

11. OPTIONS CONSIDERED

Audit Methodology is driven by professional standards and legislative requirements and the model created subjected to external assessment. The plan itself is subject to wide consultation in order to ensure sufficient options and approaches have been considered.

AUTHOR

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2020/21

Audit Committee July 2020