



Audit and Risk Management Committee

Date:	Monday, 28 January 2019
Time:	6.00 p.m.
Venue:	Committee Room 1 - Wallasey Town Hall

This meeting will be webcast at
<https://wirral.public-i.tv/core/portal/home>

Contact Officer: Patrick Sebastian
Tel: 0151 691 8424
e-mail: patricksebastian@wirral.gov.uk
Website: <http://www.wirral.gov.uk>

AGENDA

1. **APOLOGIES FOR ABSENCE**
2. **MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST**

Members are asked to consider whether they have any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state the nature of the interest.
3. **MINUTES** (Pages 1 - 6)

To approve the accuracy of the minutes of the meeting held on 19 November 2018.
4. **FINANCIAL RESILIENCE PLAN: PROGRESS UPDATE** (Pages 7 - 20)
5. **INTERNAL AUDIT UPDATE** (Pages 21 - 26)
6. **DEVELOPMENT OF THE REVISED CORPORATE RISK REGISTER** (Pages 27 - 30)
7. **MANAGEMENT OF INSURANCE AND CORPORATE RISK** (Pages 31 - 34)
8. **INSURANCE FUND BUDGET 2019/20** (Pages 35 - 44)
9. **EXTERNAL AUDIT - COMMITTEE PROGRESS REPORT** (Pages 45 - 56)

10. ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR

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AUDIT AND RISK MANAGEMENT COMMITTEE

Monday, 19 November 2018

<u>Present:</u>	Councillor	AER Jones (Chair)	
	Councillors	T Anderson A Davies D Elderton	JE Green J McManus
<u>Deputies:</u>	Councillors	C Carubia (In place of P Gilchrist) S Foulkes (In place of RL Abbey)	

33 MEMBERS' CODE OF CONDUCT - DECLARATIONS OF INTEREST

Members were asked to consider whether they had any disclosable pecuniary interests and/or any other relevant interest in connection with any item(s) on this agenda and, if so, to declare them and state what they were.

No declarations were made.

34 MINUTES

Resolved – That the minutes of the meeting held on 24 September 2018, be approved.

35 INTERNAL AUDIT UPDATE

Mark Niblock, Chief Internal Auditor, introduced his report that identified and evaluated the performance of the Internal Audit Service and included seven items of note arising from the actual work undertaken during the period 1 September to 31 October 2018. The items of note were:

- Integrated Commissioning Hub (ICH) - An audit had successfully been completed to examine and evaluate the control environment in operation regarding this key corporate initiative. Details were also provided of further work to be conducted during 2018/19 including a collaborative piece of work with officers from MIAA who provide internal audit services to the NHS.
- Risk Management - Audit work was scheduled in this area for the remainder of the year that included a consultancy assignment aimed at providing best practice guidance and support for officers involved with the implementation of the new arrangements.

- Code of Corporate Governance - Work had been undertaken in conjunction with colleagues from Legal Services to produce the draft Code of Corporate Governance which was a separate item of report on the meeting agenda.
- Windows 10 Project - Following discussion at the previous meeting of the Audit and Risk Management Committee, a targeted piece of audit work had commenced to evaluate the controls in place to manage and monitor the project's capital spend.
- Transaction Management; Personal Finance Unit - An audit had been conducted to review the key risks for the Personal Finance Unit (PFU). The focus of the audit was to assess whether the progress made and impact of actions agreed at a previous audit had effectively reduced risks to the Authority.
- Business Management; Insurance - A routine audit had been undertaken of the Insurance Function within Business Management as part of the Internal Audit Plan.
- Counter Fraud Publicity Campaign - Internal Audit was coordinating a week long Fraud Awareness Campaign aimed at both members of the public and staff members.

The Chief Internal Auditor further apprised the Audit and Risk Management Committee on outstanding audit recommendations, internal audit performance indicators and internal audit developments. He was pleased to report that, at the time of reporting there were no outstanding items and no significant issues arising. The Chief Internal Auditor also provided examples of work underway to improve the overall efficiency and effectiveness of the Internal Audit Service.

A Member questioned the Chief Internal Auditor on the funding pressures and planned risk share arrangements for the ICH project, identified in the report as 'significant'. The Member sought clarity on the matter and whether a resolution had been reached. The Chief Internal Auditor informed that working arrangements continued to be further developed and refined, and that the Committee would receive update reports in due course.

Members further questioned the Chief Internal Auditor on matters relating to the Personal Finance Unit, embedded service level agreement and delivery of the six recommendations agreed with senior management. The Committee was informed that a further follow-up review would take place in February 2019 to assess progress made with the implementation of the recommendations.

A Member questioned whether the fraud awareness e-learning course was mandatory and what completion statistics were available, The Chief Internal Auditor informed that although not compulsory, staff had been encouraged to complete this training, which was mainly targeted at front line staff, and statistics on the take up of training would be provided to Members.

Resolved – That the report be noted.

36 **CODE OF CORPORATE GOVERNANCE**

Colin Hughes, Group Solicitor introduced a report of the Director: Governance and Assurance that sought the Committee's approval of the Council's revised Code of Corporate Governance. The Council's current Code of Corporate Governance was last reviewed in 2016.

The Group Solicitor informed that the Council's Code of Corporate Governance had been reviewed to ensure compliance with the CIPFA / SOLACE Guidance / Framework for the delivery of good governance in Local Government in a more succinct and clear fashion. He further informed that the document identified the collective responsibility of Cabinet Members, Officers and others involved in the Council's decision making process, policy making and procedures to ensure compliance with legislative requirements, governance principles and management processes.

Members noted the revised code that set out the new framework commitments, and listed examples of how these were to be achieved, the relevant policies, and documentation supporting each principle.

Resolved – That

- (1) the revised Code of Corporate Governance be approved; and**
- (2) RECOMMENDATION TO COUNCIL – that the Council's Constitution be updated to include the revised Code of Corporate Governance and new governance framework.**

37 **DEVELOPMENT OF THE REVISED CORPORATE RISK REGISTER**

The Director of Finance and Investment, S.151 Officer introduced her report that informed of the focus on enhancements to arrangements for managing risk which the Council is working to introduce. The report informed that ensuring that the leadership had a clear, shared, and current understanding of those risks was fundamental to that aim.

The Director of Finance and Investment referred Members to the report appendix that listed corporate risks by category (under headings of internal

and external risks) contained in the supplementary agenda paperwork. She informed that the report provided a progress update in relation to work that had been undertaken by the Strategic Leadership Team as reported to the meeting of the Audit and Risk Management Committee on 24 September 2018 (minute 27 refers).

The Director of Finance and Investment informed that a Risk Management Task and Finish Group had met to identify coverage and review in detail and identify personnel to continue this work. Members noted that a summary of the development work was also detailed in a separate report on the agenda 'Improvements to the Corporate Risk Management Framework'.

The Director of Finance and Investment advised Members that a progress update report was scheduled for consideration at the next meeting of the Audit and Risk Management Committee in January 2019.

Resolved – That the report be noted.

38 **IMPROVEMENTS TO THE CORPORATE RISK MANAGEMENT FRAMEWORK**

The Director of Finance and Investment, S.151 Officer introduced her report that informed on how the Council was working to improve its arrangements for managing risk as part of a broader programme of enhancements to corporate governance. The report provided a progress update in relation to those actions and indicated others to be taken in the coming months. An earlier report to the Audit and Risk Management (ARM) Committee on 23 July 2018 (minute 8 refers) set out a number of actions aimed at supporting improvements. The Director of Finance and Investment informed that the report linked closely to earlier reports on the meeting agenda that provided an update on the work surrounding risk management and insurance that sought to support the Risk Management Framework and maintain successful management of the insurance programme.

In response to a question on training for Officers and Audit and Risk Management Committee Members, the Director of Finance and Investment informed of the potential for a training session in January 2019 to update Members on the content of the Corporate Risk Register.

Resolved – That the report be noted.

39 **MANAGEMENT OF INSURANCE AND CORPORATE RISK**

The Director of Finance and Investment, S.151 Officer introduced her report that informed of progress made in relation to key actions planned for 2018/19 as reported to the Audit and Risk Management Committee at its 24 September 2018 meeting (minute 28 refers).

The report provided a regular update on the work around risk management and insurance in support of the Council's Risk Management Framework. The items of note were:

- Corporate Risk Register (subject of a separate report to the committee).
- Improvements to the Risk Management Framework (subject of a separate report to the committee).
- Traded Services for Schools and Academies. The Council's offer to schools in relation to risk and insurance services in 2019/20 had been developed as part of broader Traded Service arrangements. Procurement of Replacement Claims Management Information System. Research had been undertaken into the functionality of the different systems through site visits to local authorities which use those systems.
- Procurement of Motor Insurance and Engineering Inspection and Insurance Contracts. Work on this exercise had continued with the support of the Council's insurance brokers and the Procurement Team. A timetable has been agreed and the Invitation to Tender document was under development - to be published before the end of November 2018 with a deadline for responses of mid-January 2019.
- Liability Claims Handling. The insourcing of Highways Maintenance operations with effect from 1 October 2018 meant that the Council is now exposed to Public and Employers Liability claims which were previously the responsibility of BAM Nuttall.
- Insurance Fund Budget. Work had continued on the production of the Insurance Fund Budget for 2019/20. Whilst costs for some classes of insurance will be lower than in 2018/19 rises in other premiums may mean an overall increase in the Budget for the forthcoming financial year. The budget including the allocation between schools and the General Fund is to be presented to the meeting of this Committee scheduled for 28 January 2019.

Resolved – That the report be noted.

40 **EXTERNAL AUDIT PROGRESS REPORT**

Mr Robin Baker of External Auditor, Grant Thornton UK LLP presented the Audit Progress Report and Sector Update that summarised key findings arising from the work that the External Auditor had carried out in the delivery of its responsibilities as Wirral Council's external auditors, as at November 2018.

The External Auditor informed that planning for the 2018/19 audit was underway, and detailed plans were to be presented to the Audit and Risk management Committee at its January 2019 meeting. He added that audits in

respect of Housing Benefit and Teachers Pensions were due to be completed at the end-November 2018 and at present there had been no significant issues identified.

The Director of Finance and Investment apprised Members of work being undertaken with CIPFA on Financial Resilience and aspects of financial modelling and benchmarking.

In response to questions from Members on good practice, and in seeking reassurance on the matter of commercialism, Mr Baker informed that as the Council's auditor Grant Thornton could not advise the Council directly, but can share insights given their access to experts in the field.

Resolved – That the report be noted.

41 **URGENT BUSINESS APPROVED BY THE CHAIR - CIPFA PRUDENTIAL AND TREASURY MANAGEMENT CODES**

The Chair announced consideration of an item of urgent business in respect of a Statement from Rob Whiteman (CIPFA Chief Executive) and Richard Paver (Chair of the CIPFA Treasury and Capital Management Panel on the outcome of the review of CIPFA's Prudential and Treasury Management Codes – that included modification to the controls and guidance related to increased commercialisation in the investment practices of local authorities.

The Chair informed that the matter had been brought to his attention by Councillor Jeff Green, and invited Councillor Green to present his concerns.

Councillor Green informed Members that he was aware of the guidance from CIPFA, and had requested that the matter be considered due to his specific concerns in relation to commercialism and the use of borrowing to fund commercial activities, risk appetite and risk mitigation – particularly in respect of the Council's Growth Company.

The Chief Internal Auditor informed that the Council was aware of the guidance and worked very closely on partnership matters and best practice matters. He further informed that when the updated code and detailed guidance was published it would be worked into the Council's existing financial management frameworks and monitored to ensure compliance.

The Chief Internal Auditor advised Members that the Council's Asset Strategy was in hand and he would ensure that the aforementioned guidance and code would be brought back to the Audit and Risk Management Committee, together with information on its application.



Audit and Risk Management Committee Monday, 28 January 2019

REPORT TITLE:	FINANCIAL RESILIENCE PLAN: PROGRESS UPDATE
REPORT OF:	Director of Finance and Investment (S151)

REPORT SUMMARY

This report discusses progress on the financial resilience plan that is part of the Council's Medium Term Financial Strategy (MTFS) 2019/20 to 2022/23 and was agreed at Cabinet on the 16 July 2018. The plan sets out how the approach to improving and managing financial sustainability.

RECOMMENDATIONS

That the Committee:

1. Notes the progress to date on Financial Resilience Plan Programme 2018/19.
2. Agrees to regular updates being present to the Committee.

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATION/S

- 1.1 Audit & Risk Management Committee has responsibility for reviewing governance and that effective processes are in place in the Council, making necessary recommendations to Cabinet where effectiveness needs to improve. Part of this includes seeking assurances that the Council has sufficient financial resilience to mitigate and manage its future financial risks. The Financial Resilience Plan is being presented to the Committee as the main element of the Council's approach to improving financial resilience

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The financial resilience plan highlights a series of actions that will be tested to ensure we can demonstrate a high level of financial management and control, effective leadership and decision making and ensuring evidence is available to prove that we are providing value for money for our local taxpayers. The actions are vital for the Council's future development and no other options were considered.

3.0 BACKGROUND INFORMATION

- 3.1 The financial position for local councils continues to be challenging. Since 2010 all councils have faced the following:

- Reductions in Central Government Funding.
- The effects of increased financial pressures in a number of core services such as social care.
- The impact of business rates retention including the responsibility for payment of appeals.
- New financial responsibilities for Councils for areas previously under central government control such as Council Tax Benefit.

- 3.2 To respond improving and maintaining financial resilience has been incorporated into the MTFS. Essentially, It is about coping with the financial shocks and unpredictable events that take place. There are a number of ways of building resilience:

- Management of Spare resources.
- Use of Reserves.
- Income Generation.
- Forecasting and management of expenditure.

- Developing a holistic view of expenditure and spending.
- Rethinking the way services are delivered.
- Anticipating what is going to take place.

However of these, two emerge as the main ones as follows

- Improved Internal Financial Management - A major aspect of financial resilience is managing in a changing conditions and contexts.
- Increased Income- Diversification of income through various Council approaches such as regeneration and commercialisation. Ensuring the there is greater financial self sufficiency.

3.3 Review of Financial Resilience 2018/19

During the early part of 2018 a review of the Councils Financial Resilience and Financial Management has occurred with the aim of making this a key part of the delivery of the MTFS to 2023. This was instigated for the following reasons:

- Increasing Financial Pressures on local government raising the profile of the strength of financial resilience in the sector. High profile examples such as Northamptonshire County Council demonstrate that the sector is facing a number of stresses and strains following austerity programme that commenced in 2010.
- Wirral financial performance and resilience changing over the last two years. The council has faced increasing financial pressures in both 2016/17 and 2017/18. While the overall outturn for the Council for both years has been favourable there has been a reliance on one off funding such as balances and in year solutions to mitigate and put in place actions to resolve adverse financial pressures that developed in major service areas part way through both financial years. Linked to this the following has been identified:
 - A clear reduction in the level of earmarked reserves. There has been an increasing use of earmarked reserves as temporary budget funding while budget proposals are implemented.
 - Short term financial planning. The budget for 2018/19 was for one year only rather than across a wider MTFS timeframe. There has been limited planning for future years savings and increased additional income.
 - An increasing tendency for services to have unplanned overspends and/or carry forward the implementation of financial proposals from one year to the next.

- Increasing size of the budget gap with a higher proportion of the solutions being found from one off funding if no specific savings and additional income had been identified.
- Organisational changes and a new senior management structure. A new structure presents an opportunity to review financial roles and responsibilities to ensure that there is appropriate management of budgets and understanding of roles and responsibilities.
- A new approach to budget preparation and management through greater Member involvement via portfolio responsibilities.

3.4 **Building Financial Resilience: Review Findings and Actions**

A combination of financial pressures in the last few years combined with increasing challenges in future years plus organisations changes make it an important priority to refresh and renew the Council approach to its financial resilience. Building financial resilience is a key part of the MTFs planning for our finances. A major part of this is getting the basics of financial management right especially given the pressures and changes that have occurred over recent years.

The review has been undertaken in the early part of the 2018 by CIPFA and a group of officers lead by the Director of Finance and Investment. The CIPFA FM Model was used to assess the financial management arrangements in the operation and its findings are summarised in the points below:

Strengths

The high level strengths identified included:

- The outcomes based focus of the Wirral Plan demonstrates a willingness by Members and the Senior Leadership Team to be open to new ideas on how services might be delivered in future.
- The determination and commitment of the Senior Leadership Team and the Cabinet to instil a culture of financial discipline throughout the organisation.
- A budgeting process for 2018/19 and 2019/20-2022/23 that was becoming more grounded and rigorous.
- There are pockets of good practice in the Council.
- The Director of Finance has begun to raise the influence and profile of the Finance team on strategic issues.

Development areas

The areas that must be developed included:

- There is a pressing need to agree a Medium Term Financial Strategy and associated transformation plan to address the projected spending gap.

- The future delivery of the Medium Term Financial Strategy and transformation plans are dependent on changing the existing culture within the Council.
- Members and senior officials need to more explicitly set a tone that financial discipline is important.
- Refocus and reprioritise the finance and audit functions.
- Putting in place the enablers that provide effective financial management.

In the light the outcomes of the work undertaken a financial resilience programme has been developed to build financial resilience and has taken forward the specific areas that it is recommend need to be developed further.

It incorporates the development of a new MTFS (agreed by Cabinet in summer 2018) including an approach to benchmarking and financial and the use of reserves. In addition the programme also contains the details of a move away from a transactional finance processing approach to finance support to a more dynamic Finance Business Partnering role with finance advising services in challenging times.

The programme has 4 elements being the 4 elements for financial resilience:

- Getting routine Financial Management Right.
- Benchmarking – making this routine.
- Clear plans for the delivering savings.
- Prudent use of reserves.

3.5 Financial resilience is a challenge for the Council and it is at the core of the MTFS. The actions have been progressed through the governance of finance by the Cabinet Member for Finance and Income and by the Director of Finance and Investment with support from the Councils Senior Leadership Team. Financial resilience is an area where the room for error is small. As has been seen in the MTFS and recent year's financial performance the financial pressures continue and are not ending. The decisions made in one year can lead to difficulties in the years following. This highlights the critical importance of getting basic financial management right. It is the foundation on which resilience is built.

3.6 Appendix 1 Contains details of the programme and actions undertaken to the end of December 2019. Financial resilience covers a number of actions including internal financial management, income generation, developing the ability to plan for events in the future and management of reserves. It involves developing new skills and a whole Council view of Finance.

4 FINANCIAL IMPLICATIONS

4.1 There are none arising directly from this report.

5 LEGAL IMPLICATIONS

5.1 There are none arising directly from this report.

6 RESOURCE IMPLICATIONS

6.1 There are none arising directly from this report.

7 RELEVANT RISKS

7.1 The council faces financial challenges across the MTFs period as it seeks to increase income, reduce costs whilst transforming its approach to services. There is a risk in future years that the Council does not achieve a planned approach. The Financial Resilience Plan and its development will mitigate an element of this risk.

8 ENGAGEMENT/CONSULTATION

8.1 There are none arising directly from this report.

9 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

REPORT AUTHOR: Shaer Halewood
Designation Director of Finance and Investment (S151)
Telephone 0151 691 8688
Email shaerhalewood@wirral.gov.uk

APPENDIX

SUBJECT HISTORY

Council Meeting	Date
Cabinet Medium Term Financial Strategy 2019/20-2022/23	16 July 2018

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Financial Resilience Programme 2018/19

The detailed content of the programme and the approach to its development and delivery is set out below.

1. Getting Routine Financial Management Right

Pillar of Financial Resilience	Matter	Actions progressed and planned for 2018/19
<u>Getting routine Financial Management Right</u> – Elected Members	Develop the engagement of elected members on budget management, preparation and complex financial issues, through better presentation of information, member development and communication.	<ol style="list-style-type: none"> 1. Establishment of the Finance & Income Portfolio Board led by Portfolio Holder for Finance & Income, meeting monthly to challenge other Portfolio holders. 2. New monthly reporting to SLT & Cabinet/SLT of predicted outturn, savings achievement, capital receipts, capital programme progress & update on MTFS. 3. ARMC refresher training for existing and new members of the committee.
<u>Getting routine Financial Management Right</u> Change & challenge the financial culture of front-line services, helping them to be more effective in financial planning, financial management and budget ownership.	Prioritise spending to ensure VFM, link to outcomes and 20 Pledges.	Spending scrutinised, through spending freeze to determine whether VFM is being provided and is in line with priority outcomes. This will incorporate a vacancy and agency freeze.

	Improvement of financial management across the Council through the implementation of effective conditions and compliance.	<ol style="list-style-type: none"> 1. Use of CIPFA FM Model diagnostic tool to provide baseline assessment of financial management across the Council. 2. Improve compliance with policies and procedures through a working group and workshop. Result would be effective use of resources and conditions through greater compliance. 3. New monthly reporting to SLT & Cabinet/SLT of predicted outturn, savings achievement, capital receipts, capital programme progress & update on MTFS.
	Improve managers and budget holders' capacity and capability to manage their own budgets effectively through a number of tools and knowledge.	<ol style="list-style-type: none"> 1. Improved financial management information with reporting that is easy to use to enhance forecasting of outturn positions. 2. Development of enhanced mandatory financial training to budget holders before management of 2019/20 budget. 3. Budget roles and responsibilities refreshed to align with the new Council organisational structure including the Growth Company and the Wirral Plan 2020 pledges before management of 2019/20 budget.
	Demand pressures in Adults and Children's Social care and Health have been a financial pressure for a number of years. These have in part been mitigated within the Councils overall budget however future pressures might not be contained.	Adult Social Care review to take place into contracts and spending. This is to identify baseline of spend against future demand plus activity levels.
<u>Getting routine Financial Management Right</u> Change the culture and focus of the	Development of Finance Team to support services in financial management and	1. Finance Business Partner role to be developed to enable embedding of strong and robust financial management in all parts of the Council. Staff will focus on delivery of in year financial performance and implementation of future financial performance. New FBP structure aligns to the Councils Management Structure.

finance team.	Transformation.	2. Development of effective financial analytical skills in the finance team, including the financial projections, understanding of unit costs, options appraisal, managing contracts and alternative delivery models.
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2. Benchmarking – Making this Routine

Pillar of Financial Resilience	Matter	Actions
<u>Benchmarking – Making this routine</u>	Improved understanding of how costs and income compare to other Councils. This to assist in the determination of future service delivery and income generation.	Purchase of CFO Insights modelling tool being led by Business Intelligence and Finance functions to dovetail into and complement current information and analysis. CFO Insights is an online analysis tool that gives access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales. The tool provides a three-dimensional way in which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours.

3. Clear Plans for the Delivering Savings

Pillar of Financial Resilience	Matter	Actions
<u>Clear Plans for the Delivering Savings</u>	Production of MTFS for 2019/20-2022/23.	Cabinet in July 2018 agreed MTFS 2019/20/2022/23 comprising of the following: <u>Outward MTFS</u> to achieve the outcome of the Wirral Plan to achieve the outcome of the Wirral Plan <u>Inward Medium Term Financial Plan</u> to containing the Financial Resilience Plan and the detailed background to the MTFS. The MTFS will provide a clear position statement from the coming 4 years. It provides the

		<p>context in which the 2019/20 and future years budget preparation will take place. Over the period this will incorporate the following:</p> <ol style="list-style-type: none"> 1. Move towards allocation of budget to priority outcomes. The result is the alignment of budget to target outcomes to ensure the most effective and economic way to achieve the outcome. This will result in the development of planned approach to realignment. 2. Establishment of a Strategic Risk Register and Departmental Risk Registers to contain details of change projects. The outcome of this will be a process to risk assess and manage all risk associated with new savings plans.
<u>Clear Plans for the Delivering Savings</u>	<p>Saving plans that link to budget and MTFS. Timescales and investment from change need to be realistic. Plans and projects including those for Transformation need to be coordinated with clear outputs that align to Wirral Plan and MTFS objectives. Projects to be supported by the appropriate business case.</p>	<ol style="list-style-type: none"> 1. Establishment of the Investment & Change Board to make decisions and early sight and sign off to ensure all decisions are linked to priority outcomes. 2. All relevant projects will have business cases that will identify rationale for the project, outcomes, resource requirements, timelines and benefits. A minimum standard of qualitative and quantitative measures has been developed and tested, with the output deliverables redesigned to present this information in a meaningful (and standardised) manner. The information includes alignment to portfolio owner, transparent, testable financial information, detailed risk matrices and alignment to Wirral 2020 plan. There is a general level of required sensitivity modelling designed to enhance intelligence based decision making at all hierarchies in the organisation 3. Improved budget scrutiny arrangements with more comprehensive and detailed information out in advance for more effective challenge and scrutiny of suggested proposals
	<p>Develop strong commercial skills and awareness including in investments in the finance team and other services. This</p>	<ol style="list-style-type: none"> 1. Fostering of a commercial mind set and culture through information sharing, training and networking. The aim is to develop commercial capacity, capability and direction in all services. The result would be additional income from new and existing activities. 2. Businesses Cases for new commercial ideas to be progressed to and supported if

	includes the dissemination to services of knowledge, including an understanding of various commercial models.	approved by the Investment and Change Board. 3. Commercial Strategy approved by Cabinet in 2018
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4. Prudent use of reserves

Pillar of Financial Resilience	Matter	Actions
<u>Clear Plans for the Delivering Savings</u>	Reduce the use of reserves to support the budget. Ensure sufficient levels of reserves are maintained to manage risk and projects in future years.	Reserves Policy reviewed for 2019/20 to ensure clear guidance on why and when reserves are held. Reserves reviewed in line with revised policy to determine whether they should still be held or can be recalled.

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**Audit and Risk Management Committee
Monday, 28 January 2019**

REPORT TITLE:	INTERNAL AUDIT UPDATE
REPORT OF:	CHIEF INTERNAL AUDITOR

REPORT SUMMARY

This report identifies and evaluates the performance of the Internal Audit Service and includes details of any issues arising from the actual work undertaken during the period 1st November to 31 December 2018. There are three items of note concerning audit work undertaken that are brought to the attention of the Members for this period and these are identified at Section 3.2.

RECOMMENDATION

Members note the report.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 To provide the Members with assurance that the Council is taking appropriate measures to ensure that the control environment is effective and to comply with statutory requirements to provide an adequate and effective internal audit service.
- 1.2 To ensure that risks to the Council are managed effectively.
- 1.3 To ensure that the Council complies with best practice guidance identified in the CIPFA publication 'A Toolkit for Local Authority Audit Committees'.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options considered.

3.0 BACKGROUND AND AUDIT OUTPUT

- 3.1. Internal Audit operate an effective reporting mechanism for Members of the Audit and Risk Management Committee that summarises audit work completed and identifies issues raised on timely bi-monthly basis. This report supports these arrangements by focussing on the following:

- Any items of note arising from audit work conducted,
- Any issues arising that require actions to be taken by Members,
- Performance information relating to the Internal Audit Service,
- Developments being undertaken to improve the effectiveness of the Internal Audit Service.

The information contained within this report is for the period 1st November to 31st December 2018.

3.2. Items of Note

3.2.a Commercialism

An audit has recently been completed to examine and evaluate the developing processes around Commercialism across the Council, specifically the development, appraisal, acceptance and monitoring of ideas to develop income generation. The findings from the review identified that many key aspects of governance, record keeping and training have improved significantly and a greater understanding of the opportunities and risks associated with this type of activity exists amongst the workforce including the need for effective control and governance arrangements to mitigate risks presented. The main recommendation identified from the work undertaken and agreed with senior management was for a clearer process to be established to ensure that all relevant details of new commercial ideas are

reported to the Investment and Change Board in a timely fashion for consideration.

3.2.b Risk Management

Audit work continues to be undertaken in this area providing best practice guidance and support for officers involved with the implementation of the new arrangements through various working groups. This includes assistance with mapping the controls in operation including identification of sources of assurance for the corporate risks and the critical corporate operational risks. The outcome of this work will be an updated Risk Assurance Map for the organisation which will be reported to this Committee upon completion.

3.2.c ICT Audit Work

Audit work has been focussed in the following areas this period with work currently ongoing to evaluate and test the effectiveness of controls in operation:

- Email Security
- Data Security Standards – Payment Cards
- Software Licensing
- Cyber Security Risk Management - Follow Up

Upon completion of this work actions to address any issues identified will be agreed with senior management and reports prepared detailing these actions and agreed timescales. Outcomes from this work will be included in the bi-monthly reports for Members of this Committee and items escalated for action or noting as appropriate.

3.3 Outstanding Audit Recommendations

3.3.a Members will recall that Internal Audit maintains a record of all agreed actions identified in audit reports including progress made by officers to address issues and implement recommendations. A regular 'Tracker Table' is prepared each period as an attachment to this report identifying any actions that remain outstanding beyond the agreed timescale and including a BRAG rated evaluation of progress being made.

3.3.b For this reporting period there are currently no recommended actions from audit reports that have not been implemented within agreed timescales or are not currently being addressed by management within agreed timescales and therefore the 'Tracker' table has not been included on this occasion.

3.4 Internal Audit Performance Indicators

3.4.a The Service constantly evaluates and measures the effectiveness of its performance in terms of both quality and productivity by means of a number of performance indicators in key areas as identified below. These include delivery of the annual Internal Audit Plan and ensuring that all of the audits identified in the plan are completed on schedule. This is particularly important

at the present time as the requirement for Internal Audit involvement in a number of important corporate initiatives has increased dramatically.

IA Performance Indicator	Target & (No)	Actual
Percentage delivery of Internal Audit Plan 2018/19.	63	62
Percentage of High priority recommendations agreed with clients.	100	100
Percentage of returned client survey forms for the reporting period indicating satisfaction with the Internal Audit service.	90 (7)	100
Percentage of internal audit reports issued within 10 days of the completion of fieldwork.	100	100

3.4.b There are currently no significant issues arising.

3.5 Internal Audit Developments

3.5.a Continuous Improvement

This is important to the overall efficiency and effectiveness of the Internal Audit Service and as such a Continuous Internal Audit Improvement and Development Plan has been formulated that incorporates new and developing areas of best practice from across the profession, ensuring that the service continues to constantly challenge how efficient and effective it is at delivering its service to all of its stakeholders and making any relevant changes and improvements as required. Some of the actions currently ongoing include:

- Successful integration of risk management function into the service;
- Ongoing improvement of corporate counter fraud awareness across the Council as evidenced in Counter Fraud Update reports presented to this Committee and the recent publicity campaign;
- Continuing development of more automated working papers and reports to evidence and support audit findings;
- Continued ongoing development of the Mersey Region Counter Fraud group led by Wirral Internal Audit to include more joint fraud exercises and training across the local region and the North West of England;
- Continuing development of the Wirral Assurance Map identifying areas of assurance for the Council for utilisation in audit planning and risk management process;
- Ongoing improvements to the audit reporting format;
- Development of Traded Services offer to Academy Schools for Internal Audit services;

- Improvements to Maintained Schools assessment incorporating more emphasis on information governance following GDPR;

4.0 FINANCIAL IMPLICATIONS

4.1 There are none arising from this report.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS

6.1 There is none arising from this report.

7.0 RELEVANT RISKS

7.1 Appropriate actions are not taken by officers and Members in response to the identification of risks to the achievement of the Council's objectives.

7.2 Potential failure of the Audit and Risk Management Committee to comply with best professional practice and thereby not function in an efficient and effective manner.

8.0 ENGAGEMENT/CONSULTATION

8.1 Members of this Committee are consulted throughout the process of delivering the Internal Audit Plan and the content of this regular routine report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising from this report.

REPORT AUTHOR: Mark P Niblock
 Chief Internal Auditor
 telephone: 0151 666 3432
 email: markniblock@wirral.gov.uk

APPENDICES

None

REFERENCE MATERIAL

Internal Audit Plan 2018/19

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management Committee	Routine report presented to all meetings.

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**Audit and Risk Management Committee
Monday, 28 January 2019**

REPORT TITLE:	DEVELOPMENT OF THE REVISED CORPORATE RISK REGISTER
REPORT OF:	Director of Finance and Investment

REPORT SUMMARY

An improved focus on its most critical risks is a key component of the enhancements to arrangements for managing risk which the Council is working to introduce. Ensuring that the leadership has a clear shared and current understanding of those risks is fundamental to that aim. My reports of 24 September and 19 November 2018 indicated that work had been undertaken with the Strategic Leadership Team to draw out their view of the Council's most significant risks. This report provides a further progress update in relation to that work.

RECOMMENDATION

1. That the report be noted.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 The committee needs to understand the authority's most significant risks in order to fulfil its role of providing independent assurance of the Council's Risk Management Framework.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 None.

3.0 BACKGROUND INFORMATION

- 3.1 My report of 19 November 2018 confirmed that to progress the development of the revised register a sub-group of this committee was to consider the draft set of corporate risks which had been identified in conjunction with the Strategic Leadership Team.
- 3.2 A workshop took place prior to the meeting on 19 November 2018. This considered 10 of the existing 14 risks. Each was reviewed in detail with particular reference to how it was defined, the risk owner, the relevance of the stated mitigation and mitigation that was not currently recognised within the register. All comments made within the workshop were recorded and incorporated into an updated version of the register.
- 3.3 Members also suggested 6 additional areas of risk for consideration by SLT as to their corporate significance. These too were recorded.
- 3.4 On 15 January 2019 the updated register was presented to SLT. The Team accepted Members' comments in relation to the existing risks and no changes to the register were proposed.
- 3.5 Of the additional risks mentioned by the Member sub-group SLT considered that these were elements of the existing risks, but that the descriptions and mitigation for those risks should be amended to reflect this.

Further action planned

- 3.6 Following the first sub-group of the committee to consider the corporate risks a further workshop has been arranged for 28 January 2019. This session will review the scoring of those risks following the current corporate scoring criteria and this will complete the corporate risk register that will be monitored and reported on in 2019/20.
- 3.7 The output from that session will be considered by Cabinet and SLT and a final baseline risk register agreed to be included in the Medium Term Financial Strategy which will be taken to Cabinet on 18 February 2019.

- 3.8 With input from the Internal Audit division the key controls for each risk will be mapped onto a 'three lines of defence' assurance model and an exercise undertaken as to any gaps in the control environment. The output from that exercise will be shared with SLT and this committee and form part of the quarterly performance dashboard to SLT and Leadership.
- 3.9 An exercise will be undertaken to draw out the appetite of political and executive leaders for each of the revised corporate risks during the year to inform the monitoring of the risks during 2019/20.
- 3.10 Through the new monthly corporate risk review process emerging or developing risks to programmes and business plans that have potential corporate significance will be escalated to SLT. The Team will consider each such risk and decide whether it warrants addition to the corporate risk register or should continue to be managed within the directorate or programme.

4.0 FINANCIAL IMPLICATIONS

- 4.1 There are no immediate financial implications arising directly from this report.

5.0 LEGAL IMPLICATIONS

- 5.1 There are no immediate legal implications arising directly from this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 There are no immediate resource implications arising directly from this report.

7.0 RELEVANT RISKS

- 7.1 The work mentioned in section 3.0 is leading to the creation of a revised corporate level risk register.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 No specific consultation has been undertaken with regard to this report.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are none arising directly from this report.

REPORT AUTHOR: *Mike Lane*
Senior Risk and Insurance Officer
telephone: (0151) 666 3413
email: mikelane@wirral.gov.uk

APPENDICES

None

BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management Committee Improvements to the Corporate Risk Management Framework	23 July 2018
Development of the Revised Corporate Risk Register	24 September 2018
Development of the Revised Corporate Risk Register	19 November 2018



Audit and Risk Management Committee
Monday, 28 January 2019

REPORT TITLE:	MANAGEMENT OF INSURANCE AND CORPORATE RISK
REPORT OF:	Director of Finance and Investment

REPORT SUMMARY

This report sets out progress made since my previous report in relation to key actions planned for 2018/19.

RECOMMENDATION

1. That the content of this report be noted.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 Regular update reports are presented to this Committee on the work around risk management and insurance which seek to support the Risk Management framework and maintain the successful management of the insurance programme.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not applicable to this report.

3.0 BACKGROUND INFORMATION

- 3.1 Risk and insurance management comprises two significant areas of activity:

- The provision of advice and support to Members and officers in developing the corporate risk management framework and processes.
- Risk financing which incorporates insurance procurement, management of the Council's Insurance Fund and claims management.

- 3.2 In addition to day-to-day operations the service is responsible for major procurement exercises and improvement activities. This area of the report focuses on the latter. The key actions to be implemented during 2018/19 were included in the report to this Committee on 12 March 2018. Progress since my last report in respect of those actions is summarised in the paragraphs below.

3.2.1. Corporate Risk Register

This is the subject of a separate report to the committee.

3.2.2 Improvements to the Risk Management Framework

Updated guidance on the incorporation of risk management principles into the business planning process for 2019/20 has been produced and circulated to directorates. Training on risk management principles and good practice was given to the Risk Management Support Officers group on 4 December 2018. As well as developing a better understanding of the Council's overall risk profile the group is generating ideas for further improvements to the Council's risk management arrangements including improvements to the approach to risk scoring and the identification of the impact of risks to one service on other parts of the organisation.

3.2.3 Traded Services for Schools and Academies

The Council's offer to schools in relation to risk and insurance services in 2019/20 has been developed as part of broader Traded Service arrangements. A launch event took place on 11 January 2019. The costs of the service for individual schools in the forthcoming financial year have been produced as part of work on the corporate insurance budget.

3.2.4 Procurement of Replacement Claims Management Information System

The Request for Quotations has been developed and will be published on the Council's 'Chest' procurement portal shortly. I will report the outcome of the evaluation exercise to a future meeting of the committee.

3.2.5 Procurement of Motor Insurance and Engineering Inspection and Insurance Contracts

The Invitation to Tender was published on 26 November 2018 with a deadline for responses of 11 January 2019. The bids are currently being evaluated and the outcome will be reported to the next meeting of this committee.

3.2.6 Liability Claims Handling

The insourcing of Highways Maintenance operations with effect from 1 October 2018 means that the Council is now exposed to Public and Employers Liability claims which were previously the responsibility of BAM Nuttall. The risk and insurance team will monitor the impact of claims arising from this insourced service. At this point it is too early to make an evaluation.

3.2.7 Insurance Fund Budget

The Insurance Fund Budget 2019/20 is the subject of a separate report to this committee.

3.2.8 Renewal of Liability and Computer Insurance Contracts

Although these policies are subject to multi-year contracts there is an annual renewal process each April. Updated information on the risks covered by the policies and how they are managed is being collated and will be provided to insurers to enable them to propose renewal terms. The outcome of the renewal process will be reported to the next meeting of the committee.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The procurement exercise mentioned in paragraph 3.2.5 creates uncertainty over the cost of these contracts from 2019/20 onwards.

5.0 LEGAL IMPLICATIONS

- 5.1 There are none arising directly from this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 Changes to the Council's risk management framework indicated in paragraph 3.2.2 should help to improve the organisation's ability to handle risk.

7.2 If a large number of schools were to convert to academies the pool of contributors to the Insurance Fund would decrease. Over time this could reduce the authority's buying power and the degree to which it could self-insure. This in turn could increase the cost of financing insurable risk. However my officers remain vigilant to potential conversions and will make changes to the authority's arrangements to ensure that potential negative impacts are gradual and limited wherever possible.

8.0 ENGAGEMENT/CONSULTATION

8.1 No specific consultation has been undertaken with regard to this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

REPORT AUTHOR: *Mike Lane*
Senior Risk & Insurance Officer
telephone: (0151) 666 3413
email: mikelane@wirral.gov.uk

APPENDICES

None

BACKGROUND PAPERS

Correspondence with insurers, brokers and legal services providers

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management Committee Corporate Risk & Insurance Management	Routine report presented to all meetings of this Committee.



**Audit and Risk Management Committee
Monday, 28 January 2019**

REPORT TITLE:	INSURANCE FUND BUDGET 2019/20
REPORT OF:	Director of Finance and Investment

REPORT SUMMARY

This report sets out the elements which make up the Insurance Fund, the cost of running the Risk & Insurance Section and the Budget for 2019/20.

The overall Budget for 2019/20 is £10,000 more than the agreed Budget for 2018/19. The cost to General Fund services is £194,000 (10%) higher than for 2018/19.

The Insurance Fund Budget affects all Wards within the Borough.

RECOMMENDATION

1. That the Insurance Fund Budget 2019/20 be agreed.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The setting of the Insurance Fund Budget is necessary to adequately fund insurable risk and ensure the equitable allocation of insurance costs.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options were considered

3.0 BACKGROUND INFORMATION

Introduction

- 3.1. Under the provisions of the Local Government and Housing Act 1989 Local Authorities are allowed to set aside financial provisions to cover self-insured losses.
- 3.2 By self-insuring an Authority avoids paying insurers' administration profit margins and Insurance Premium Tax on predictable levels of claims. Furthermore only rarely do external insurers return any proportion of premium irrespective of the profits generated by a policy.
- 3.3. Wirral Borough Council has operated an Insurance Fund since its formation and was one of the first local authorities to adopt a high degree of self-insurance when large excesses on liability and material damage insurance were negotiated in the 1980s.
- 3.4. Self-funding is a fundamental element of the Council's approach to managing risk. It provides a greater incentive to deal with risk more effectively as the Council benefits directly from any reduction in claims.

Risk Management

- 3.5 To achieve overall best value in funding insurable losses a carefully considered mixture of external and self-insurance is needed.
- 3.6 The Authority wholly self-insures those risks that have the capacity to generate relatively low value losses. In respect of risks that have the potential to produce catastrophic losses, the Council undertakes to meet the cost of all claims in any given year up to an agreed figure. Insurers meet all costs above this sum subject to contract terms and insurer solvency.
- 3.7 External insurance premiums are met by the Insurance Fund and are recharged to Schools and General Fund services together with self-insurance premiums according to formulae which take into account their relative risk exposure and their share of the claims experience.

Self-Funded Risks

- 3.8 Detailed below are the principal risks which the Council currently self-insures together with the probable maximum sum (subject to contractual indemnity) which the Council might have to pay for losses in any given financial year. The contract for Comprehensive Motor insurance is the subject of a current procurement exercise which could lead to a change in the aggregate deductible for this class of business.

Type of Insurance	Aggregate Deductible 2018/19	Aggregate Deductible 2019/20
Casualty	£3,200,000	£3,200,000
Material Damage & Business Interruption (Fire)	£ 500,000	£500,000
Material Damage & Business Interruption (Storm/Flood/Burst Pipes)	£1,000,000	£1,000,000
Comprehensive Motor	£ 209,000	To be confirmed
Crime	£ 25,000	£ 25,000
Money	Unlimited	Unlimited
Loss/Damage to Equipment	Unlimited	Unlimited
Glazing (Schools)	Unlimited	Unlimited

Insurance Contracts

- 3.9. The premiums charged in recent years in respect of the three principal risks covered by the Insurance Fund are detailed below. Premiums for all external insurance contracts are subject to Insurance Premium Tax (IPT) which is currently levied at 12%.

a. CASUALTY (LIABILITY)

This policy was the subject of a competitive procurement exercise in 2016/17 which resulted in a higher limit of cover at a reduced premium. However a subsequent change in the discount rate caused all insurers to increase premiums to their customers. In 2018/19 I was able to offset part of the higher cost from a predicted surplus in the Insurance Fund. I indicated in last year's report that the charges to Council directorates and schools for future years might need to rise if the discount rate remained at the current level and higher premiums were sustained. The higher premiums will continue for 2019/20. However once again I will be able to offset part of the cost from the Insurance Fund so that the cost to schools and General Fund services will be the same as in 2018/19.

Members may recall that the last actuarial review of the cost of self-insured Liability claims suggested that future claims costs could be greater than the Council has experienced in recent years and that the annual contribution to the Insurance Fund should increase to accommodate this. The increase was to be staggered over a number of

years. The contribution rose by £50,000 in 2018/19 and I am allowing for a further £50,000 increase in 2019/20.

The table below shows how premium costs have changed in recent years.

Year	Premium	
	External Insurance*	Insurance Fund
	£000	£000
2013/14	175	1,550
2014/15	204	1,615
2015/16	229	1,575
2016/17	247	1,475
2017/18	217	1,400
2018/19	252	1,450
2019/20	252	1,500

* Exclusive of claims handling charges.

b. MATERIAL DAMAGE AND BUSINESS INTERRUPTION

This policy was the subject of a competitive procurement exercise in 2018 which resulted in a reduced premium. As the contract is subject to a Long Term Agreement I am confident that the lower premium rates will be sustained in 2019/20.

The overall premium is a product of the premium rates and the value of properties to be insured. Although that value has risen because of acquisitions and an increase in rebuilding costs the lower premium rates mean that the external insurance premium for 2019/20 will be substantially lower than in 2018/19. There are no claims handling charges for these classes of insurance as they are managed within existing team resources.

Year	Premium	
	External Insurance	Insurance Fund
	£000	£000
2014/15	259	300
2015/16	271	300
2016/17	266	250
2017/18	269	250
2018/19	284	250
2019/20	252	250

c. COMPREHENSIVE MOTOR

As indicated in paragraph 3.8 this contract is the subject of a current procurement exercise. Whilst this creates uncertainty as to the premium rates to apply in 2019/20 there is significant competition for this class of insurance.

In view of this for the purpose of the budget I have assumed no change in rates for the new contract. However a modest rise in vehicle numbers has increased my forecast of the overall premium. I have also assumed rise in external claims handling charges under the new contract. No change to the level of the Insurance Fund contribution is forecast.

Year	Premium	
	External Insurance**	Insurance Fund
	£000	£000
2013/14	30	70
2014/15	35	70
2015/16	35	80
2016/17	40	80
2017/18	41	80
2018/19	50	80
2019/20	52	80

** Exclusive of claims handling charges.

Other Risks

- 3.10 In addition to the three main classes of insurance the Authority also procures external insurance for a number of smaller risks. There are now fewer externally insured risks following a decision in 2016 to introduce wider self-insurance. Although the basic premiums received by the Insurance Fund for underwriting these risks is broadly similar to those which were formerly paid to external insurers the Council does not pay Insurance Premium Tax on contributions to its Fund. This means that the overall cost is less.
- 3.11 A range of other risks including loss of equipment and damage to glazing are already fully self-insured. These generate modest losses and as a result the associated internal premium is also relatively small.

Administration

- 3.12 In addition to promoting the effective management of risk within the Authority the Risk and Insurance Section places and administers all external insurance policies, manages the Insurance Fund provides an internal and external consultancy service and oversees the handling of all claims. The balance of work has altered with greater emphasis now being placed on risk management activity and increased support for schools. The amount of the team's capacity devoted to managing liability insurance claims has also increased with the introduction in 2017/18 of the self-handling of low value claims for damage to third party property.
- 3.13 The costs of the Risk & Insurance Section are charged to the Insurance Fund and recharged in the form of a percentage overhead on insurance premiums.
- 3.14 Below is a breakdown of the estimated administration expenditure and income:-

	Budget 2018/19	Budget 2019/20
	£	
<u>Spend</u>		
Staffing & overhead recharges	218,000	225,000
Insurance Brokers	5,000	5,000
Other professional fees	11,000	1,000
Claims database	8,000	20,000
Total	242,000	251,000
<u>Income</u>		
Consultancy – schools	89,000	67,000
Consultancy - Academy schools	40,000	46,000
General Fund	113,000	138,000
Total	242,000	251,000

Insurance Fund Budget 2019/20

- 3.15 The Insurance Fund Budget is shown in the Appendix. The table below compares the Budget for 2019/20 with the Budget for 2018/19.

	Budget 2018/19	Budget 2019/20
	£	£
Schools	972,000	782,000
General Fund	1,923,000	2,117,000
Academies	40,000	46,000
Total	2,935,000	2,945,000

4.0 FINANCIAL IMPLICATIONS

- 4.1 The 2019/20 Insurance Fund Budget of £2,945,000 is an increase of £10,000 (0.3%) on the Budget for 2018/19. The cost to General Fund services is £194,000 (10%) higher than for 2018/19. This is because they are generating a greater percentage of Liability claims compared with schools than in recent years and because major assets acquired are generating additional Property insurance premiums.

5.0 LEGAL IMPLICATIONS

- 5.1 There are no direct implications arising from this report.

6.0 RESOURCE IMPLICATIONS: ICT, STAFFING AND ASSETS

- 6.1 Whilst there are no direct staffing implications the work for Academy Schools and ongoing improvements to the Council's risk management framework and

processes continue to place pressure on the capacity of the Risk & Insurance Section.

7.0 RELEVANT RISKS

- 7.1 The Long Term Agreements (LTAs) which apply to all of the Council's major insurance contracts help to reduce the likelihood of any significant changes to the extent of cover or to external premiums. However the tender for Motor insurance does create a degree of uncertainty around the actual costs which will be incurred for 2019/20.
- 7.2 Insurance Fund contributions form the largest element of the total. As these are directly related to claims costs they could rise in the event of a series of major losses. The impact of that risk is mitigated by maintaining a prudent level of reserves. Even if there were a series of losses greater than the reserves the cost would be incurred over several financial years. This would give the Council time to rebuild reserves.
- 7.3 If further schools decided to convert to Academy status this could create a shortfall in income for the Insurance Fund. By way of mitigation the Risk & Insurance section takes steps to gain early notice of any potential conversions.
- 7.4 The reserve held for property risks means that the Fund could currently withstand two consecutive years containing individual large losses. However, given the scale of self-insurance in respect of this risk, it would be necessary to increase the Insurance Fund contribution for this exposure in this scenario.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 No specific consultation has been undertaken in relation to the Insurance Budget.

9.0 EQUALITY IMPLICATIONS

- 9.1 There are no equality implications arising directly from this report.

REPORT AUTHOR: *Mike Lane*
Senior Risk & Insurance Officer
telephone: (0151) 666 3413
email: mikelane@wirral.gov.uk

APPENDICES

Comparison of Insurance Budgets for 2018/19 and 2019/20

BACKGROUND PAPERS

Risk & Insurance Section Database

Claims records for Protector Insurance, Zurich Municipal and Teceris Claims Management

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit & Risk Management – Insurance Fund Budget 2016/17	17 February 2016
Audit & Risk Management – Insurance Fund Budget 2017/18	30 January 2017
Audit & Risk Management – Insurance Fund Budget 2018/19	29 January 2018

WIRRAL COUNCIL

INSURANCE FUND BUDGET

Budget 2018/19

Budget 2019/20

Expenditure

Class of Insurance	External Premiums	Insurance Fund Contributions	Total	External Premiums	Insurance Fund Contributions	Total
	£	£	£	£	£	£
Liabilities	321,000	1,450,000	1,771,000	321,000	1,500,000	1,821,000
Fire	279,000	250,000	529,000	247,000	250,000	497,000
Motor	54,000	80,000	134,000	60,000	80,000	140,000
Other	188,000	71,000	259,000	176,000	60,000	236,000
Management Account			242,000			251,000
Total Expenditure			<u>2,935,000</u>			<u>2,945,000</u>

Income

Academies – Consultancy	(40,000)	(46,000)
Schools - Consultancy	(89,000)	(67,000)
Schools - Premiums	(883,000)	(715,000)
General Fund – Premiums and Administration	(1,923,000)	(2,117,000)
Total Income	<u>(2,935,000)</u>	<u>(2,945,000)</u>

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Audit Progress Report and Sector Update

Wirral Council
Year ending 31 March 2019
January 2019



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Introduction



Robin Baker

Engagement Lead

T 0162 214 6399
M 07880 456 159
E robin.j.baker@uk.gt.com

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

The paper also includes:

- an early outline external audit plan for 2018/19
- a summary of emerging national issues and developments that may be relevant to you as a council.



Stuart Basnett

Assistant Manager

T 0151 224 7232
M 07919 035 356
E stuart.h.basnett@uk.gt.com

Members of the Corporate Governance and 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. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

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

Progress at 15 January 2019

Financial Statements Audit

Our initial audit planning process is reaching completion and we have set out an initial outline audit plan in this document.

We are developing our detailed Audit Plan setting out our proposed approach to the audit of the Council's 2018/19 financial statements. We will discuss and agree the detailed Audit Plan with officers before presenting it to Committee at its meeting in March 2019.

We will complete our audit work in two phases

- Interim audit work
- Financial statements audit work

Our interim audit work will include:

- gaining an understanding of financial systems
- reviewing Internal Audit work and reports on core financial systems
- early work on emerging accounting issues
- controls testing and early substantive testing where possible

Any matters arising from our interim work will be reported to the March 2019 meeting of the Committee.

We will work with your finance team to ensure we can make a prompt start to the financial statements audit from 1 June 2019 and deliver an audit opinion in advance of the deadline of 31 July 2019.

Value for Money

The scope of our work is set out in guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The overall criterion is: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will report the results of our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Our initial draft risk assessment is currently being prepared. As with last year, we anticipate we will be looking at the Council's arrangements for ensuring Financial resilience and looking at the progress that has been made in addressing the issues identified by the OFSTED report.

Other areas

Meetings

Since the previous committee meeting we have continued to hold regular meetings officers.

We have also met with your internal audit managers and senior finance managers to gain more detailed information of your financial systems and fraud risks. We have also worked with the finance team to schedule our visits to avoid their peak workload periods.

Events

We provide a range of workshops, including 'update events' on financial reporting issues and invite the Council's key finance staff to attend. The next event is being held in our Liverpool office on 31 January 2019.

Certification of claims and returns

We completed the audit of the Council's Housing Benefit claim by the deadline of the end of November 2018. The claim was certified subject to qualification, which is in keeping with previous years. We thank the benefits team for their assistance with the work.

In addition we also completed the audit of the Council's Teachers Pensions return by the required deadline.

Objection

We have spoken to officers over the last couple of weeks to clarify a number of issues and hope to be able to take the Objection to next stage over the next couple of months.

Audit Deliverables

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

Outline Audit Plan

Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance.	We will design a programme of work concentrating on the controls over journals, use of journals, accounting estimates, critical judgements, any significant unusual transactions and changes in accounting policies
Valuation of Land and building	<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 and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used.</p> <p>We have therefore identified valuation of land and buildings, particularly revaluations, impairments and for dwelling the use of the social housing factor, as a significant risk,</p>	<p>We will design a programme of work concentrating on the work of the valuer and the information provided to the valuer, the reasonableness of assumptions and completeness of the asset register. We will also review any material additions or disposals</p> <p>We will review the accounting models of PFI schemes to confirm the appropriateness of accounting transaction arising from the model.</p>
Valuation of the Pension Fund Net Liability	<p>The pension pension fund net liability, as reflected in the group balance sheet as the retirement benefit obligations, represents a significant estimate in the financial statements and group accounts.</p> <p>The group's pension fund net liability is considered a significant estimate</p> <p>We therefore identified valuation of the group and Council's pension fund net liability as a significant risk.</p>	We will design a programme of work concentrating on the work of the Pension Fund actuary and information provided to it by the Council, the reasonableness of assumptions and place reliance on the work of the Pension Fund auditor.

Sector Update

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

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

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

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

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

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety



In good company: Latest trends in local authority trading companies

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

Outsourcing versus local authority trading companies

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

Advantages of local authority trading companies

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

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

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

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

Getting it right through effective governance

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

LATC's need to adapt for the future

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

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



[Download the report here](#)

ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) recently published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - **CLG & NHS:** Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.

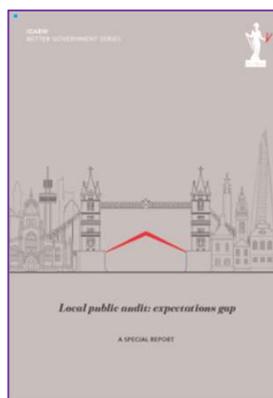
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role (revised Audit Guidance Note 01 (AGN 01) goes beyond FRC's ethical standards))
- **Other stakeholders expectations not aligned with audit standards**
- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Solutions:

Solution a) CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



Links

Grant Thornton website links

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

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

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

Page 55 National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

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

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

