Audit and Risk Committee Agenda

25 September 2019 at 7pm

Crompton Room, Civic Centre,

Duke Street, Chelmsford

Membership

Councillor D.J.R. Clark (Chair)
Councillor C.L. Finnecy (Vice-Chair)

and Councillors

P.H. Clark, J.S. Lardge, J.M.C. Raven, E.J. Sampson, M. Sismey, N.M. Walsh and M.D. Watson

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AUDIT AND RISK COMMITTEE

25 September 2019

AGENDA

PART I

1. **APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

2. **MINUTES**

   To consider the minutes of the meeting held on 18 June 2019.

3. **PUBLIC QUESTION TIME**

   Any member of the public may ask a question or make a statement at this point in the meeting. Each person has two minutes and a maximum of 15 minutes is allotted to public questions/statements, which must be about matters for which the Committee is responsible. The Chair may disallow a question if it is offensive, substantially the same as another question or requires disclosure of exempt or confidential information. If the question cannot be answered at the meeting a written response will be provided after the meeting.

4. **DECLARATION OF INTERESTS**

   All Members are reminded that they must disclose any interests they know they have in items of business on the meeting's agenda and that they must do so at this point on the agenda or as soon as they become aware of the interest. If the interest is a Disclosable Pecuniary Interest they are also obliged to notify the Monitoring Officer within 28 days of the meeting.

5. **ANNOUNCEMENTS**

6. **AUDIT COMPLETION REPORT 2018/19 (ISA 260)**

7. **RISK MANAGEMENT REPORT**

8. **TEMPORARY ACCOMMODATION: USE AND COSTS**

9. **FOLLOW UP OF INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT**

10. **AUDIT & RISK COMMITTEE WORK PROGRAMME**

11. **URGENT BUSINESS**

    To consider any other matter which, in the opinion of the Chair, should be considered by reason of special circumstances (to be specified) as a matter of urgency.

PART II (EXEMPT ITEMS)

To consider whether the public (including the press) should be excluded from the meeting during consideration of the following matter, which contains exempt information within the category of Part 1 of Schedule 12A to the Act indicated

MINUTES

of the

AUDIT COMMITTEE

held on 18 June 2019 at 7.15pm

Present:

Councillor D Clark (Chair)

Councillors

M Bracken (substitute for Councillor N Walsh), P Clark, C Finnecy,
J Lardge, J Raven, E Sampson and M Watson

1. **Apologies for Absence and Substitutions**

Apologies for absence for absence were received from Councillors M Sismey and N Walsh. Councillor Walsh had appointed Councillor M Bracken as her substitute.

2. **Minutes**

The minutes of the meeting held on 20 March 2019 were agreed as a correct record and signed by the Chair.

3. **Public Question Time**

No questions were asked or statements made.

4. **Declaration of Interests**

All Members were reminded to declare any Disclosable Pecuniary interests or other registerable interests where appropriate in any items of business on the meeting's agenda. None were made.

5. **Announcements**

There were no announcements.

6. **Appointment of Vice Chair**

Councillors Finnecy and Watson were nominated for this position. After a vote, Councillor Finnecy was appointed.

7. **Digital Transformation Programme Update**

The Committee received a report on the initial project objectives of the Digital Transformation Programme, details of the spending on it and the extent to which the programme's aims had been achieved so far.

In response to questions from members, the Committee was informed that:

- Microsoft software had previously been procured on a three-year licence. The licences for Dynamics and Office 365 were now procured shortly before they were needed and were obtained via a framework agreement negotiated on behalf of the UK public sector. This helped to reduce exposure to lengthy contract commitments and improved the prospects of obtaining the best value for money. As the data was now transportable to other platforms, the Council was not committed to Microsoft exclusively and could procure other products if there were significant increases in the cost of Microsoft licences.
- The overall budget for the Digital Transformation Programme was within that approved by the Council, although there had been some slippage in spending across financial years.
- The consultant reviewing the project had been engaged for a defined period of 30 days and would complete the work over the summer.
- The staff of Digital Services had been trained on the coding written by contractors as part of the programme and that knowledge was sufficient to enable them to complete the project.
- The current schedule for the project took it to the end of the current financial year. The project team would shortly be looking at the work that needed to be done in the period beyond that.

The Committee was satisfied with the information presented and asked that a further update on progress, with any further observations of the consultant, be presented to its September meeting.

RESOLVED that the progress on the Digital Transformation Programme and the expenditure on it be noted and that a further update be presented to the meeting on 25 September 2019.

7.18pm to 7.32pm

8. **Housing Transformation Programme Update**

Members considered a report on progress with the Transformation Programme for the Strategic Housing Service since it began in the autumn of 2017. It looked at how the service had been restructured, reviewed its performance, described how budget control had been improved, and the planned increase in partnership working.

The Committee welcomed the progress that had been made but emphasised the need to maintain control of its costs, particularly with regard to homelessness. A discussion ensued around the topic of homelessness, the different means by which homeless families were housed in temporary accommodation, the cost of those arrangements and whether a fall in the numbers provided with temporary housing meant that there had been an overall reduction in the cost of providing that service, taking into account the greater use of emergency housing. The Committee was given information on the reasons for the reduction in numbers held in temporary accommodation but officers were unable to provide exact figures on the relative expenditure on different types of such accommodation. Members acknowledged that there was a human cost associated with temporary housing as well as a financial one, something that the forthcoming homelessness strategy would need to recognise.

The Committee was informed, in response to a question, that the length of time a property remained void between lets was largely due to the extent of redecoration required and whether it was an older property that required updating. Members were also told that there was no cladding on any property used as temporary accommodation.

> **RESOLVED** that the update on the Housing Services Transformation Programme be noted and that a report be presented to a future meeting on the relative costs associated with the different types of accommodation used to house the homeless and a comparison of the overall expenditure over the past two years.
>
> *7.32pm to 7.59pm*

9. **Revenue Outturn Position for 2018/19**

The Committee received a report on the revenue outturn position for 2018/19 and information relating to the General Fund for the financial year ending on 31 March 2019. The report set out the key variances against the original budget, amended by approved variances and the last revenue monitoring report received by the Committee.

Members were informed that:

- It was anticipated that an element of the business rates allocated to the Council under the Retention Scheme would be lost in 2020/21.
- The proportion of the business rates that came from shops was not to hand at the meeting. There had been a reduction recently but the overall trend was for income from this source to fluctuate; the same applied to the occupancy rates in High Chelmer and the rents from that.
- It was not known at present whether there would continue to be an income from a major annual music festival in Hylands Park.

> **RESOLVED** that the revenue outturn position for 2018/19 be noted.
>
> *7.59pm to 8.06pm*

10. **Capital Programme Outturn**

The Committee considered an update on the Capital Programme which compared the latest spending forecast by Directors on capital schemes with the approved estimates and included the progress on schemes. The report compared the outturn on the Asset Replacement Programme with the approved estimates for 2018/19 and the latest spending forecast by Directors with the approved estimates for 2019/20. It also provided updates on a number of the more significant schemes.

Overall, it was forecast that spending on capital schemes would be £109,000 less than the latest approved budget.

Concern was expressed at those schemes that were over budget, either as a result of cost overruns, inaccurate estimates or shortcomings on the part of contractors. In the latter case, and in response to a question, the Committee was told that retentions, bonds, indemnities and insurance could be used to ensure that projects were completed and the Council was not left to pick up the cost resulting from contractors' errors or failings.

Replying to a question, Officers told the Committee that it was intended at least to start the Community Flood Improvements before the end of the financial year to ensure that the grant would not be lost.

In noting the report, the Committee asked that the Cabinet be informed of its view that when developing business cases for capital projects, the wider risks associated with them, and not just the financial ones, should be assessed.

RESOLVED that the report be noted.

(8.06pm to 8.26pm)

11. **Audit Committee Annual Report 2018/19**

The Committee considered the Annual Report of the Audit Committee for 2018/19, submitted in accordance with the code of best practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

RESOLVED that the Audit Committee's Annual Report for 2018/19 be approved and submitted to the Council.

(8.26pm to 8.28pm)

12. **Audit Committee Terms of Reference**

The Committee considered a report outlining the review of the terms of reference of the Audit Committee which had been carried out in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) recommended practice. The proposed terms of reference, which had not changed materially since 2018, also took into account CIPFA's "Audit Committees: Practical Guidance for Local Authorities" (2018), which set out how Audit Committees should demonstrate their independence and effectiveness.

RESOLVED that the terms of reference of the Audit Committee attached to the report to the meeting be noted.

(8.28pm to 8.30pm)

13. **Internal Audit Annual Report 2018/19**

Members received a report which reviewed the work of the Internal Audit Service in 2018/19.

Through the Audits which had been carried out, Internal Audit had established that the control systems in operation within the Council were operating at an acceptable level. In the event of any issues being identified these were promptly brought up to an acceptable position.

Officers were asked whether sufficient steps were being taken to ensure the security of the Council's digital system. The Director of Financial Services said that the present measures had been assessed as sufficient but that governance of security systems and reporting on them needed to be improved. A revised Cyber Security Strategy was being produced by consultants and a follow-up audit would be carried out, with the results being reported to the Committee.

Asked about what the audit on bribery and corruption had entailed, officers said that this had mainly related to the arrangements for recording officers' interests and providing those who dealt with procurement and contractual matters with access to that information to ensure that there were no conflicts of interest.

RESOLVED that the report be noted and that summary reports on the findings of future audits be submitted to the Committee for information and the monitoring of the implementation of their recommendations.

(8.30pm to 8.40pm)

14. **Review of Training Topics and Rolling Programme of Work**

The Committee considered a report on a proposed training programme for its members and its updated proposed rolling programme of work for 2019/20.

The Committee questioned whether it was necessary for its members to specialise in particular aspects of its work. Members felt that it would be better that the whole Committee received briefings on specific areas of its work before meetings at which those topics were being discussed.

RESOLVED that the report be noted.

(8.40pm to 8.45pm)

15. **Urgent Business**

There were no matters of urgent business brought before the Committee.

The meeting closed at 8.45pm.

Chairman

Chelmsford City Council

AUDIT & RISK COMMITTEE

25th September 2019

AGENDA ITEM 6

Subject	AUDIT COMPLETION REPORT 2018/19
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Zuzana Clarke,(01245) 606324, zuzana.clarke @chelmsford.gov.uk

Purpose

The purpose of this report is to seek Members' approval for the Council's Statement of Accounts for 2018/19 and to draw to the Committee's attention the findings of the Council's external auditors, BDO LLP, in carrying out their audit work in relation to the 2018/19 financial year.

The report also provides some information regarding the delays to the provision of the audit opinion for 2018/19.

Recommendation(s)

1.	The audit completion report – ISA 260 (**Appendix1**) be noted,
2.	The Statement of Accounts 2018/19 (**Appendix 2**) be approved, and
3.	That authority is delegated to the Chair of the Audit and Risk Committee, in consultation with the Director of Financial Services/Section 151 Officer, to approve any additional amendments to the Statement of Accounts and the letter of representation, arising out of any outstanding audit work, and to publish the final Statement alongside the audit opinion.

Corporate Implications

Legal:	The Statement of Accounts have been prepared in line with Cipfa's Code of Practice on Local Authority Accounting, under International Financial Reporting Standards (IFRS) and in accordance with the Accounts and Audit Regulations 2015. The Audit Completion Report has been prepared in accordance with the provisions of the International Standard on Auditing (ISA) 260 and the Local Audit and Accountability Act 2014, which requires the Council's External Auditors to report to those charged with governance those relevant matters arising from the audit prior to issuing the Statement of Accounts.

Financial:	The Statement of Accounts 2018/19 sets out the financial position of the Council for the year, including key transactions and balances and associated explanatory notes. The Audit Completion Report provides and independent view of the true and fair nature of the accounts and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
Personnel:	N/A
Risk Management:	Consideration of risk is an important part of the management of the Council's financial resources, as well as being a key part of the audit planning process and delivery of the audit opinion.
Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N)	N/A
Health and Safety:	N/A
IT:	N/A
Other:	N/A

Consultees	None

Policies and Strategies
The Statement of Accounts are the financial representation of the operation of all of the Council's Policies and Strategies throughout the year. The Accounting Policies which shape the Statements are set out in the notes to the Statement of Accounts. Other key strategies considered as part of the Accounts and auditors' report include:
Medium-Term Financial Strategy 2018/19
Capital and Investment Strategy 2018/19
Treasury Management Strategy 2018/19
Risk Management Strategy

1. Introduction

1.1 The Council published its draft Statement of Accounts for 2018/19 by 31st May, in order to meet the requirements for public access to, and inspection of, the accounts, in accordance with the timescales set out in the Accounts and Audit Regulations 2015. The Regulations require the Council to obtain an independent, external audit opinion of its Accounts and, following consideration of the opinion by this Committee, to publish both the final approved accounts and the audit opinion by the 31st July. Where an audit of the accounts has not been concluded before this date, the authority must publish a notice stating the reasons why and must publish its Statement and audit opinion as soon as reasonably practical after receipt of the auditor's report.

1.2 The Council's auditors, BDO LLP, were unable to complete the audit of the financial statements for the financial year 2018/19, by the target date of 31st July. This report sets out the reasons for the delay, the subsequent steps taken by the Council and its auditors and the next steps in the approval process.

2. Reasons for delay

2.1 The Accounts and Audit Regulations 2015 brought forward the date for publication of local authority audited accounts from 30th September to 31st July, with effect from the audit of 2017/18 financial statements. This meant that local authorities needed to produce their draft statements one month earlier (by 31st May instead of 30th June) while external auditors had to complete their audit work two months earlier (31st July instead of 30th September). While this is the second year that earlier deadlines have been in place, it is the first year of audit appointments made by Public Sector Audit Appointments (PSAA), with successful firms winning audit work in new regional areas and therefore undertaking a significant number of "first-time" audits with new clients. This has led to pressure on resources for audit firms who may have underestimated the resource required to carry out these audits and, in particular, the level of additional resource required in becoming familiar with a new clients' processes, financial frameworks and working papers, for example.

2.2 A press release from PSAA has stated that the number of delayed audit opinions in local government has risen sharply this year, with more than 40% of opinions not available by the target date of 31st July, compared to around 13% in 2017/18. Some will be due to unresolved technical issues within the accounts, a small number will be delayed due to prior year accounts still awaiting sign-off, some may be the result of difficulties obtaining responses to audit queries or to poor working papers presented by councils, as well as the resource issues identified above.

2.3 The Council's appointed auditors, BDO LLP, have confirmed that the reason they have submitted to PSAA for the late opinion is "auditor resource" and that the delay has not been caused by any deficiencies on the Council's part.

3. Response

3.1 The Council issued a notice of the delay on its website as required by the regulations. BDO reviewed resources available to conclude the audit and revised the expected timelines, with a view to submitting their report to the scheduled September meeting of the Committee. Officers have worked hard to respond to queries in a timely manner, despite the overrun and the pressure of other work, such as budget preparation, and annual leave commitments planned in the expected post-audit period. Representatives of BDO have met with the Chief Financial Officer and the Chair of the Committee to provide updates and to consider steps that could be taken moving forward to prevent a re-occurrence of the delay in subsequent audits. Assurance has been given that the target date will be met in the future.

3.2 BDO have committed to review resources and ensure the right mix of skills and staffing numbers are deployed to future audits. The officers and audit team will hold a "wash-up" meeting post audit completion, to review the process, discuss and agree improvements, and consider what audit work can be undertaken earlier in the process to avoid pinch-points at or near the target deadline. The agreed outcomes from this meeting will be reported to a subsequent meeting of the Committee. BDO have also agreed to attend the June Committee, which takes place during the audit for 2019/20, to provide a progress report. This is in addition to their attendance in March, to present the audit plan for the 2019/20 audit, which affords the Committee a further opportunity to gain assurance over the process.

3.3 In addition, both the Chair of the Committee and the Accountancy Services Manager will be attending PSAA's Local Audit Quality Forum in November, where there will be an opportunity to feedback on the Council's experience this year, hear about the new Audit Code of Practice from the National Audit Office and attend sessions focusing on the skills needed by Audit Committees.

4. Next steps

4.1 The auditors have substantially completed their audit for the 2018/19 year and their conclusions are set out in the Audit Completion Report attached at Appendix 1 for consideration. No significant weaknesses or material errors have been identified to date that have not been adjusted in the accounts and it is therefore expected that an unqualified audit opinion will be issued, subject to finalising outstanding audit points. Based on their work, the external auditors also anticipate that they will provide an unqualified "value for money" audit opinion, which is an opinion of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. A verbal update on any outstanding matters in the audit will be provided by an audit representative at the meeting.

4.2 Following consideration of the auditors' report, the Committee will be asked to approve the Statement of Accounts for publication, alongside the previously approved Annual Governance Statement. If any areas of audit work remain outstanding at the time of the meeting, and subsequent work requires amendments to the accounts, it is recommended that delegation be made to the Chair of the Audit and Risk Committee, in consultation with the Director of Financial Services (section 151 Officer) to approve such amendments. Final publication will take place on receipt of the signed audit opinion, which will not be until the Lead Partner is available to formally sign off the document in early October.

4.3 The Committee is also asked to consider the Letter of Representation, which is requested by the auditors to provide assurance about information contained within the Statement of Accounts. A draft of the letter of representation is set out in the Audit Completion Report at page 37 and an updated copy will be provided at the meeting on the 25th September.

5. Conclusion

5.1 Despite a protracted audit period, the outcome is positive, with the Council once again expected to achieve an unqualified audit opinion on its Statement of Accounts and improving its "value for money" conclusion since the previous year, by removing the "except for" qualification in relation to the Digital Transformation Programme by satisfying the auditors on the governance arrangements in place for this significant project. The work of the Audit and Risk Committee having played a part in securing this favourable outcome by ensuring that the recommendations of the previous year's audit were put in place and monitoring the programme during the year.

List of Appendices

Appendix 1: BDO – Audit Completion Report - Year-ended 31 March 2019
Appendix 2: Statement of Accounts 2018/19

Background Papers

Nil

Report to the Audit and Risk Committee

CHELMSFORD CITY COUNCIL

Audit Completion Report: Year ended 31 March 2019

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CONTENTS

WELCOME
Introduction

Contents

We have pleasure in presenting our Audit Completion Report to the Audit and Risk Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Risk Committee. At the completion stage of the audit it is essential that we engage with the Audit and Risk Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Risk Committee meeting and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

Lisa Clampin

16 September 2019

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Contents

This summary provides an overview of the audit matters that we believe are important to the Audit and Risk Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

Overview

Our audit work is substantially complete but subject to the successful resolution of outstanding matters on page 35 before we can issue our opinion on the financial statements and use of resources for the year ended 31 March 2019.

There were no significant changes to the planned audit approach and no additional significant audit risks have been identified.

No restrictions were placed on our work.

Audit report

We anticipate issuing an unmodified audit opinion on the financial statements and use of resources.

THE NUMBERS
Executive summary

Contents

Final materiality

Final materiality was determined based on gross expenditure.

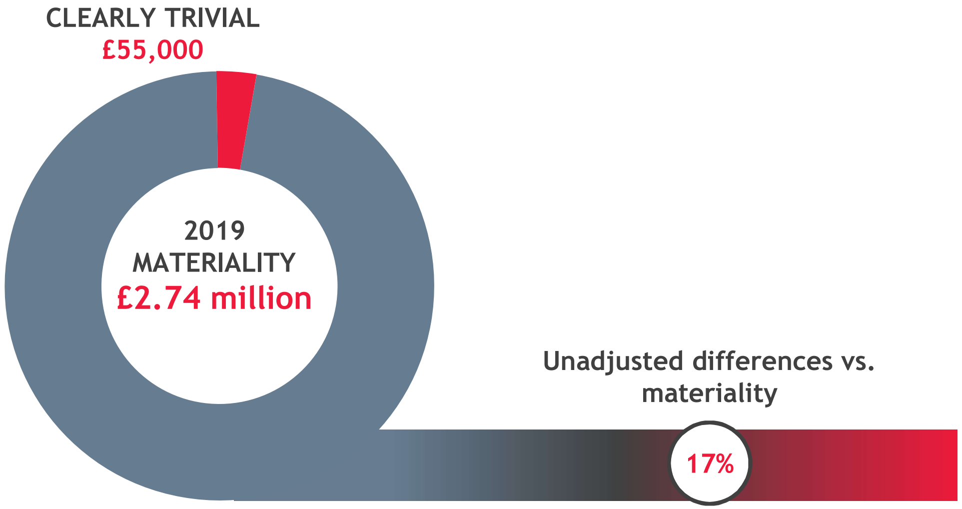
We have increased our materiality from £2.500 million to £2.74 million as a result of gross expenditure in the unaudited 2018/19 financial statements being higher than 2017/18 gross expenditure on which our planning materiality was based.

Material misstatements

At the time of drafting this report we have not identified any material misstatements, although our work is still in progress. Outstanding matters are shown on page 35.

Unadjusted audit differences

At the time of drafting this report we have identified one audit difference of £455,000 relating to the valuation of land and buildings that has not been adjusted. However, our work is still in progress. Outstanding matters are shown on page 35.



OTHER MATTERS
Executive summary

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Financial reporting

- Subject to completion of the outstanding matters on page 35, we have not identified any non-compliance with accounting policies or the applicable accounting framework.
- No significant accounting policy changes, other than those relating to IFRS 9 and IFRS 15, have been identified which have a material impact the current year.
- Going concern disclosures are deemed sufficient.
- The Narrative Report is consistent with the financial statements and our knowledge acquired in the course of the audit.
- The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.
- The Council is below the audit threshold of £500 million for a full assurance review of the Whole of Government Accounts Data Collection Tool.

Other matters that require discussion or confirmation

- Control deficiencies identified in relation to access to IT systems when staff change roles and the absence of periodic reviews of Total access.
- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's Ethical Standard.

AUDIT RISKS OVERVIEW

Contents

As identified in our Audit Plan dated 6 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified*	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	Yes	No	No	No	Yes
Revenue and expenditure recognition	Significant	Yes	No	No	No	No
Property, Plant & Equipment and Investment Property valuation	Significant	Yes	Yes	Yes, unadjusted	No	Yes
Pension liability valuation	Significant	Yes	Yes	Yes, adjusted	No	Yes
Related party transactions	Normal	No	No	No	No	Yes

Areas requiring your attention

* Subject to outstanding matters on page 35

MANAGEMENT OVERRIDE OF CONTROLS

Contents

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls.

Work performed

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

Results

Subject to completion of our internal review procedures, our audit work on journals and estimates has not identified any issues.

REVENUE AND EXPENDITURE RECOGNITION

Contents

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Risk description

In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Work performed

We carried out the following planned audit procedures:

- Tested an increased sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria had been met; and
- Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end had been.

Results

Subject to completion of our work on capital grants and our internal review procedures, we have no matters to report in relation to the recognition of revenue and capital grants that are subject to performance conditions. We will provide a verbal update to the Audit and Risk Committee.

Testing of expenditure either side of the year end is complete and we have no matters to report.

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

There is a risk over the valuation of land, buildings and investment properties where valuations are based on significant assumptions.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date. PPE values are subject to valuation changes and material judgemental inputs and estimation techniques.

The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.

The Council undertakes an annual review of its asset base alongside market data to identify assets whose value may have moved by a material amount. This exercise determines which assets will be subject to a formal revaluation in the current year. The Council uses an external valuer to undertake the valuation exercise and, as a minimum, aims to revalue each asset once every three years.

Work performed

We carried out the following planned audit procedures:

- Reviewed the instructions provided to the valuer and reviewed the valuer's skills and expertise in order to determine if we could rely on the management expert
- Confirmed that the basis of valuation for assets valued in year was appropriate based on their usage
- Reviewed the accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes
- Reviewed assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appeared unusual; and
- Confirmed that the assets not specifically valued in the year had been assessed to ensure that their reported values remain materially correct.

Results

Our testing of the accuracy of valuation inputs for sample of assets valued on a depreciated replacement cost basis identified errors in the gross internal areas used, resulting in a projected understatement of the value of land and buildings of £455,000.

Subject to completion of our internal review procedures, we have no other matters to report regarding the valuation of property plant and equipment and investment property. We will provide a verbal updated to the Audit and Risk Committee.

PENSION LIABILITY VALUATION

Contents

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data, where there are significant changes, or uses inappropriate assumptions to value the liability.

Work performed

We carried out the following planned audit procedures:

- Agreed the disclosures to the information provided by the pension fund actuary;
- Reviewed the competence of the management expert (actuary);
- Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Reviewed the controls for providing accurate membership data to the actuary;
- Contacted the administering authority auditor and requested confirmation of the controls in place for providing accurate membership data to the actuary and testing of that data; and
- Checked that any significant changes in membership data had been communicated to the actuary.

Results

Recent legal cases regarding transitional protection for members of certain public sector pension schemes where the terms of the benefit provided by the scheme have changed determined that these protections were age discriminatory. No allowance was made for these judgements in the information provided to the Council by the actuary for the purposes of preparing its Statement of Accounts due to the uncertainty surrounding the impact on the Local Government Pension Scheme (LGPS).

Cont'd

PENSION LIABILITY VALUATION

Contents

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	
Significant management judgement	■
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Results

Following publication of the Council's unaudited 2018/19 Statement of Accounts, the government's request for an appeal relating to one of these cases was refused by the Supreme Court. While the impact on the LGPS is unknown, there is sufficient information to calculate a reasonable estimate of the liability. The Council requested the actuary to prepare updated information recognising the impact of the judgements, resulting in an increase in both past service cost and the net pension liability of £1.856 million.

The actuary has also reported a further increase in the net pension liability of £1.448 million arising from a lower return on assets compared to the estimate available at the time the unaudited accounts were prepared.

Management have amended the financial statements to reflect the updated values provided by the actuary.

RELATED PARTY TRANSACTIONS

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.

Significant risk	
Normal risk	■
Significant management judgement	
Use of experts	■
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	■

Risk description

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit and Risk Committee.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

Work performed

We carried out the following planned audit procedures:

- Reviewed management processes and controls to identify and disclose related party transactions;
- Reviewed relevant information concerning any such identified transactions;
- Discussed with management and review councillors' and management declarations to ensure that there were no potential related party transactions which had not been disclosed; and
- Undertake Companies House searches for potential undisclosed interests.

Results

Our audit work on related party transactions is substantially complete and we have no matters to report.

OTHER MATTERS

Contents

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
The statement of accounts include a number of immaterial accounting policies and disclosures relating to immaterial items of account or types of transaction not relevant to the Council, including: - Intangible assets - Intangible heritage assets - Loans made at below market rate - Information relating to income, expenses, gains and losses relating to financial instruments and movements in loss allowances - Leases - Exceptional items The balance sheet, cash flow statement and a number of tables in the statement of accounts disclose items for which there is neither a current or prior year value. The inclusion of immaterial or irrelevant disclosures in the statement of accounts reduces the readability of the document and may result in important information being given less prominence than it is due.	Immaterial and irrelevant disclosures such as those referred to above should be removed to improve the clarity of information presented.

MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents

Fraud

Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud.

Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

Related parties

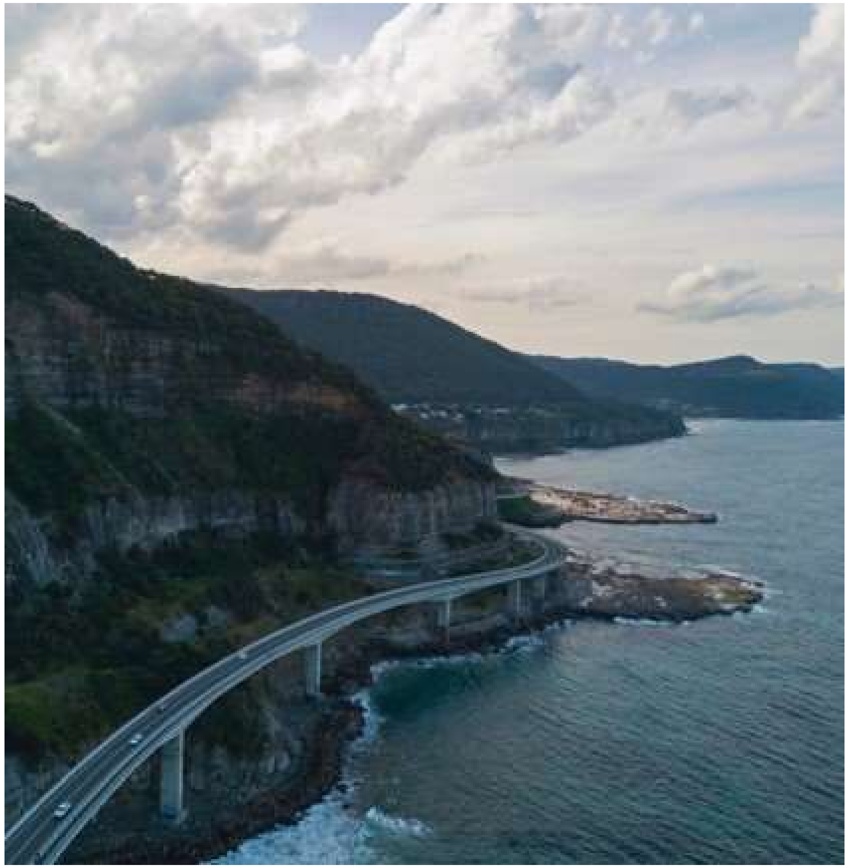
Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud.

Subject to completion of the outstanding matters on page 35, we did not identify any significant matters in connection with related parties.

UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents



We are required to bring to your attention unadjusted differences and we request that you correct them.

Subject to completion of the outstanding matters on page 35, there is one unadjusted audit difference identified by our audit work which would increase net assets by £455,000 if adjusted.

There would be no impact on the general fund balance

You consider the differences to be immaterial in the context of the financial statements as a whole.

UNADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Statement of Financial Position	
Unadjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before unadjusted audit differences	2,745				
1: Incorrect gross internal area used in DRC valuations					
DR Property Plant and Equipment (land and buildings)				455	
CR Revaluation Reserve					(455)
Total unadjusted audit differences	-	-	-	455	(455)
Deficit on the provision of services if above issues adjusted	2,745				

UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

Disclosure omissions and improvements

We are required to bring to your attention other financial reporting matters that the Audit and Risk Committee is required to consider.

The following unadjusted disclosure matters were noted:

- The balance sheet, cash flow statement and a number of tables in the statement of accounts disclose items for which there is neither a current or prior year value
- The following immaterial accounting policies and/or disclosure notes are included:
  - Intangible assets
  - Intangible heritage assets
  - Loans made at below market rate
  - Information relating to income, expenses, gains and losses relating to financial instruments and movements in loss allowances
  - Leases
  - Exceptional items

ADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

Contents

Subject to completion of the outstanding matters on page 35, there is one audit difference identified by our audit work that was adjusted by management. This increased the deficit on the provision of services and decreased net assets by £1.856 million.

There was no impact on the general fund balance.

ADJUSTED AUDIT DIFFERENCES: DETAIL

Details for the current year

Contents

	Income and expenditure			Statement of Financial Position	
Adjusted audit differences	NET DR/(CR) £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
Deficit on the provision of services before adjustments	890				
1: Revised IAS 19 entries following McCloud judgement					
DR Cost of services - continuing operations	1,856	1,856			
CR Net pension liability					(3,304)
DR Pension Reserve				3,304	
CR Movement in reserves (general fund)*			(1,856)		
Adjusted deficit on the provision of services	2,745				

* This line reflects the reversal of the revised IAS 19 entry out of the general fund. For presentational purposes it has been shown above as a credit in the Income and Expenditure column. However, It does not affect the deficit on the provision of services and is therefore not shown in the 'Total adjusted audit differences' line.

REPORTING ON OTHER INFORMATION

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Narrative Report is consistent with the financial statements and our knowledge.
We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council's review of effectiveness and our knowledge of the Council.	We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.

WHOLE OF GOVERNMENT ACCOUNTS

Contents

Matter	Comment
Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline. We will submit the relevant section of the assurance statement to the National Audit Office following completion of our work on the financial statements.

OVERVIEW

Contents

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

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

As identified in our Audit Plan we assessed the following matter as being the most significant risks regarding use of resources.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Digital Transformation	Informed decision making	Significant	No

DIGITAL TRANSFORMATION PROGRAMME

Contents

The predecessor auditor identified a number of weaknesses in the governance and management of the DTP programme in 2017/18 and issued a qualified use of resources conclusion.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings	

Risk description

In the prior year the Council commenced its Digital Transformation Programme (DTP). The purpose of this programme was to replace the Council's current suite of IT software with bespoke applications built internally.

The predecessor auditor identified management of contracts as a significant risk in 2017/18 and included the DTP within this risk. In their use of resources conclusion, the predecessor auditor reported weaknesses in the Council's arrangements to support implementation of the DTP. Key findings highlighted were: a lack of robust business case for the project; a lack of clear milestones and outputs to demonstrate desired outcomes had been achieved; and a lack of documented evidence of compliance with governance arrangements. The predecessor auditor issued a qualified use of resources conclusion as a result of the weaknesses identified.

Work performed

We carried out the following planned audit procedures:

- Reviewed the steps taken by the Council to address the weaknesses identified by the predecessor auditor in the following areas:
  - Options appraisal and scenario planning
  - Governance framework supporting implementation, scrutiny and monitoring of the DTP
  - Compliance with agreed procurement procedures
- Confirmed that procedures implemented to address the above matters have operated effectively
- Interviewed key officers.

DIGITAL TRANSFORMATION PROGRAMME 2

Contents

The predecessor auditor identified a number of weaknesses in the governance and management of the DTP programme in 2017/18 and issued a qualified use of resources conclusion.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings	

Results

During the first quarter of 2018/19, the Council took steps to address the weaknesses identified in the governance of the digital transformation programme. These were reported to the members of the Audit and Risk Committee in July 2018 and included the implementation of governance arrangements relating to the development of the customer relationship management system (which at the time was the primary project under the umbrella of the digital transformation programme) as well as proposed improvements to oversight of the wider programme, including attendance at Council Management Team by the Digital Services Group Manager. Members were also presented with a 'recut' of the programme, describing the four key phases expected to take between five and seven years to implement. We have obtained evidence to demonstrate that these improved governance processes were implemented.

At the start of the programme, the Council articulated the following high level objectives:

- Transformation of Services
- Transforming the way the Council works
- Reducing Barriers to digital transformation
- Transforming the way the Council engages and collaborates with partners

However, these objectives were not used to develop a business case (as noted by the predecessor auditor). The Council is currently developing a business case for the next stage of the digital transformation programme.

At the September 2018 Audit and Risk Committee meeting, members requested that a report be brought to the December 2018 meeting detailing the financial information relating to the project. Members requested a more detailed report for the March 2019 meeting. Detailed financial information regarding the cost of the programme to date was presented to members at the June 2019 meeting.

DIGITAL TRANSFORMATION PROGRAMME 2

Contents

The predecessor auditor identified a number of weaknesses in the governance and management of the DTP programme in 2017/18 and issued a qualified use of resources conclusion.

Significant risk	■
Normal risk	
Sustainable resource deployment	
Informed decision making	■
Working with partners and other third parties	
Significant control findings	

Internal Audit completed a review of the Digital Transformation Programme at the end of 2018. As reported in the Internal Audit Annual Report for 2018/19, presented to the Audit and Risk Committee in June 2019, while improvements in governance and quality assurance were noted, the findings of Internal Audit's review were indicative of a 'limited assurance' opinion. Based on the evidence provided to us by management during our review, we are satisfied progress is being made in the areas of concern raised by Internal Audit.

The Council have engaged a consultant to assist with the development of the Digital Transformation Programme. New project management arrangements are being implemented, with direct accountability to the Chief Executive. These arrangements are still being finalised at the time of writing.

The Council has now successfully implemented the key applications which will help it to deliver the organisational transformation originally envisaged at the start of the project. The Council has continued to develop its understanding of what "digital transformation" means for the organisation and it will be important that this is fully articulated in the business case currently being prepared. This will ensure the Council can measure and report the success of the programme in terms of cost benefit, value for money and improved service delivery.

From the work carried out, we have no specific concerns regarding informed decision making in this area.

OTHER DEFICIENCIES

Contents

Area	Observation & implication	Recommendation	Management response
Access to IT systems when staff change roles	The Council does not have a procedure in place to identify users who change roles so that access to IT systems can be amended to reflect the responsibilities of the new role and remove permissions relating to the previous role. There is a risk that users may have inappropriate access to the Council's IT systems.	Implement a procedure to identify any users who change roles during the year and check current access and access required for the new role, to ensure that all users only have appropriate access for their current role.	[xx]
Total - Periodic Access Reviews	The Council does not perform periodic reviews of access rights within the Total System. There is a risk that users may have inappropriate access to the Council's IT systems.	Perform a quarterly review of access is performed to ensure that; a) Any leavers have had their account removed from the Total system. b) Users only have appropriate access for their current role.	[xx]

OVERVIEW

Contents

Opinion on financial statements

Subject to completion of the outstanding matters on page 35, our work to date has not identified any matters that would prevent us from issuing an unmodified opinion on the financial statements.

Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

There are no material uncertainties in relation to going concern disclosed in the financial statements of which we are aware that we need to draw attention to in our report.

Other information

Our work on other information is in progress.

Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of

INDEPENDENCE

Contents

Under ISAs (UK) and the FRC's Ethical Standard we are required, as auditors, to confirm our independence.

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2019.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Risk Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard or the IESBA Code of Ethics as appropriate and are independent of the Council.

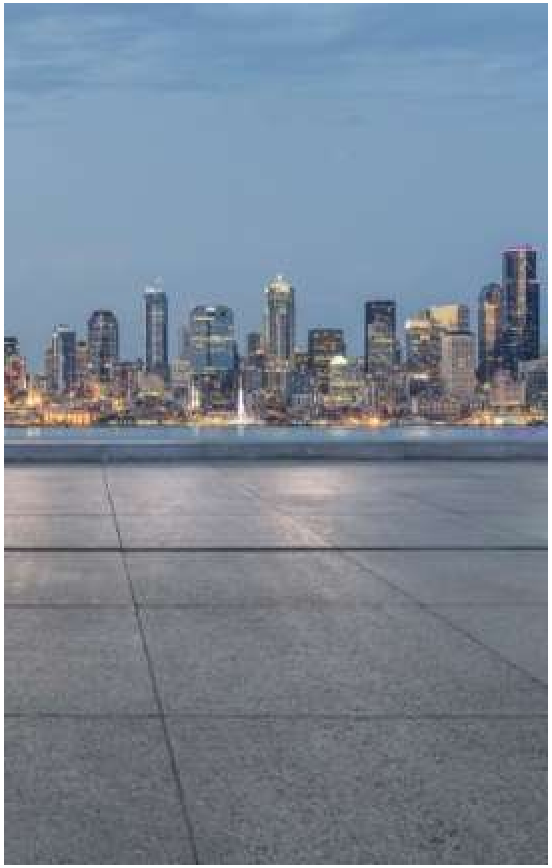
We also confirm that we have obtained confirmation of independence from non BDO auditors and external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

FEES

Fees summary	2018/19 Actual £	2018/19 Planned £
Audit fee		
• Code audit fee: financial statements and use of resources	46,985	46,985
Non-audit assurance services	46,985	46,985
Fees for reporting on government grants:		
• Housing benefits subsidy claim	TBC(1)	12,800
Total fees	**TBC**	**59,785**

(1) The fee for the housing benefit subsidy claim may increase if our work identifies any errors. Our work on the subsidy claim is due to commence in September 2019.



APPENDICES CONTENTS

Responsibilities and reporting

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Our responsibilities and reporting

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the 'other information' contained in the Statement of Accounts such as the Narrative Report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Audit and Risk Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

Contents

	Issue	Comments
1	Significant difficulties encountered during the audit.	No exceptions to note.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

COMMUNICATION AND REPORTS ISSUED

Contents

Those Charged with Governance (TCWG)

References in this report to those charged with governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Risk Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered.

We have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	March 219	Audit and Risk Committee
Audit completion report	September 2019	Audit and Risk Committee
Annual Audit Letter	December 2019	Audit and Risk Committee

OUTSTANDING MATTERS

Contents

The following matters are outstanding at the date of this report and could impact our audit opinion. We will update you on their current status at the Audit and Risk Committee meeting at which this report is considered:

- Audit procedures relating to heritage assets
- Audit procedures relating to creditors
- Audit procedures relating to provisions
- Audit procedures relating to the cash flow statement
- Manager and partner reviews and clearance of review points
- Subsequent events review
- Management letter of representation, as attached in Appendix E to be approved and signed

AUDIT QUALITY

Contents

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

[Client name and Letter headed paper]

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
IP3 9SJ

Dear Sirs

Financial statements of Chelmsford City Council for the year ended 31 March 2019

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Financial Services has fulfilled her responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

Going concern

We have made an assessment of the Council's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 2 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council's ability to continue as a going concern.

Laws and regulations

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

Post balance sheet events

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

Contents

Fraud and error

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

Misstatements

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

Related party transactions

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

There were no loans, transactions or arrangements between the Council and the members or their connected persons at any time in the year which were required to be disclosed.

The disclosures in the financial statements concerning the controlling party of the Council are accurate.

Carrying value and classification of assets and liabilities

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

Accounting estimates

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- RPI increase 3.4%
- CPI increase 2.4%
- Salary increase 3.9%
- Pension increase 2.4%
- Discount rate 2.4%
- Mortality: Current pensioners - male 21.3 years and female 23.6 years / future pensioners - male 22.9 years and female 25.4 years
- Commutation: 50%

Contents

We consider these assumptions to be appropriate for the purposes of estimating the pension liability in accordance with the Code and IAS 19.

b) Valuation of land and buildings and investment property

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation of land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

Confirmation

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Amanda Fahey

Director of Finance

xx October 2019

Cllr Dan Clarke

Chair of the Audit and Risk Committee

xx October 2019

FOR MORE INFORMATION:

Lisa Clampin

t: 01473 320 716
e: lisa.clampin@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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DRAFT STATEMENT OF ACCOUNTS 2018/19

1 - CONTENTS

2 – INTRODUCTION TO THE ACCOUNTS

This section gives an overview of our achievements, our direction and ambitions.

Introduction by the Leader of the Council

Welcome to our Statement of Accounts for 2018/19, which I hope you will find both interesting and informative. The accounts, together with the accompanying notes, explain how the Council's services work and set out how your council tax was used during the previous financial year, under the previous leadership of the council.

Having been elected as the new Leader of the Council at its annual meeting on 22 May, I am now looking forward to driving an ambitious programme over the next four years for our Council, our services and our city.

Our priorities will be centred around the delivery of a **safer, greener, fairer Chelmsford**.

Safer: We will work with the police, partners, schools and residents to improve community safety and address crime.

Greener: We will work to provide sustainable development with the right infrastructure, tackling congestion and improving cycle routes alongside investment to support green initiatives

Fairer: We will make preventing homelessness a key priority, deliver more affordable homes, and provide comprehensive support to those sleeping rough on our streets. We will also support the creation of good jobs in Chelmsford, work to attract inward investment to the city in order to provide a diverse range of employment opportunities, and support and promote apprenticeships.

In addition, we aim to empower local communities, bringing people together to reduce social isolation and create community cohesion; and to support cultural events and promote culture and the arts within Chelmsford.

These priorities will be underpinned by good governance and strong financial management.

I am excited about the future for Chelmsford and look forward to working with you all to deliver these aims.

Councillor Stephen Robinson
Leader of the Council

Views from the Chief Executive

I am delighted by the amount of work the council has undertaken in the last year to make our city a great place to live. As England's newest city and the second-closest to London, Chelmsford is fast becoming one of the most important places in the Eastern region.

The new Riverside Leisure Centre opened in June following a two-year project to completely transform it into a cutting-edge sports complex; improvements to Mill Yard at Chelmsford station have opened up the city centre, and an exciting redevelopment of Chelmsford Museum will give residents a new insight into their past.

Following the transition to a Liberal Democrat administration after the City Council elections in May 2019, a local plan reflecting the priorities of the people and City of Chelmsford is expected to be adopted in Summer 2019. With more than a thousand new homes built during the year, our city continues to flourish. Our new plan will help realise our ambition to continue to grow as the economic and creative heart of Essex; a place where people want to live, visit, work, study, do business and be inspired.

Nick Eveleigh
Chief Executive

Achievements

The council has purchased the former National Grid site at Wharf Road to aid the transformation of this brownfield site in the city. The old gas holders have already been taken down.

The Mill Yard scheme has made it easier to get around the city centre, creating a much better pedestrian and cycle connection from the railway station through the Marconi Evolution development to the University. This development has demonstrated how the council is able to improve the city for residents by working in partnership with other organisations; in this case with Greater Anglia, Essex County Council and Bellway Homes, using funding from the South East Local Enterprise Partnership and with planning contribution funds from the developer of the Marconi site.

In 2018 and 2019 major investments in Chelmsford Museum, supported by the Heritage Lottery Fund, have been made to transform the Victorian house and collections, create a popular new café and improve the surrounding parkland.

Infrastructure has been delivered alongside new residential and retail development to support Chelmsford's rapid growth. Recently, this has included a new secondary and primary school in North East Chelmsford. In partnership with Essex County Council and the private sector, the City Council has secured 3 million pounds of funding for improvements to the Army & Navy junction, as well as approximately 20 million pounds towards new highways and junction improvements in North East Chelmsford.

To make these accounts easier to understand, you can find in a more simplified format, a summary of our income and expenditure for the year and a summarised Balance sheet in the Narrative report in section 4. We have included our full Comprehensive income and expenditure statement and Balance sheet in section 6 in the format set out by the Code of Practice on Local Authority Accounting in the United Kingdom.

The accounts and annual report have been written avoiding technical terms wherever possible. If we have to use technical terms, we have explained them in the glossary.

For more on the statement of accounts, please write to:

The Director of Financial Services
Civic Centre
Duke Street
Chelmsford
Essex
CM1 1JE

We have detailed below which council provides which services.

Chelmsford City Council	Essex County Council
Abandoned cars Air quality Allotments Business rates Building control CCTV Cemetery and crematorium – including municipal funerals Council tax – including benefits Dangerous structures Dog litter Domestic waste Drains – private sewers Dropped kerbs Elections Environmental Services/Health Graffiti Grass cutting Homelessness Housing Land charges Leisure centres/sports centres Licensing (all forms of) Litter Museums Service Parking – car parks and residential permits Parks – including playing fields Planning Public toilets Refuse collection and recycling Road signs – street nameplates Street cleaning and sweeping Theatres Town centre management Tree preservation orders Voting	Adoptions Care for the elderly Child care Civic amenity sites County Records Office Cycle paths Disabled parking (Blue Badges) Drains – highway drains Educational services Footpaths Gritting Highways Incineration Lamp posts Libraries – including mobile Park & Ride Pavements Road signs – for traffic direction Roads Social Services Street lighting Trading standards Traffic management Travellers Waste disposal and management

3 – ENVIRONMENTAL ISSUES

This section gives an overview of our effect on the environment.

In March 2019 the Council agreed a new Corporate Plan 'Our Chelmsford Our Plan'. This Plan sets out the priorities for the coming years that will drive the ambition for Chelmsford to continue to grow as the economic and creative heart of Essex, recognised as a leading regional centre and destination in the east of England.

The Plan promotes growth that is sustainable, adopting an approach whereby growth and development delivers environmental benefits and seeks to protect and enhance wildlife, habitats and landscapes in and around Chelmsford, whilst helping people to connect in a positive way with the built and natural environment. The Plan continues to promote Chelmsford's green credentials by managing services in a sustainable way, with a focus on lowering energy consumption and reducing waste in order to help preserve natural resources.

The Council remains committed to helping to create a more sustainable future for the City, working proactively to reduce the adverse social, economic and environmental impact that climate change may have on local communities and businesses operating in the area.

During 2018/19 the Council has:

- Realised the benefits of changing the collection of household non-recyclable waste to once every fortnight, with 15% less 'non-recyclable' waste being generated and waste diversion rates rising to 53% of all household waste that is produced, representing a significant reduction in carbon emissions
- Increased the proportion of energy consumed by the City Council that is from renewable sources to 12%, including electricity directly generated from the City Council's own photovoltaic installations
- Increased to 59% the proportion of energy (gas and electricity) that is supplied to the City Council from a low carbon source
- Promoted collective energy buying schemes for residents of Chelmsford which include a 100% 'green energy' option
- Continued the LED replacement lighting programme
- Undertaken an air quality assessment for the area and developed an air quality strategy
- Agreed a 'Green Infrastructure Strategy and action plan, including design guidelines to support the new Local Plan, focusing on the multi-purpose roles and benefits of green space and the opportunities for protecting and enhancing local biodiversity

4 – NARRATIVE REPORT

This section gives an overview of our achievements and direction. It highlights the most important matters reported in the accounts, and comments on any issues that have had a major effect on our finances.

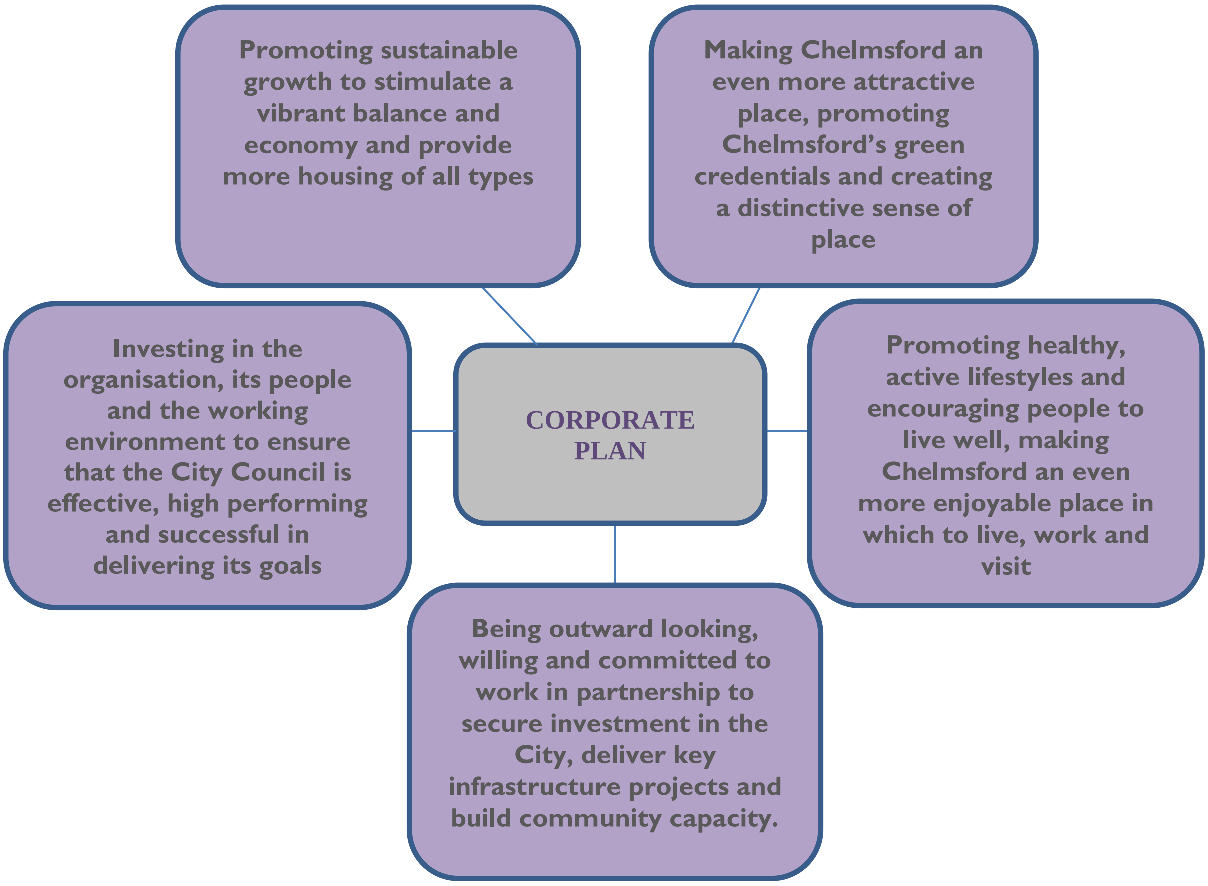
Background

Chelmsford City Council is situated in the heart of Essex, covering an area of 344 square kilometres and is one of the fastest-growing centres in the region. It is the sporting venue for the Essex County Cricket Team, Chelmsford City Football Club and the Chelmsford City Race Course.

Chelmsford has a population of around 176,200 and is the focus for business, retail, leisure and culture in Essex. It will continue to be a major centre of development, with significant housing developments underway within the City Centre as well as north of Chelmsford.

Chelmsford has a very strong economy with 87,000 jobs and over 9,000 businesses in the heart of the City, with very low unemployment rate of 1.5%. Chelmsford has particular strengths in the financial and business services sectors, research and development, and advanced manufacturing.

The Council's corporate plan is currently under review. The plan in place at 31st March set out the following five key priorities for Chelmsford and its residents:



We engage with other Local Authorities on various joint working arrangements, and work with a wide range of other organisations and agencies to help us achieve these priorities. Following a change in political leadership in May 2019, the corporate plan will be refreshed to reflect the new administration's priorities.

Our annual statement of accounts summarises our financial affairs for 2018/19 and shows our financial position on 31 March 2019. It includes the following:

- **Introduction to the accounts -** Introduction from the Leader and Chief Executie alongside a summary of recent achievements.

- **Environmental issues -** An overview of our effect on the environment.

- **Narrative Report -** An overview of the detailed statement.

- **Statement of responsibilities for the Statement of accounts –** Who is responsible for individual aspects of the accounts.

- **Main financial statements:**

  - **Comprehensive income and expenditure statement –** This shows the cost of providing services in line with accounting practices, rather than the costs to be met by local taxation. We raise taxation to meet costs as defined by law. This is different to the cost of providing services in line with accounting practices. The taxation position is shown in the Movement in reserves statement.

  - **Movement in reserves statement –** This shows the movement on our reserves in the year. These are analysed into usable reserves, which can be applied to fund expenditure or to reduce local taxation and other reserves. In the statement, the Total comprehensive expenditure and income line shows the true economic cost of providing the services. This is shown in more detail in the Comprehensive income and expenditure statement. These are different from the amounts we must charge to the General fund by law for setting the Council tax. In the statement, the line that gives the net increase or decrease shows the statutory General fund balance movement.

  - **Balance sheet -** This shows the value of our assets and liabilities at the Balance sheet date. Our net assets are matched by our reserves. The reserves are reported in two categories, usable and unusable. Usable reserves are those we can use subject to keeping a prudent level of reserves and any statutory limitations on their use (for example, we can only use the capital receipts reserve to fund capital expenditure or repay debt). Unusable reserves cannot be used to provide services. This type of reserve includes reserves that contain unrealised gains and losses (for example, the revaluation reserve) where the amount only becomes available for use when the asset is sold, and reserves that hold timing differences, for example in the amount owed for leave that has not been taken. These are shown in the Movement in Reserves statement line 'Adjustments to move from the Comprehensive Income and Expenditure account to the costs met by local taxpayers'.

- **Cash-flow statement -** This shows the changes in our cash and cash equivalents during the year. It shows how we received and used those amounts by classifying cash flows as operating, investing or financing activities. The cash flows in operating activities are a key indicator of how much is met by taxation, grants or from service users. Investing activities show how we have used cash outflows to buy resources intended to deliver future services. Cash flows arising from financing activities are useful in predicting claims on future cash flows.

- **Notes to the main financial statements -** These explain our accounting policies and some of the figures in the main financial statements.

'**Expenditure and Funding Analysis'** this statement is a key note to demonstrate how the funding available to the authority for the year has been used in providing services in comparison with the resources used or earned in accordance with generally accepted accounting practices. This supporting statement reconciles the net expenditure as presented in the Comprehensive Income and Expenditure statement to the net expenditure chargeable to the General fund as presented in our outturn reports.

- **Collection fund -** A statement meeting the statutory obligation for us to keep a separate Collection fund. The statement shows all transactions in relation to the collection of money from taxpayers and the distribution of money to other local authorities and the Government of Council tax and Non-domestic rates.

We will show any restatements for previous year's set of accounts following changes in accounting policies, rules we use to prepare these accounts or material error in note 39. We also made some presentational changes to how we report our management information. We reflected these changes in the presentational format of the comprehensive income and expenditure statement and Expenditure and Funding Analysis statement and its supporting note and restated last year's figures in the same format.

- **Independent auditors' report -** A report that says whether our Statement of accounts presents a true and fair view of our financial position and financial performance for the year.

- **Glossary** - An explanation of the technical terms used in this Statement of accounts.

- **Our structure chart -** How we are organised.

Alongside the Statement of accounts we publish the **Annual governance statement** that explains how we manage our affairs and control our activities. The statement highlights any important areas of governance that may need to be addressed following an annual review.

Summary tables

A simplified statement showing the change on our Comprehensive income and expenditure account and General fund balance from 1 April 2018 to 31 March 2019	Gross Expenditure £ 000	Income £ 000	Net Expenditure £ 000
Total Spending on Current services	119,586	(76,726)	42,860
Other Income and Expenditure	39,084	(79,199)	(40,115)
Total spending on services as presented in the Comprehensive Income and Expenditure account			2,745
add Adjustments between the Funding and Accounting bases			9,282
Change in General fund (including Earmarked Reserves)			12,027

The complete Comprehensive Income and Expenditure statement is shown in section 6.

The Expenditure and Funding analysis in note 1 and the Note to Expenditure and Funding Analysis in note 6 in section 7 show the reconciliation between the net expenditure as presented in the Comprehensive Income and Expenditure statement and the net expenditure chargeable to the General fund as presented in our outturn reports.

The Comprehensive Income and Expenditure account includes capital adjustments and the pension adjustment made under generally accepted accounting principles that do not need to be met from the Council Tax.

Our Comprehensive Income and Expenditure statement recognises our share of Council Tax and NNDR transactions on the accrual basis, with the timing difference being adjusted through Council Tax and NDR adjustment account, reported on in the Movement in Reserve Statement.

Simplified Balance sheet statement

A simplified Balance Sheet	31 March 2019 £ 000
What we own	
Assets	261,291
Stocks	280
Investments	25,341
	286,912
What we are owed	
Amounts due before 31 March 2020	25,333
Amounts due after 31 March 2020	4,202
	29,535
What we owe	
Amounts due before 31 March 2020	(27,114)
Amounts due after 31 March 2020	(4,379)
Provisions	(3,688)
Pension deficit	(97,293)
	(132,474)
Cash and equivalents in hand or (overdrawn)	22,546
Net assets	206,519

Our reserves	31 March 2019 £ 000
Usable reserves	39,293
Unusable reserves	167,226
Total reserves	206,519

The complete Balance sheet is shown in section 6.

Pensions

We offer our employees membership of the Local Government Pension Scheme. The scheme is funded by contributions from employees and employers, and offers defined benefits that are paid when members retire. The scheme has been estimated to have a shortfall because its obligations to members are more than the assets and returns expected from the fund. We have agreed to make up the shortfall over time. You can find out more about the pension scheme in note 33 to the main financial statements.

Changes in accounting policies

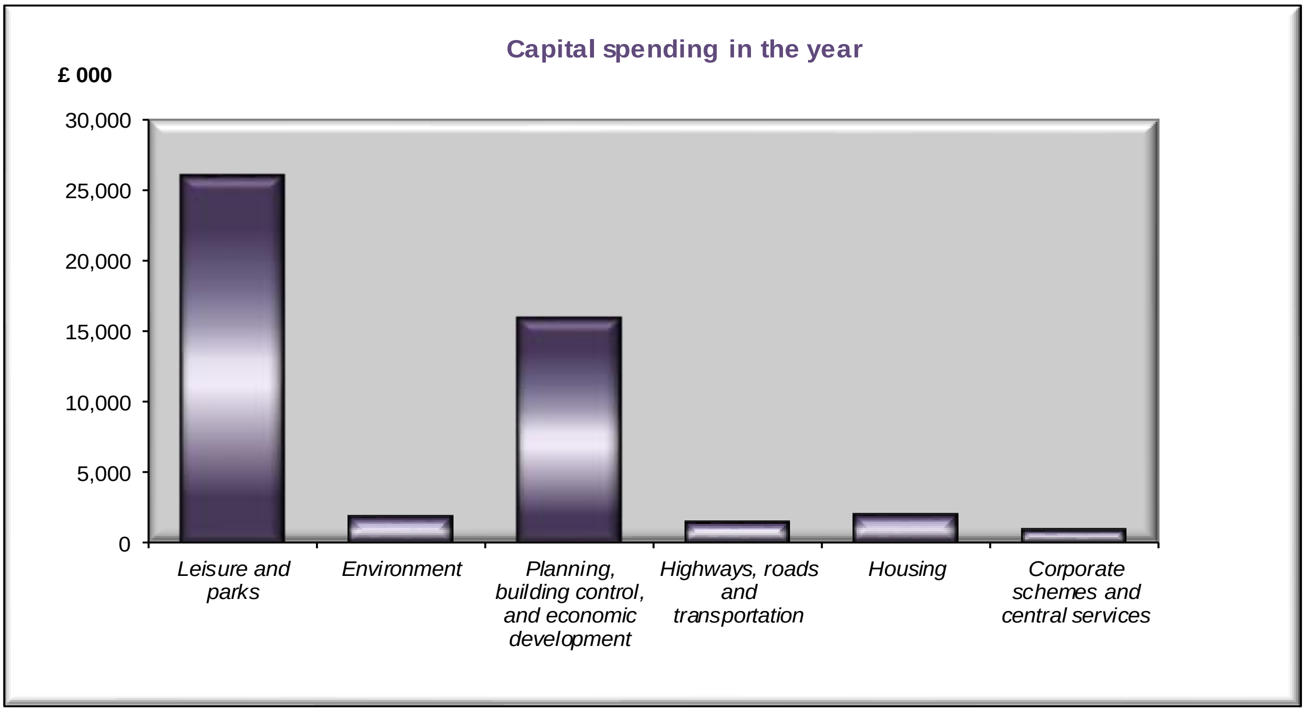
We produce our accounts in International Financial Reporting Standards (IFRS) format. This is to comply with agreed accounting practices. Where there is any change in accounting practice we restate last year's figures.

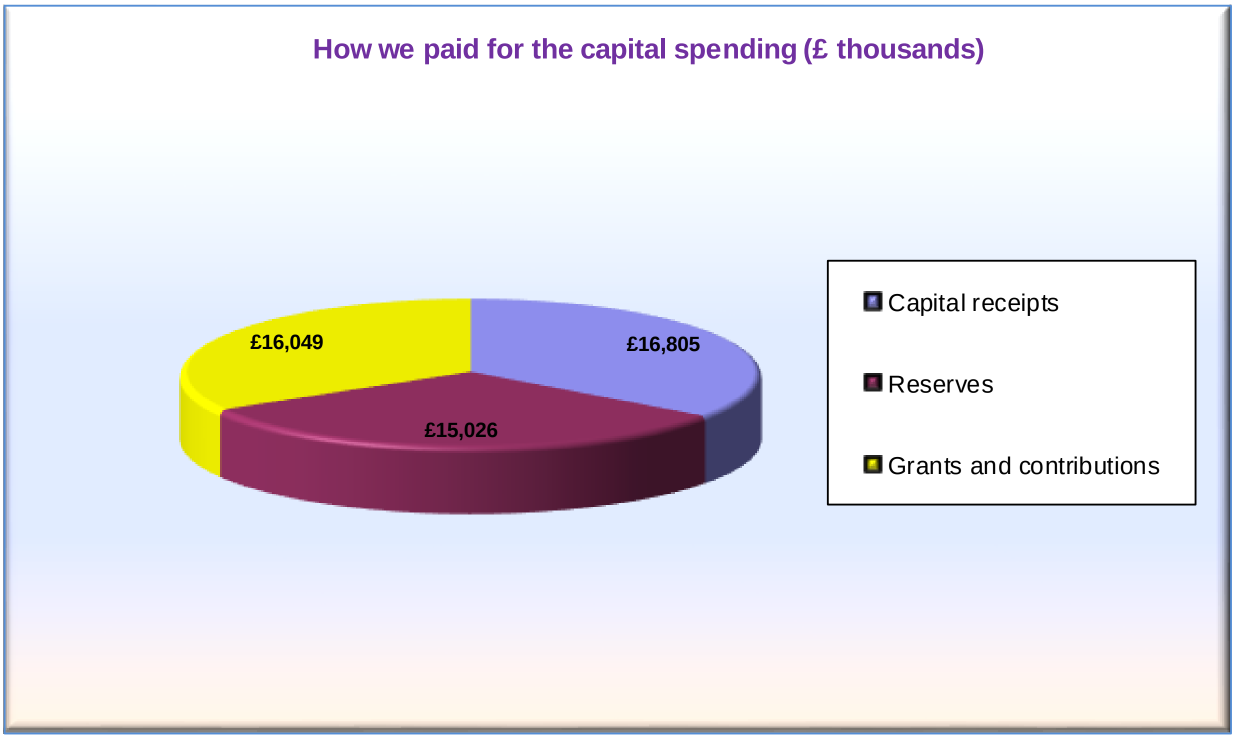
Borrowing

We do not have any loans.

Capital spending

During the year we spent £47,880,000 on capital schemes. Our asset values in the Balance sheet have not necessarily increased by the amount of our capital spending as the Balance sheet shows the asset's change in value, after any impairments, and not simply the amount spent in creating that asset. The following tables show the capital spending and how the spending was paid for (capital financing).





Material unusual charges to the accounts

There have not been any of these.

Major changes in statutory functions

There have not been any of these.

Significant provisions or contingencies or material write-offs

The Council has a provision for appeals against business rates valuations.

Material events after the Balance Sheet Date

There are no such events.

Effects of the current economic climate

We no longer receive a support grant from the Government. It is unclear how Britain's decision to leave the European Union will impact on the Council's or Local Government finances generally. Despite this we have still produced a balanced budget and expect this to continue into the future.

Auditors

Our external auditors, who audit these accounts, are BDO LLP. You can find details of their audit fees in note 29 to the main financial statements.

Monitoring our performance during 2018/19

Performance measures

For 2018/19 we have established 21 performance indicators that were regularly reviewed and reported to the Overview and Scrutiny Committee. These are financial and non-financial indicators that measure the progress made in terms of achieving the Council's Priorities.

Performance against targets set and comparative figures where applicable are detailed in the table below. Where targets are not met we provide explanations for this and establish appropriate remedial action via the Overview and Scrutiny committee.

We achieved our targets or came within 2% allowable tolerance limit for the following key performance indicators during 2018/19:

Indicator	Achieved in 2017/18	Achieved in 2018/19	Target set as
Net additional homes provided To encourage a greater supply of new homes in England to address the long-term housing affordability issue. This indicator measures the net increase in dwelling stock over one year. It is calculated as the sum of new build completions, minus demolitions, plus any gains or losses through change of use and conversions.	1,008	1,256	805
Number of affordable homes delivered Affordable housing is measured as the numbers of affordable dwellings provided in each year, through new build and acquisitions. This does not take account of losses through sales of affordable housing and demolitions.	200	288	179
Green' queue waiting time Average waiting time to see an advisor at the Customer Service Centre (CSC) for Concessionary Fares and Parking Permits.	90.75%	88.96%	90.00% customers to see an advisor within 15 minutes
Blue queue waiting time Average waiting time to see an advisor at the Customer Service Centre for Housing, Revenues and Benefits.	88.75%	89.53%	90.00%

Indicator	Achieved in 2017/18	Achieved in 2018/19	Target set as
Percentage of online contact forms responded to within one working day This indicator is designed to measure the speed of response within the CSC to online contact forms. It is important that those customers who choose to self-serve receive a high level of prompt service.	85.58%	90.47%	90.00%
Average number of unique visitors to the Visit Chelmsford website The Visit Chelmsford website was launched in 2014 and this indicator enables us to measure the site's performance.	10,485	11,990	9,000
The average time taken in calendar days to process all new claims and change events in Housing Benefit and Council Tax Benefit This indicator monitors our performance in processing all new claims and change events in Housing Benefit and Council Tax Benefit enabling us to make comparison to the national average performance.	7.99 days	8.30 days	process claims in under 9.00 days
Theatre Hire Income Monitoring income against budget at the Civic & Cramphorn Theatres for shows or events where the venues are hired by a third party.	103.54% of budget set	140.49% of budget set	£137,800
Income from Theatres This indicator monitors income achieved from Theatre admissions against the set budget.	103.79% of budget set	104.52% of budget set	£1,470,100
Base budget income for Car Parking Total amount of Car Parks fee income achieved against the set budget.	101.88% of budget set	99.30% of budget set	£6,544,300
Base budget income for Cemetery and Crematorium This indicator monitors income achieved from Cemetery and Crematorium fees against the set budget.	100.13% of budget set	98.69% of budget set	£1,902,600
Number of Customer visits to our sport centres and sport activities This indicator monitors visits to our sports centres and sports activities attendance.	1,490,168	1,365,351	1,316,600
Percentage of waste reused, recycled & composted The indicator measures percentage of household waste arising's which have been sent by the Council for reuse, recycling, composting or anaerobic digestion.	52.80%	52.68%	50.00%

Indicator	Achieved in 2017/18	Achieved in 2018/19	Target set as
Residual waste per household This indicator is the number of kilograms of residual household waste collected per household. Local authorities have an important role to play in assisting their residents to reduce waste (as well as encouraging sorting of waste for recycling, re-use, home composting and other forms of home treatment of waste). This indicator monitors the Council's performance in reducing the amount of waste that is sent to landfill, incineration or energy recovery.	441.88kg	446.77kg	550.0kg

We did not reach our targets for the following indicators during 2018/19:

Target	Supporting information
The number of working days lost due to sickness absence This indicator is used to monitor the level of sickness absence in local authorities.	The number of days lost due to sickness in 2018/19 fell to 7.75 days per employee from 8.47 days in 2017/18. The target for this indicator is 7.09 days.
Theatre promotion visits Monitoring the level of visitor attendance at the Civic & Cramphorn Theatres for the Councils own promotion.	In 2018/19 Theatre promotion visits fell to 69,600 from 75,001 the previous year. The target for the year was 78,328 visits.
CSC abandoned calls This indicator measures the rate of abandonment of incoming phone calls for the Customer Service Centre (CSC).	This indicator improved to 11.53% in 2018/19 from 13.88% in 2017/18, the target for 2018/19 was set to 10%.
CSC average waiting time for calls (in seconds) This indicator enables the Service manager to monitor the average waiting time for calls.	The target set for this indicator was 40 seconds. There was a fall in average waiting time for calls from 74 seconds in 2017/18 to 70 seconds in 2018/19.
Number of households living in temporary accommodation This indicator measures the numbers of households living in temporary accommodation provided under the homelessness legislation.	The target for this indicator was set to 250 households. The number of households in temporary accommodation reduced to 275 in 2018/19 from 313 in previous year.
Income from Riverside Leisure Centre This indicator measures income achieved by the Riverside Leisure Centre against set budget.	The budget for Riverside Ice & Leisure Centre was £2,478,100. The Centre achieved 94.34% of its income budget in 2018/19 against 106.12% in 2017/18.

Target	Supporting information
Income from Hylands House and Visitor Centre This indicator monitors income achieved from facility hire for events and rents against set budget.	The budget for Hylands House was £1,224,100. Hylands achieved 82.21% of its income budget in 2018/19 against 109.71% in 2017/18.

Financial Monitoring and Reporting

As part of the management of our finances, we report to the Cabinet and the Audit Committee at various times throughout the year. You can find copies of these reports on our website. The following are the main financial subjects we report on:

- The medium term financial strategy,
- Setting the Council Tax,
- Revenue estimates (including a report on the health of our finances),
- Revenue and capital monitoring,
- The outturn and the accounts, and
- Various auditors' reports on the accounts and other matters.

Revenue and Budget Process

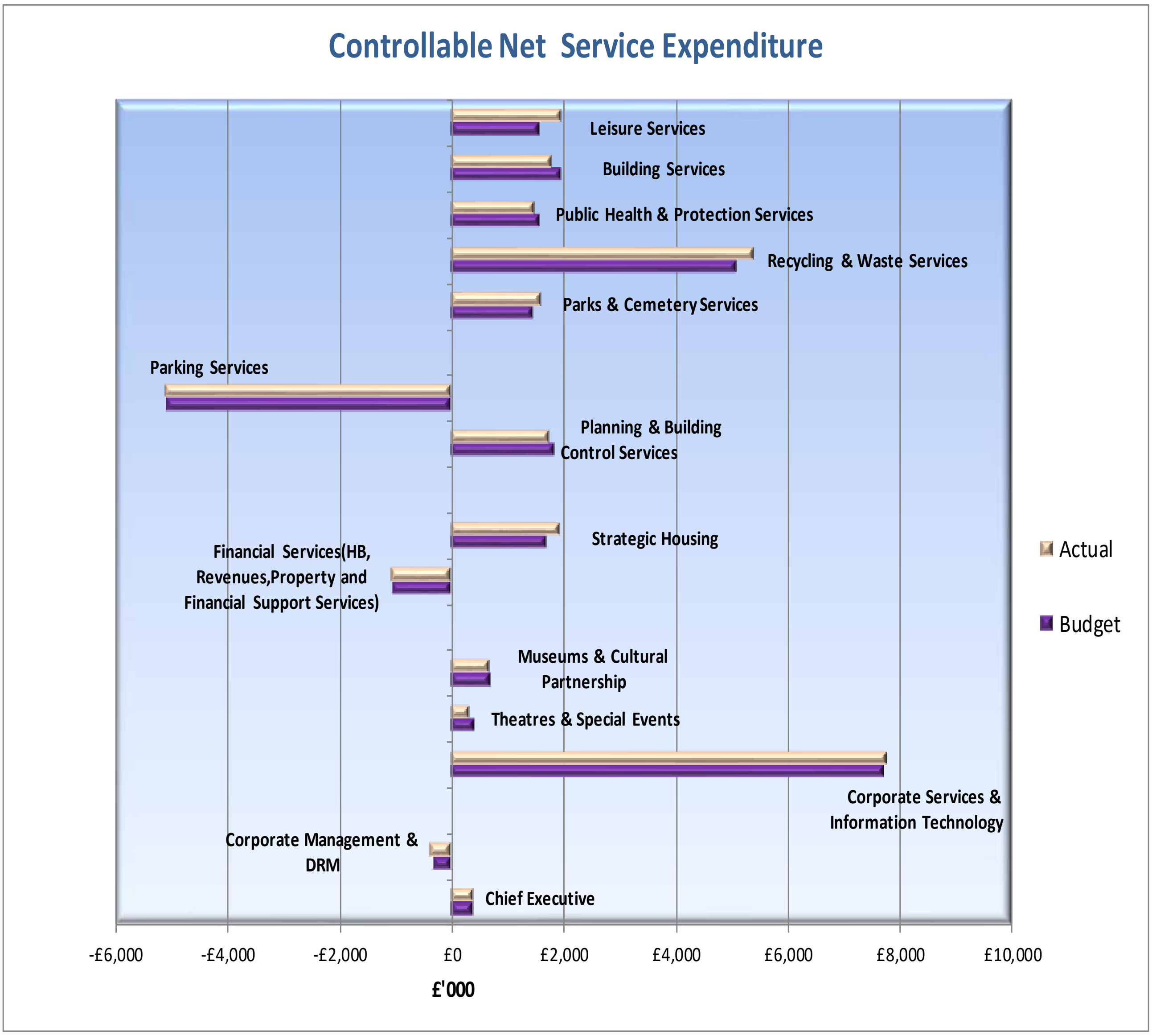
The Council has a rigorous revenue and capital monitoring process. Management Team and Cabinet Members are given a detailed monthly report and a quarterly report is presented to the Audit Committee.

This enables us to identify any financial shortcomings or potential savings throughout the year.

Revenue Outturn position

The Service net revenue expenditure for 2018/19 was £556k overspent against our £17,914k budget. Within the overspend there were a number of underspends for example on building maintenance but shortfalls of income and increased demand for services have created an overall overspend. The 2018/19 expenditure will be reviewed in detail and where necessary reflected in future financial planning.

The following graph shows the service revenue outturn against our latest budget.



Following major developments within the city centre and subsequent increase in additional retail units, the Council has seen an increase in business rates income retained. The Council is a member of the Essex Business Rates pool which enables us to retain some of the levy that we would otherwise pay over to the Government. In 2018/19 the income retained including S31 grants was £2.1m above the Government baseline funding, The business rates income retained is however volatile as it is affected by settlements of successful appeals against valuations and changes in the appeals provision. The Government intends to introduce a revised Business Rates scheme, that would potentially reset the baseline funding levels. After allowing for budgeted transfers to earmarked reserves, our general fund balance has reduced by £407k.

Following major capital developments, our earmarked reserves have reduced by £11,620k due to planned use of the Chelmsford Development reserve and the Future Replacement of Assets reserves, to fund the Riverside and Museum development projects.

Medium Term Financial Strategy (MTFS) for 2018/19 to 2022/23

The strategy is how we take a strategic approach to managing our finances, aligning them with the objectives as set out by the Corporate priorities within the Council's Corporate plan.

The Council has a long history of setting robust budgets, identifying savings and efficiencies. This has become a necessity given the historic reductions in Government funding, increases in responsibilities and the need to keep fees and charges at appropriate levels for public service provision. To this end the MTFS proposed that:

- The Government was lobbied to attempt to ensure the best possible outcome from any proposed changes to local government funding.
- Directors continue to review their services and budgets to release efficiencies and identify new income streams. These will be used to meet both corporate objectives and forecast budget shortfalls.
- The Council identify and bid for external funding which would be used to deliver corporate objectives.
- The Council works with partners at every opportunity to deliver efficiencies.
- Reserves are used to fund capital expenditure, one off loss of income and manage risk.
- Capital resources are used to achieve revenue budget savings by undertaking schemes that produce additional income or reduce running costs.
- Schemes within the Capital programme and replacement programme are reviewed and spend prioritised.
- Property assets continue to be reviewed, to release surplus assets, to achieve value for money and to examine options to acquire new assets that deliver additional financial and service benefits.

Workforce

We understand that the Council's employees play an important role in delivering our objectives and we have in place a robust People strategy which aims to ensure that we employ people with the right skills and support their development. In 2018/19 we continued to invest in our workforce by employing several graduate interns and apprentices within various departments of the Council.

The Council was awarded an Investor in People Gold (liP) award, indicating the highest level of achievement in developing staff.

Our workforce consists of 45% females and 55% males.

5 - Statement of responsibilities for the Statement of accounts

This section explains our responsibilities for our financial affairs and how we make sure we fulfil them.

Our responsibilities

We must:

- make arrangements for our financial affairs to be managed properly and for one of our officers to be responsible for managing those affairs (that officer is the Director of Financial Services)
- manage our affairs to use our resources economically, efficiently and effectively, and to protect our assets, and
- approve the Statement of accounts.

I certify that these accounts were considered and approved by the Audit Committee, on behalf of Chelmsford City Council.

....

Dan Clark **Date**
Chair of the Audit and Risk Committee

The Director of Financial Services' responsibilities

The Director of Financial Services is responsible for preparing our Statement of accounts in line with the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of accounts, the Director of Financial Services has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent, and
- followed the Code.

The Director of Financial Services has also:

- kept proper accounting records that were up to date, and
- taken reasonable steps to prevent and detect fraud and other irregularities.

I certify that the accounts set out in the Statement of accounts present a true and fair view of our financial position at 31 March 2019 and the income and spending for the year ended 31 March 2019.

....

Amanda Fahey **Date**
Director of Financial Services

6 - The main financial statements

Comprehensive income and expenditure statement

This section is a summary of our spending on services. It also shows where we got the money from.

2017/18			Money spent on services direct to the public	Notes	2018/19		
Gross spending £ 000	Income £ 000	Net spending £ 000			Gross spending £ 000	Income £ 000	Net spending £ 000
230	-	230	**Chief Executive**		448	-	448
-	(480)	(480)	**Corporate Management & DRM**		13	(410)	(397)
			Corporate Services				
9,365	(181)	9,184	Corporate Services & Information		9,036	(179)	8,857
2,343	(1,724)	619	Theatres & Special Events		2,396	(1,785)	611
998	(150)	848	Museums & Cultural Partneships		1,065	(122)	943
			Financial Services				-
5,500	(1,716)	3,784	Financial Services incl Housing Benefits, Property and Financial Support Services		5,467	(1,664)	3,803
5,253	(3,431)	1,822	Strategic Housing		5,987	(3,162)	2,825
			Sustainable Communities				
5,847	(2,202)	3,645	Planning & Building Control Services		8,129	(2,111)	6,018
3,021	(7,141)	(4,120)	Parking Services		4,146	(7,799)	(3,653)
			Public Places				-
4,902	(2,510)	2,392	Parks & Cemetery Services		5,695	(2,849)	2,846
12,132	(5,686)	6,446	Recycling & Waste Services		13,420	(6,112)	7,308
3,162	(673)	2,489	Public Health & Protection Services		3,584	(667)	2,917
2,138	(39)	2,099	Building Services		2,392	(118)	2,274
8,428	(6,680)	1,748	Leisure Services		13,542	(5,766)	7,776
45,842	(45,188)	654	**Other Service Costs** (including Housing Benefit subsidy)		44,266	(43,982)	284
109,161	(77,801)	31,360	**Spending on current services**		119,586	(76,726)	42,860
5,683	(18,261)	(12,578)	Other operating expenditure	11	6,318	(4,260)	2,058
3,519	(5,937)	(2,418)	Financing and investment	12	5,516	(5,592)	(76)
-	-	-	Spending on discontinued operations		-	-	-
27,360	(60,284)	(32,924)	Taxation and general grants	13	27,250	(69,347)	(42,097)
145,723	(162,283)	(16,560)	**(Surplus) or deficit on Provision of Services**		158,670	(155,925)	2,745
			Items that will not be reclassified to the Total spending on services				
		2,219	(Surplus) or loss from our assets being revalued				4,122
		(18,525)	Remeasurement of the assets of the pension fund	33			(16,239)
			Items that may be reclassified to the Total spending on services				
		(335)	(Surplus) or loss from financial assets				(3)
		(33,201)	**Total income and expenditure**	24			(9,375)

Movement in reserves statement

This section is a summary of our movement on our reserves.

Movement in Reserves	General fund £ 000	Capital receipts reserve £ 000	Capital grants unapplied (note 38) £ 000	Total usable reserves £ 000	Unusable reserves (note 22) £ 000	Total reserves £ 000
Balance at 1 April 2017	22,737	12,663	19,175	54,575	109,368	163,943
Total comprehensive expenditure and income	16,560	-	-	16,560	16,641	33,201
Adjustments from council tax levied and accounting regulations (note 9)	(16,133)	2,995	6,727	(6,411)	6,411	-
Net increase or (decrease)	427	2,995	6,727	10,149	23,052	33,201
Balance at 31 March 2018	23,164	15,658	25,902	64,724	132,420	197,144

	General fund £ 000	Capital receipts reserve £ 000	Capital grants unapplied (note 38) £ 000	Total usable reserves £ 000	Unusable reserves (note 22) £ 000	Total reserves £ 000
Balance at 1 April 2018	23,164	15,658	25,902	64,724	132,420	197,144
Total comprehensive expenditure and income	(2,745)	-	-	(2,745)	12,120	9,375
Adjustments from council tax levied and accounting regulations (note 9)	(9,282)	(15,316)	1,912	(22,686)	22,686	-
Net increase or (decrease)	(12,027)	(15,316)	1,912	(25,431)	34,806	9,375
Balance at 31 March 2019	11,137	342	27,814	39,293	167,226	206,519

Balance sheet

This section shows our financial position at the end of the financial year.

31 March 2018 £ 000	Balance Sheet	Notes	31 March 2019 £ 000
	Long-term assets		
157,622	Property, plant and equipment	14	177,813
73,258	Investment property	14	79,324
420	Intangible assets		253
3,716	Heritage assets	15	3,901
14,625	Long-term investments	16	14,730
3,979	Long-term debtors		4,202
253,620			280,223
	Current assets		
292	Stocks		280
35,662	Short-term investments	16	10,611
19,311	Short-term debtors	18	25,333
-	Assets held for sale		-
25,545	Cash in hand and cash equivalents	19	23,665
80,810			59,889
	Current liabilities		
(22,002)	Short-term creditors	20	(27,114)
(3,809)	Provisions	21	(3,688)
(820)	Cash overdrawn	19	(1,119)
(26,631)			(31,921)
	Long-term liabilities		
-	Long-term borrowing	16	-
(1,936)	Long-term creditors		(1,530)
-	Donated assets account		-
(3,541)	Capital grants received in advance	30	(2,849)
(105,178)	Liability relating to our pensions	33	(97,293)
(110,655)			(101,672)
197,144	**Net assets**		206,519

31 March 2018 £ 000	**Reserves**	Notes	31 March 2019 £ 000
	Reserves		
64,724	Usable reserves (see Movement in Reserves Statement)		39,293
132,420	Unusable reserves	22	167,226
197,144	**Total reserves**		206,519

Cashflow statement

This section shows what cash we spend and receive.

2017/18 £ 000	Cash Flow	Notes	2018/19 £ 000
	Operating activities		
	Spending		
(31,038)	Cash paid to and for employees		(27,223)
(45,709)	Housing benefit paid out		(44,104)
(217)	NNDR payments to the national pool		(217)
(2,391)	Precepts		(2,461)
(1)	Payment to the housing capital receipts pool		(2)
(27,360)	Tariff & Levy/ Safety Net		(27,250)
(19)	Interest paid		(26)
(31,171)	Other costs		(34,499)
	Income		
9,233	Rents (after rebates)		8,234
14,340	Council tax		14,937
30,322	NDR we received		32,063
387	Revenue support grant		-
43,922	DWP grants for rebates		42,615
5,263	Other government grants		6,239
21,321	Cash we received for goods and services		23,663
707	Interest we received		820
7,229	Other revenue cash payments or income		4,672
(5,182)	**Net cash inflow or (outflow) from operating**	23	(2,539)
	Investing activities		
	Spending		
(13,128)	Buying non-current assets		(38,140)
(2,370)	Other capital cash payments		(4,875)
-	Other payments		-
	Income		
16,643	Selling non-current assets		1,046
10,037	Capital grants and contributions we received		17,117
	Grants applied to fund capital spending		
1,034	Other contributions		(240)
(3,008)	Change in our investments		25,055
9,208	**Net cash inflow or (outflow) from capital**		(37)
4,026	**Net cash inflow or (outflow) before financing**		(2,576)
	Management of liquid resources		
	Financing activities		
(2,491)	Other liquid resources		397
	Spending		
-	Repaying loans		-
	Income		
-	New loans		-
(2,491)	**Cash flow from financing activities**		397
1,535	**Increase or (decrease) in cash**		(2,179)
23,190	**Cash balance at the beginning of the year**		24,725
24,725	**Cash balance at the end of the year**		22,546

7 - Notes to the main financial statements

1 Expenditure and Funding Analysis

The analysis of income and expenditure shown in the Comprehensive income and expenditure statement includes adjustments made under generally accepted accounting practices. The Expenditure and funding analysis shows how we report to the Management Team and Members and reconciles it to the Comprehensive income and expenditure statement.

2017/18			Expenditure and Funding Analysis	2018/19		
Net Expenditure Chargeable to the General Fund £ 000	Adjustments between the Funding and Accounting bases £ 000	Net Expenditure in Comprehensive Income and Expenditure Statement £ 000		Net Expenditure Chargeable to the General Fund £ 000	Adjustments between the Funding and Accounting bases £ 000	Net Expenditure in Comprehensive Income and Expenditure Statement £ 000
206	24	230	**Chief Executive**	392	56	448
(480)	-	(480)	**Corporate Management & DRM**	(397)	-	(397)
			Corporate Services			
8,209	975	9,184	Corporate Services & Information Technology	7,776	1,081	8,857
378	241	619	Theatres & Special Events	310	301	611
665	183	848	Museums & Cultural Partneships	684	259	943
			Financial Services			
(889)	4,673	3,784	Financial Services incl Housing Benefits, Property and Financial Support Services	(1,081)	4,884	3,803
1,588	234	1,822	Strategic Housing	1,923	902	2,825
			Sustainable Communities			
1,538	2,107	3,645	Planning & Building Control Services	1,735	4,283	6,018
(4,818)	698	(4,120)	Parking Services	(5,104)	1,451	(3,653)
			Public Places			
1,466	926	2,392	Parks & Cemetery Services	1,611	1,235	2,846
4,739	1,707	6,446	Recycling & Waste Services	5,394	1,914	7,308
1,472	1,017	2,489	Public Health & Protection Services	1,480	1,437	2,917
1,626	473	2,099	Building Services	1,785	489	2,274
441	1,307	1,748	Leisure Services	1,962	5,814	7,776
4,831	(4,177)	654	**Other Service Costs** (including Housing Benefit subsidy)	405	(121)	284
20,972	10,388	31,360	**Spending on current services**	18,875	23,985	42,860
2,391	(14,969)	(12,578)	Other operating expenditure	2,461	(403)	2,058
(77)	(2,341)	(2,418)	Financing and investment	14,236	(14,312)	(76)
-	-	-	Spending on discontinued operations	-	-	-
(23,713)	(9,211)	(32,924)	Taxation and general grants	(23,545)	(18,552)	(42,097)
(427)	(16,133)	(16,560)	**Total spending on services**	12,027	(9,282)	2,745

2017/18 £ 000	Movement on General fund Balance	2018/19 £ 000
22,737	Opening Balance	23,164
427	Surplus/(Deficit)	(12,027)
23,164	Closing Balance at 31 March	11,137

2 General Accounting policies

The Statement of accounts is a summary of our transactions for the financial year 2018/19 and our position at the year-end, 31 March 2019. The content, layout and general rules we have used to prepare this Statement of accounts are stated in the Accounts and Audit (England) Regulations 2015. These regulations are embodied in the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 a statement of recommended practice ('the Code'), supported by International Financial Reporting Standards.

The following accounting policies are considered to be general accounting policies. Accounting policies relating to a particular note to the accounts are included within that note.

Changes to accounting policies and estimates

We only change accounting policies when the accounting standards require us to do so, or when we think a change in policy will improve the presentation of the accounts and the way we manage our finances. When we do change a policy, we restate the amounts we presented in previous years so that all of the amounts in these accounts can be compared.

Please see note 3 for details of any accounting standards issued but not used in these accounts.

If we have made a material error in an amount we estimated in previous years, we will correct this by restating the previous year's amount.

Effects of changes in estimates

We have not changed the way we estimate amounts to be included in the accounts.

Employee benefits

Where an employee has not taken all their holidays or has accumulated hours at the end of the year, we charge the cost of this to the spending on services. To stop this being a charge to council tax, we reverse the entry out in the Accumulating compensated absences adjustment account.

Exceptional items

Where an exceptional item is material, we will show it separately in the Comprehensive income and expenditure statement. If it is not material, we will show it in a note to the accounts.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The valuation always assumes any assets is in its most profitable use. The authority measures some of its non-financial assets such as investment properties, surplus assets and some of its financial instruments such as pooled funds. The Council's assets and liabilities for its employee pension scheme are also measured at Fair value.

Going concern

The 'going concern' concept means that we prepare the financial statements on the assumption that our business is financially sound and not about to be liquidated.

As there is no evidence to the contrary, we have based the valuations and financial data on the assumption that the business will remain in existence for an indefinite period.

An indefinite period means the foreseeable future or long enough for us to meet our objectives and to fulfil our commitments. It is important to note that the 'going concern' concept assumes that the business will remain in existence long enough for all its assets to be fully used.

Joint projects

We are holding money as the main authority for a joint project with several other local authorities to improve houses in Essex. Until the money is used, we show it as 'not spent' in our Balance sheet. As the money is spent this amount gets smaller. If we spend our share of the money in the Chelmsford area, we show the amount spent in our Comprehensive income and expenditure statement. The amounts other authorities spend are not shown in our Comprehensive income and expenditure statement because it is not our money.

Overheads

To present the information on the same basis as our management reporting we do not reallocate the cost of support services to other service lines of the Comprehensive income and expenditure statement.

Revenue and capital transactions

Revenue and capital transactions are recorded on an income and expenditure (accruals) basis. This means we record income and grants, including government grants, in our accounts when we are owed it, rather than when we receive it. Likewise, we record spending in our accounts when we owe it, rather than when we actually make a payment. We do not accrue amounts under £1,000 where they would have no material impact.

Income from contracts with service recipients for goods and services is recorded in our income and expenditure statement when the goods or services are delivered to the service recipient, in accordance with the terms of the contract, rather than when we receive the payment.

We record revenue grants in the service they relate to. If a revenue grant does not relate to a specific service, we have shown it in the Comprehensive income and expenditure statement, below the total spending on services.

Where we are acting as an agent for another organisation (for example when collecting Council Tax and NDR) we only include income and expenditure and amounts owing that belong to us in the Comprehensive income and expenditure statement and Balance sheet. The Collection Fund includes all income and expenditure.

Where we have paid a full year's costs in the year, for example four quarterly electricity bills, we do not accrue amounts paid in advance or amounts owing at the year end in the Balance sheet. The same applies for rents payable and rents received.

Revenue Expenditure Funded from Capital under Statute

Some items of expenditure can be funded by capital resources under Government Statute even though they do not create an asset owned by the Council. These items of expenditure are charged to the relevant service in Comprehensive Income and Expenditure Statement but funded by a transfer from the Capital Adjustment Account, so there is no impact on Council tax.

Value added tax

VAT is not shown as spending, unless we cannot claim it back.

3 Accounting standards issued but not yet adopted

We need to disclose information relating to the impact of any changes in accounting standards that have been issued but not yet adopted for this financial year but will be used in preparing next year's accounts.

The following new standards require additional disclosures:

- Amendment to IAS 40 Investment Property:Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

We do not expect that these changes will have a material impact on our accounts.

Following a consultation, CIPFA have postponed the adoption of the IFRS 16 Leases standard until 2020/21.

4 Critical judgements in applying accounting policies

We have made a number of judgements in preparing these accounts and have listed the more important ones below.

There is a lot of uncertainty about the future level of Government grant funding. The Government is reviewing the basis of allocating funding to Local authorities, with new funding distribution based on revised formula to be announced for 2020/21. The New Homes Bonus grant may reduce or be removed in the future.
It is unclear how Britain's decision to leave the European Union will impact on the Council's or Local Government finances generally. We believe that we will be able to produce a balanced budget despite this and that our asset values do not need to be impaired.

5 Uncertainty about the future and other assumptions

The Statement of accounts contains estimated amounts that are based on historical knowledge and our judgements of the current conditions and the future. There is therefore some uncertainty about the amounts included in the Statement. The most critical amounts estimated are as follows.

Item	Uncertainties	Effect if assumptions change
Property, plant and equipment	Assets are depreciated over their useful lives and that life depends on how we maintain the assets. In the current economic climate there is some uncertainty about whether we may be able to continue our current level of maintenance	The average life of our assets is 32 years and the depreciation charge for the year is £4.9m. If this life were reduced by a year, the depreciation charged would increase by £0.16m.
Pensions liability	The valuation of the pensions liability depends on many assumptions. The more important of these are how many years pension will be payable for, the rate of increase in salaries and pensions and the rate of inflation.	See note 33 for the effects of variations in these items.
NDR appeals	Since the introduction of the Business Rates Retention Scheme from 1 April 2013, authorities are liable for successful appeals against business rates charged to businesses, both in the current financial year and earlier years, in proportion to their local share of business rates income. Our share of business rates income is 40%.	We have created a provision for our estimate of the amount that might be repayable to 31 March 2019 following successful appeals. Our share of this provision is £3.7m (see Note 21). In 2017 Valuation Office Agency (VOA) completed a revaluation exercise for the Business Rates and new appeals are now being lodged for the 2017 list. The estimate for the appeals lodged before the revaluation has been calculated

		using the VOA ratings list of appeals, and historical data on successful appeals to date. The new check, challenge system of lodging and processing the appeals introduced for the 2017 list means that some lodged appeals will not be published by the VOA until they are validated. Due to lack of data available, we calculated our provision based on appeals lodged to date information and included properties where we think there is high risk of them lodging an appeal based on historical tendencies. It is possible that appeals will be settled at amounts which differ from the estimate made.
Arrears	We had a balance on sundry debtors of £25.0m at the year end. We have made an allowance for doubtful debts of £1.9m, based on various percentages of different ages of debts. In the current economic climate these assumptions may change.	If the economic conditions deteriorate, a doubling of the allowance for doubtful debts would require us to set aside another £1.9m.
Fair Value Measurement	When the fair values of financial assets and financial liabilities cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using valuation techniques (e.g. quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where Level 1 inputs are not	The Council uses Level 1 and 2 observable inputs for valuing its Investment properties and financial instruments. The inputs are those that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability. Significant changes in any of the observable inputs would result in significantly lower or higher fair values.

	available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the Council's Corporate Property Manager and external valuer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 14 and 16 below.	

6 Note to the Expenditure and Funding Analysis

The following table further explains the funding adjustments made in the Comprehensive income and expenditure statement under generally accepted accounting practices as shown in the Expenditure and Funding Analysis in Note 1.

2017/18							2018/19					
Adjustments for Capital Charges (Note 1) £ 000	Net change for the Pensions Adjustment (Note 2) £ 000	Other Statutory Adjustments (Note 3) £ 000	Total Statutory Adjustments £ 000	Other (Non-statutory) Adjustments (Note 4) £ 000	Adjustments between the Funding and Accounting bases £ 000	**Analysis of adjustments made to arrive at the Comprehensive Income and Expenditure Statement**	Adjustments for Capital Charges (Note 1) £ 000	Net change for the Pensions Adjustment (Note 2) £ 000	Other Statutory Adjustments (Note 3) £ 000	Total Statutory Adjustments £ 000	Other (Non-statutory) Adjustments (Note 4) £ 000	Adjustments between the Funding and Accounting bases £ 000
	24		24		24	**Chief Executive**		57		57	(1)	56
					-	**Corporate Management & DRM**				-		-
						Corporate Services				-		
348	627		975		975	Corporate Services & Information Technology	297	790		1,087	(6)	1,081
120	121		241		241	Theatres & Special Events	130	171		301		301
111	72		183		183	Museums & Cultural Partnerships	153	106		259		259
						Financial Services				-		
16	471		487	4,186	4,673	Financial Services incl Housing Benefits, Property and Financial Support Services	7	618		625	4,259	4,884
82	103		185	49	234	Strategic Housing	785	117		902		902
						Sustainable Communities				-		
1,652	455		2,107		2,107	Planning & Building Control Services	3,663	623		4,286	(3)	4,283
370	289		659	39	698	Parking Services	1,093	362		1,455	(4)	1,451
						Public Places				-		
650	385		1,035	(109)	926	Parks & Cemetery Services	907	519		1,426	(191)	1,235
945	829		1,774	(67)	1,707	Recycling & Waste Services	839	1,142		1,981	(67)	1,914
757	256		1,013	4	1,017	Public Health & Protection Services	1,071	342		1,413	24	1,437
253	114		367	106	473	Building Services	144	184		328	161	489
703	604		1,307		1,307	Leisure Services	4,998	825		5,823	(9)	5,814
(17)	(4,204)	44	(4,177)		(4,177)	**Other Service Costs** (including Housing Benefit subsidy)		(136)	15	(121)		(121)
5990	146	44	6,180	4,208	10,388	**Spending on current services**	14,087	5,720	15	19,822	4,163	23,985
(15,090)			(15,090)	121	(14,969)	Other operating expenditure	(645)			(645)	242	(403)
(1,160)	3,148		1,988	(4,329)	(2,341)	Financing and investment	(12,435)	2,634	(106)	(9,907)	(4,405)	(14,312)
(10,566)		1,355	(9,211)		(9,211)	Taxation and general grants	(17,976)		(576)	(18,552)		(18,552)
(20,826)	3,294	1,399	(16,133)	-	(16,133)	**Total spending on services**	(16,969)	8,354	(667)	(9,282)	-	(9,282)

1. Adjustments for Capital Purposes

This column adds depreciation, impairments and revaluation gains and losses in the service lines, and for:

Other operating expenditure – Capital disposals transferring income on the disposal of the assets and the amounts written off for the assets.

Financing and investment income and expenditure – The statutory charges for capital financing including minimum revenue provision.

Taxation and Non-specific grant income and expenditure – Capital grants received during the financial year without any conditions or where conditions were met during the financial year.

2. Net Change for the Pension Adjustments

For service lines this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
For Financing and investment income and expenditure the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure statement.

3. Other Statutory Adjustments

This shows any other amounts payable and receivable to be recognised under statute.

For Taxation and general grants this represents the timing difference with regards to the collection fund for income projected to be received and actual income received.

4. Other Non-Statutory Adjustments

This represents a removal of transactions between segments of the income and expenditure account and removal of Trading accounts income and expenditure and Investment properties income so that they are shown in the Other operating expenditure and Financing and investment line of the Comprehensive Income and Expenditure account.

7 Major classes of cash receipts and payments (Comprehensive income and expenditure statement)

The movements in our Comprehensive income and expenditure statement include the following:

– Housing benefit payments (£44.1m)
– Government grant in respect of housing benefit paid to the Council (£42.6m)
– Income from sales, fees and charges and rents (£31.9m)
– Employee costs (£27.2m)

8 Events after the Balance sheet date

If anything happens after the end of the year and before we issue the Statement of accounts, we will either amend the accounts if it affects anything we reported on in the year or add a note to say how it will affect future years. We did not have any such items in this year.

9 Adjustments to expenditure to arrive at the final charge to council tax

Accounting Policy

We set aside specific amounts as reserves for future purposes, or to cover contingencies, or to deal with the local authority legal requirements for capital and pension accounting. Reserves are created by moving amounts from the General fund in the Movement in reserves statement. When we incur expenditure that is due to be financed from a reserve, we charge it to the appropriate service in the Comprehensive income and expenditure statement. We credit the statement with an equal amount transferred from the reserve so that there is no charge to council tax.

The following are the main reserves we include in the Balance sheet.

Capital adjustment account	*Includes amounts we have set aside to pay for fixed assets. It also includes capital receipts we have set aside to repay loans and other capital financing transactions, and revaluation gains before 1 April 2007. This is an unusable reserve.*
Capital receipts reserve	*Represents the money we have received, but not yet spent, from selling assets. This is a usable reserve.*
Earmarked reserves	*These are explained in note 10 to the main financial statements. These are usable reserves.*
Pension reserve	*Represents the shortfall on assets needed to cover our future pension costs. This is an unusable reserve.*
Revaluation reserve	*Shows changes in the value of our fixed assets caused by revaluing them. It only has revaluation gains recognised after 1 April 2007. Any gains before that date are shown in the Capital adjustment account. This is an unusable reserve.*

Movements in 2017/18	General fund £ 000	Capital receipts £ 000	Capital grants unapplied £ 000	Total usable reserves £ 000	Unusable reserves £ 000	Total reserves £ 000
Reversal of items included in the Comprehensive income and expenditure statement (CI&ES)						
Depreciation and impairment of non-current assets	(3,701)			(3,701)	3,701	-
Revaluation losses on property, plant and equipment	339			339	(339)	-
Change in the market value of investment properties (+gain/-loss)	549			549	(549)	-
Amortisation of intangible assets	(258)			(258)	258	-
Capital grants and contributions applied to capital financing	1,243			1,243	(1,243)	-
Movement in the donated assets account						-
Revenue expenditure funded from capital under statute	(2,370)			(2,370)	2,370	-
Gain or loss on the disposal of non-current assets	13,841	(15,393)		(1,552)	1,552	-
Statutory Account for Unrealised Gain & Losses on Investments						
Inclusion of items not included in the CI&ES						
Statutory provision for the financing of capital investment	176			176	(176)	-
Capital expenditure charged to the general fund	435			435	(435)	-
Adjustments involving the capital receipts reserve						
Asset sale proceeds credited to the CI&ES	1,250	(1,234)		16	(16)	-
Use of capital receipts to fund new capital spending		13,633		13,633	(13,633)	-
Capital receipts used to fund sale costs						-
Transfers to the housing capital receipts pool	(1)	1				-
Transfers from deferred capital receipts on receipt of cash		(2)		(2)	2	-
Adjustments involving the capital grants unapplied account						
Reversal of unapplied capital grants and contributions credited to the CI&ES	3,484		(3,484)			-
CIL grant	5,839		(5,839)			
Grants applied to capital financing			2,596	2,596	(2,596)	-
Adjustments involving the deferred capital receipts reserve						
Deferred asset sale proceeds credited to the CI&ES						-
Adjustments involving the financial instruments adjustment account						
Difference between financing costs charged under statutory and accounting requirements						-
Adjustments involving the pension reserve						
Reversal of post-employment benefits charged to the CI&ES	(11,123)			(11,123)	11,123	-
Employer's pension contributions paid in the year	7,829			7,829	(7,829)	-
Actuarial gains or losses	-			-	-	-
Adjustments involving the collection fund adjustment account						
Adjustment for Council Tax collection fund income	(120)			(120)	120	-
Adjustment for Non-domestic rates collection fund income	(1,235)			(1,235)	1,235	-
Adjustments involving the unequal back-pay adjustment account						
Difference between costs charged under statutory requirements and those actually charged to the CI&ES						-
Adjustments involving the accumulating compensated absences adjustment						
Difference between costs charged under statutory requirements and those actually charged to the CI&ES	(44)			(44)	44	-
Total adjustments	16,133	(2,995)	(6,727)	6,411	(6,411)	-

Movements in 2018/19	General fund £ 000	Capital receipts £ 000	Capital grants unapplied £ 000	Total usable reserves £ 000	Unusable reserves £ 000	Total reserves £ 000
Reversal of items included in the Comprehensive income and expenditure account (CI&ES)						
Depreciation and impairment of non-current assets	(6,801)			(6,801)	6,801	-
Revaluation losses on property, plant and equipment	(2,200)			(2,200)	2,200	-
Change in the market value of investment properties (+gain/-loss)	(2,591)			(2,591)	2,591	-
Amortisation of intangible assets	(211)			(211)	211	-
Capital grants and contributions applied to capital financing	1,742			1,742	(1,742)	-
Movement in the donated assets account						-
Revenue expenditure funded from capital under statute	(4,875)			(4,875)	4,875	-
Gain or loss on the disposal of non-current assets	(399)	(416)		(815)	815	-
Unrealised Gain on Investments	106			106	(106)	-
Inclusion of items not included in the CI&ES						-
Statutory provision for the financing of capital investment						-
Capital expenditure charged to the general fund	15,026			15,026	(15,026)	-
Adjustments involving the capital receipts reserve						-
Asset sale proceeds credited to the CI&ES	1,046	(1,074)		(28)	28	-
Use of capital receipts to fund new capital spending		16,806		16,806	(16,806)	-
Capital receipts used to fund sale costs						-
Transfers to the housing capital receipts pool	(2)	2				-
Transfers from deferred capital receipts on receipt of cash		(2)		(2)	2	-
Adjustments involving the capital grants unapplied account						-
Reversal of unapplied capital grants and contributions credited to the CI&ES	6,896		(6,896)			-
CIL grant	9,338		(9,338)			-
Grants applied to capital financing			14,322	14,322	(14,322)	-
Adjustments involving the deferred capital receipts reserve						-
Deferred asset sale proceeds credited to the CI&ES						-
Adjustments involving the financial instruments adjustment account						-
Difference between financing costs charged under statutory and accounting requirements						-
Adjustments involving the pension reserve						-
Reversal of post-employment benefits charged to the CI&ES	(12,234)			(12,234)	12,234	-
Employer's pension contributions paid in the year	3,880			3,880	(3,880)	-
Actuarial gains or losses						-
Adjustments involving the collection fund adjustment account						-
Adjustment for Council Tax collection fund income	(98)			(98)	98	-
Adjustment for Non-domestic rates collection fund income	674			674	(674)	-
Adjustments involving the unequal back-pay adjustment account						-
Difference between costs charged under statutory requirements and those actually charged to the CI&ES						-
Adjustments involving the accumulating compensated absences adjustment						-
Difference between costs charged under statutory requirements and those actually charged to the CI&ES	(15)			(15)	15	-
Total adjustments	9,282	15,316	(1,912)	22,686	(22,686)	-

10 A detailed assessment of our earmarked reserves

The following table shows details of movements in these reserves.

Earmarked Reserves	Pensions £ 000	Insurance reserve £ 000	Future replacement of assets £ 000	Digital Strategy £ 000	Contingency £ 000	Chelmsford Development £ 000	NNDR reserve £ 000	Other reserves £ 000	Total earmarked reserves £ 000
Balance at 1 April 2017	3,474	877	3,873	-	2,386	6,577	-	673	17,860
Transfers in	1,369	292	1,738	652	1,129	2,498	37	591	8,306
Transfers out	(4,705)	(228)	(2,617)	-	(175)	(297)	-	(229)	(8,251)
Balance at 31 March 2018	138	941	2,994	652	3,340	8,778	37	1,035	17,915
Transfers in	1,399	202	1,744	-	327	2,979	-	40	6,691
Transfers out	(374)	(334)	(4,738)	(576)	(175)	(11,757)	-	(357)	(18,311)
Balance at 31 March 2019	1,163	809	-	76	3,492	-	37	718	6,295

a **Pensions**
This reserve was set up to deal with the future effects of costs arising from early retirements and deficits on the pension fund.

b **Insurance reserve**
We use this reserve to cover the cost of policy excesses mainly related to fire and liability policies and self-insurance.

c **Future replacement of assets**
This reserve was set up to finance the replacement of our long-term assets.

d **Digital Strategy**
A Reserve has been established to support the Digital Strategy, which aims to improve the efficiency and ease by which the public can interact with the Council

e **Contingency reserve**
To meet any unexpected costs including shortfalls on interest income and Business Rate Retention.

f **Chelmsford Development Fund**
A fund to meet the cost of future investments in the area.

g **NNDR reserve**
To manage timing differences from payments and income from Business Rate Retention scheme.

11 Other operating expenditure

2017/18			Other operating expenditure	2018/19		
Gross spending £ 000	Income £ 000	Net spending £ 000		Gross spending £ 000	Income £ 000	Net spending £ 000
2,391	-	2,391	Parish council precepts	2,461	-	2,461
3,291	(3,170)	121	(Gains) or losses on trading operations (note 25)	3,456	(3,214)	242
-	(13,841)	(13,841)	(Gain) or losses on disposal of non-current assets	399	-	399
-	(1,250)	(1,250)	(Gain) or losses on disposal of unattached assets	-	(1,046)	(1,046)
1	-	1	Payments to the Housing capital receipts pool	2	-	2
5,683	(18,261)	(12,578)		6,318	(4,260)	2,058

12 Financing and investments

2017/18			Financing and investments	Notes	2018/19		
Gross spending £ 000	Income £ 000	Net spending £ 000			Gross spending £ 000	Income £ 000	Net spending £ 000
-	(707)	(707)	Interest and investment income	16	-	(820)	(820)
19	-	19	Interest we have to pay	16	26	-	26
-	-	-	Other investment income or loss		1	(103)	(102)
3,148	-	3,148	Pension interest and remeasurement of the liabilities of the pension fund	33	2,634	-	2,634
-	(549)	(549)	Revaluation of investment properties		2,591	-	2,591
352	(4,681)	(4,329)	Investment properties	25	264	(4,669)	(4,405)
3,519	(5,937)	(2,418)			5,516	(5,592)	(76)

13 Taxation and non-specific grants

2017/18			Taxation & general grants	2018/19		
Gross spending £ 000	Income £ 000	Net spending £ 000		Gross spending £ 000	Income £ 000	Net spending £ 000
-	(387)	(387)	Revenue support grant	-	-	-
-	(30,608)	(30,608)	National non-domestic rates	-	(31,305)	(31,305)
27,360	(1,702)	25,658	Government tariff, s31 grant, levy and safety net on non-domestic rates	26,461	(1,956)	24,505
-	(14,289)	(14,289)	Demand on the collection fund	-	(14,886)	(14,886)
-	(13,298)	(13,298)	Capital grants, New homes bonus, contributions to/from the Business rates pool and other grants and contributions	789	(21,200)	(20,411)
27,360	(60,284)	(32,924)		27,250	(69,347)	(42,097)

14 Movements on our assets

Independent external valuers are used to revalue our properties and we will review a proportion of our assets every year. The majority of valuations for 2018/19 were undertaken by Wilkes Head and Eve on 30^{th} November 2018.

All valuations are in line with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. The valuer did not inspect all our properties, as this was not possible or necessary.

Our Property Services Manager (Mr. J Reidy FRICS) reviews our property assets every year. We only change these valuations if we think there is a big change in the asset's value.

At the 31st March it was identified that a number of assets valued in previous years using the Depreciated Replacement Cost method were likely to have increased in value. Rather than undertaking a full new revaluation, the previous valuation has been increased using a building cost index.

Accounting policies

Assets held for sale

Any asset the Council thinks it can sell in its existing condition, is actively trying to sell, and will sell should be classified as 'held for sale'. We will record it as a surplus asset if that sale is likely to take longer than 12 months and it is no longer being used to deliver services, otherwise we will record it as a current asset – asset held for sale.

We revalue assets that we transferred into 'held for sale' before reclassifying them, based on their current use. If this amount is lower than the sale proceeds we expect, we revalue the asset again to a lower sale price. We charge this cost to Other Operating Expenditure in the Surplus or Deficit on the Provision of Services. It is reversed out before affecting council tax.

We do not charge depreciation on assets held for sale.

Once an asset is sold, we charge any gain or loss over the amount the Council has recorded in its accounts to the Surplus or Deficit on the Provision of Services. It is reversed out before affecting council tax.

Charges to revenue for assets

We charge service revenue accounts, central support services and trading undertakings for all the fixed assets they use to provide their services. There are depreciation charges that cover the estimated loss in value over time of physical assets that each service has used which are spread on a straight-line basis over the asset's life.

Intangible assets

An intangible asset is created when we make a payment for something that we expect to benefit from for more than one year, but no physical asset is created (for example, computer software licences).

The asset is recorded at cost in the Council's accounts and is amortised (depreciated) annually based on its estimated life. The assets are reviewed for impairment annually and if found to be less productive, we charge losses to the service using it. The cost is reversed out before affecting council tax.

The useful lives of our intangible assets are finite; we normally expect to use them up over 3-10 years, depending on the type of software. Our main IT systems are expected to last up to 10 years from new. Other systems, such as website software, have shorter lives.

We charge the intangible asset amortisation to Digital Services, and then recharge them across all service headings, so we do not show this charge in one place in the accounts.

All our intangible assets have been bought and we only capitalise internal costs associated with the implementation of computer systems we have purchased. We have not made any intangible assets. There have been no impairments or revaluations.

Investment properties

Investment properties are those we use solely to earn rentals or hold in the expectation that they will increase in value. The property cannot be used to deliver Council services.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

We credit rental income from the properties to the Financing and investment income line in the accounts. We add any revaluation gains to the Financing and investment income and expenditure line in the Comprehensive income and expenditure statement but reverse them out before they affect council tax.

Property, plant and equipment

Physical assets are used in providing Council services. They must provide benefit for more than one financial year.

Spending on capital assets is recorded in our accounts when the work has been done, or when the asset has been delivered to us, rather than when we actually pay for it.

Different types of asset are valued as follows:

•Vehicles and equipment such as lorries, computers or lawnmowers are valued at cost of buying them.
•Community assets such as parks are valued at cost, unless the external valuers identify a more appropriate value.
•Other assets such as land and buildings are valued at price that would be paid for the asset in its existing use. Where there is no market-based evidence because the asset is so specialist they valued at depreciated replacement cost.
•Assets Held for Sale, when it becomes highly likely that an asset will be sold then the asset is revalued immediately before reclassification and then carried at the lower of this amount and its fair value less costs to sell.
•Surplus assets are those not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale. The fair value of surplus assets is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Around one third of our assets are revalued every year until the end of three years when we will have revalued all our land and buildings. However, if there is evidence of a big change in an asset's value in any year, we will revalue that asset immediately.

Increases in revaluations result in the property, plant and equipment values rising and a credit being made to the Revaluation reserve to recognise the unrealised gain. The unrealised gain means the asset is now worth more but we have not sold it and realised that gain. Sometimes, if the asset had previously suffered a loss, the gain on revaluation will be credited to the Comprehensive income and expenditure statement, but the effect will be removed before it affects council tax.

We charge decreases in valuations as follows:
•If there is a balance on the Revaluation reserve from previous gains, we charge decreases against those gains.
•If there is no balance on the Revaluation reserve or if it is insufficient, we charge the shortfall to the Comprehensive income and expenditure statement. This is reversed out before it affects council tax.

Sometimes an asset falls in value because part of it has broken or worn out (impairment), for example if a roof starts to leak and needs to be replaced. The Council reviews its assets annually for these impairments. When an impairment occurs, we charge it as follows:

•When there is a balance in the Revaluation reserve, the impairment will be charged there.
•Where there is no balance on the Revaluation reserve, we make a charge to the service that uses the asset. This is reversed out before it affects council tax.

When we are deciding whether to reduce the value of our assets, we use the following rules:

We reduce the value of most of our assets steadily throughout their useful lives from the time they are ready for use (depreciation). The exceptions to this are community assets, freehold investment properties and other assets held for sale (but only from the date we have decided to sell them).

If the Council still owns equipment and intangible assets where they are fully depreciated, we take a decision to revalue them only if their value is over £10,000. Otherwise the asset is written out of the Balance sheet on disposal.

The useful lives we have decided on for our assets are estimates and depend on the type of asset. We have set out below the shortest and longest time we expect each type of asset to be valuable:

•Buildings	*10-55 years*
•Vehicles and equipment	*3-25 years*
•Intangible assets	*2-10 years*

We decide each year whether the useful lives figures are still appropriate.

Any gain in the value of the asset recorded in the Revaluation reserve is reduced every year as the asset depreciates. This reflects the change in value as an asset wears out, or becomes less useful. It is generally the cost to buy the asset minus any money we expect to gain from selling the asset, divided by the number of years the asset will be useful. We show the falling value of assets through a charge to the Capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS)	Other land and buildings £ 000	Vehicles and equipment £ 000	Infra-structure £ 000	Community assets £ 000	Assets being built £ 000	Surplus assets £ 000	Total £ 000
Net book value on 1 April 2017 (after depreciation)	137,112	7,682	-	4,845	1,766	1,422	152,827
Total book value on 1 April 2017	137,722	16,703	-	4,845	1,766	1,423	162,459
Assets we have transferred	601	58			(888)	2	(227)
Assets we have bought or improved	319	700		20	10,508		11,547
Assets that were donated							-
Adjustment to accruals for assets we bought	6						6
Assets we have sold	(792)	(217)					(1,009)
Assets no longer required		(1,920)					(1,920)
Assets we have impaired							-
Assets revalued	425						425
Total book value on 31 March 2018	138,281	15,324	-	4,865	11,386	1,425	171,281
Depreciation and impairment on 1 April 2017	610	9,021	-	-	-	1	9,632
Assets we have transferred	(7)	5					(2)
Revaluation adjustment	9						9
Amounts written out on assets we have sold	(7)	(2,104)					(2,111)
Impairments recognised in the cost of provision of services							-
Impairments recognised in the revaluation reserve	3,725						3,725
Depreciation written out	(1,295)						(1,295)
Depreciation for the year	2,025	1,671				5	3,701
Depreciation on 31 March 2018	5,060	8,593	-	-	-	6	13,659
Net book value on 31 March 2018 (after depreciation)	133,221	6,731	-	4,865	11,386	1,419	157,622

PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT ASSETS)	Other land and buildings £ 000	Vehicles and equipment £ 000	Infra-structure £ 000	Community assets £ 000	Assets being built £ 000	Surplus assets £ 000	Total £ 000
Net book value on 1 April 2018 (after depreciation)	133,221	6,731	-	4,865	11,386	1,419	157,622
Total book value on 1 April 2018	138,281	15,324	-	4,865	11,386	1,425	171,281
Assets we have transferred	2,985	5		18	(6,506)	3,538	40
Assets we have bought or improved	1,136	2,676		15	29,439	593	33,859
Assets that were donated							
Adjustment to accruals for assets we bought							
Assets we have sold or disposed of	(589)	(26)					(615)
Assets no longer required		(757)					(757)
Assets we have impaired							-
Assets revalued	(6,793)			12		15	(6,766)
Total book value on 31 March 2019	135,020	17,222	-	4,910	34,319	5,571	197,042
Depreciation on 1 April 2018	5,060	8,593	-	-	-	6	13,659
Assets we have transferred							-
Revaluation adjustment							-
Amounts written out on assets we have disposed of	(204)	(739)					(943)
Impairments recognised in the cost of provision of services	1,880						1,880
Impairments recognised in the revaluation reserve	5,745						5,745
Impairments written out	(3,539)						(3,539)
Depreciation written out	(2,491)					(3)	(2,494)
Depreciation for the year	3,344	1,573				4	4,921
Depreciation on 31 March 2019	9,795	9,427	-	-	-	7	19,229
Net book value on 31 March 2019 (after depreciation)	125,225	7,795	-	4,910	34,319	5,564	177,813

FAIR VALUE OF PROPERTY, PLANT AND EQUIPMENT	Other land and buildings £ 000	Vehicles and equipment £ 000	Infra-structure £ 000	Community assets £ 000	Assets being built £ 000	Surplus £ 000	Total £ 000
Historic cost	14,241	17,222		4,460	34,319	4,131	74,373
Carrying fair value at:							
31 March 2019 (valuation date 30/11/2018 & 31/03/2019)	92,047			436		81	92,564
31 March 2018 (valuation date 31/12/2017 & 31/03/2018)	6,326						6,326
31 March 2017 (valuation date 31/12/2016)	22,139			13		1,359	23,511
31 March 2016 (valuation date 31/12/2015)	9						9
31 March 2015 (valuation date 31/03/2015)	258			1			259
Total	135,020	17,222	-	4,910	34,319	5,571	197,042

The Council has impaired the Riverside swimming pool in 2018/19 as a result of the redevelopment of Riverside Ice and Leisure centre.

INVESTMENT PROPERTIES (NON-CURRENT ASSETS)	2017/18			2018/19		
	Assets being built £ 000	Assets £ 000	Total £ 000	Assets being built £ 000	Assets £ 000	Total £ 000
Balance on 1 April	40	69,250	69,290	40	73,218	73,258
Additions						
Properties we bought		3,928	3,928		8,763	8,763
Properties we built						
Properties we improved					316	316
Disposals		(734)	(734)		(382)	(382)
Net gain or (loss) from fair value adjustments		549	549		(2,591)	(2,591)
Transfers (to) or from						
Stocks						
Property, plant and equipment		225	225	(40)		(40)
Other changes						
Balance on 31 March	40	73,218	73,258	-	79,324	79,324

The operating costs and income from our investment properties can be found in note 25 of the notes to the main financial statements.

Recurring fair value measurements using:	Quoted prices in active market for identical assets (Level 1) £ 000	Other significant observable inputs (Level 2) £ 000	Significant unobservable inputs (Level 3) £ 000	Fair value as at 31 March 2019 £ 000
Commercial Site		19,123		19,123
Development site		8,071		8,071
Pending Sale				
Residential (market rental) properties		243		243
Retail Sites		51,887		51,887
Balance on 31 March	-	79,324	-	79,324

Funding our capital expenditure

We do not need to borrow to fund our capital spending, and we own all the assets in the Balance sheet.

We incurred the following amounts of capital expenditure in the year. We have shown these, together with a statement of the resources used to finance the expenditure below. A balance on the capital financing requirement means we have borrowed funds internally or externally to finance our capital expenditure. The table shows a zero balance so the council is debt free.

CAPITAL EXPENDITURE AND CAPITAL FINANCING	2017/18	2018/19
	£ 000	£ 000
Opening capital finance requirement at 1 April	177	-
Expenditure on		
Property plant and equipment	11,547	30,362
Investment properties	3,926	12,576
Heritage assets	-	29
Intangible assets	24	49
Revenue expenditure funded from capital under statute and Renovation Loans	2,409	4,879
Less sources of finance		
Capital receipts	(13,633)	(16,805)
Government grants and other contributions	(3,839)	(16,064)
Revenue funding	(435)	(15,026)
Minimum revenue provision	(176)	
Capital financing requirement at 31 March	-	-

15 Heritage assets

Accounting Policies

Heritage assets

Heritage assets are items the Council owns that have historic importance. These may be on display in the Council's museums or in safe storage. The Council has, since 2011/12, been required to include valuations of its heritage assets in its accounts.

The Council reviews its Heritage assets every year as part of its insurance valuation process. Details on the methods used are shown below.

The Council records its heritage assets under the following headings:

1. *Archaeology and Numismatics*
2. *Pottery, drinking glasses and pewter*
3. *Works of art*
4. *Natural History taxidermy, botanical and geological specimens*
5. *Social, agricultural and industrial history, including costume*
6. *Statues*
7. *Mayor's office*
8. *Small-value items*

Valuations have been made using a range of methods; external valuers, in house experts, indexation and average valuations for groups of items.

The Council adds to its collection regularly. However, these are not expensive or numerous purchases of heritage assets. We occasionally receive donated items, usually for Hylands House, and these will be recorded at valuation on their acceptance by the Council. Hylands House is not a heritage asset as it is used as a venue for weddings and corporate meetings, for which the Council charges fees.

We revalue any heritage assets that suffer damage. We do not normally dispose of, or sell heritage assets.

The collections of the Essex Regiment Museum are owned by separate Trustees, under a 25-year management agreement with the Council signed in March 1999. It stipulates that the Council will insure the regimental collections in the same way as it insures its own Chelmsford Museum collections. However, we do not include regimental collections in our Balance sheet valuations.

Heritage intangible assets

These are like heritage assets but there is no physical substance. An example would be a recording of an historical event. We do not have any heritage intangible assets of significant financial value.

Heritage Valuers

We have used the following external valuers to value our heritage assets.

- *David S. Moulson, MBE, BSc (pewter valuations)*
- *Sotheby's the auction house, Seabys (international coin sellers) and J & S Rogers (silversmiths)*
- *Robert Dalgety*

Heritage assets by category

Heritage Assets	Archaeology and Numismatics £ 000	Natural History taxidermy, botanical and geological specimens £ 000	Pottery, drinking glasses and pewter £ 000	Social, agricultural & industrial history, including costume £ 000	Statues £ 000	Mayor's Office £ 000	Works of Art £ 000	Total £ 000
1st April 2017	212	219	465	1,054	467	139	1,034	3,590
Additions								-
Disposals								-
Revaluations	8	8	16	37	16	5	36	126
Impairments -Losses/reversals in revaluation reserve								-
Impairments -Losses/reversals in Surplus or Deficit on the provision of services								-
Depreciation								-
31 March 2018	220	227	481	1,091	483	144	1,070	3,716
Additions				29				29
Disposals								-
Revaluations	9	8	17	63	17	5	37	156
Impairments -Losses/reversals in revaluation reserve								-
Impairments -Losses/reversals in Surplus or Deficit on the provision of services								-
Depreciation								-
31 March 2019	229	235	498	1,183	500	149	1,107	3,901

Commentary on movements

The movement on heritage assets reflects the fact that the Toastrack Carriage held at the Museum was refurbished and added in to Heritage Assets in 2018/19. The revaluations reflect the obtaining of new valuations for the Coade stone font and indexing all assets in line with insurance estimates.

Overview of our collection

Heritage assets owned by Chelmsford City Council are held by the Museums Service. Most are displayed at the Chelmsford Museum in Oaklands Park, or stored in a warehouse at South Woodham Ferrers.

The industrial and agricultural collections are held at Sandford Mill where they are displayed or stored.

Some works of art and other items are displayed at Hylands House.

Mayoral regalia and mayoral gifts are held at the Civic Centre.

Chelmsford Museum is accredited with the Arts Council England Scheme (Number 579), which recognises minimum required standards for collections, care, visitor services and constitutional arrangements.

The Museum collection is added to from time to time, mainly through donation of objects by members of the public, but also by some purchase of objects. An Acquisition & Disposals Policy sets out the different strengths of the collection, current collecting themes, and criteria for collecting (broadly, items made or used in the City of Chelmsford). No material purchases or disposals have occurred in the last two years.

16 Categories of financial assets and liabilities

Accounting policy

We record our investments and borrowings in the following ways:

- *Most of our investments are deposits with banks, building societies or other UK local authorities. These assets generate payments solely of principal and interest. We must show their value on the balance sheet, including interest yet to be paid to the Council. Any interest received or due at the balance sheet date is shown in the Comprehensive income and expenditure statement. These types of investment are measured at amortised cost in accordance with IFRS9.*
- *We also invest some money in Pooled Investment Funds. Payments from these funds are not solely principal and interest as they are equity instruments with the Council earning dividends and redeeming shares at current market rates. The Council accounts for these as Fair Value through Profit and Loss (FVPL) in accordance with IFRS9.*
- *The income from the "FVPL" investments is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable.*
- *If the value of an FVPL asset changes from the price that it was originally invested at then the balance sheet shows the investment at its valuation at the balance sheet date. The difference between these values, being an unrealised gain or loss is charged to revenue and reversed out to the Pooled Funds Adjustment Account before it has impact on Council Tax. The cumulative gain or loss held in the Pooled Funds Adjustment Account is charged to Comprehensive Income and Expenditure Statement when the investment is sold.*
- *All our borrowing is shown on the balance sheet, including any interest owed by the Council. Interest payable for the accounting period is charged to the Comprehensive income and expenditure statement.*
- *If we make loans at below-market rates of interest, or with no interest at all, we show the outstanding balance on the loan as less than the amount that will actually be repaid. This reduction is the loss we are effectively making, as we are charging an interest rate on the loan that is less than the current open-market interest rate. We charge the loss in the loan's value to the Comprehensive income and expenditure statement, but we then take it out again and charge it to the Financial instruments adjustment account, so that there is no charge to council tax payers.*

<u>Impairment provisions for financial assets</u>

Investments

We calculate a provision for 12 month expected credit losses on all our financial assets held at amortised cost, excluding investments in the UK Government and other local authorities. The provision is calculated based on historic average losses by credit rating, the security of any collateral and a market adjustment for current conditions. This provision was calculated at £1,793 for 2018/19 so has not been presented in the accounts as it is not material.

Should the risk of loss increase significantly for a specific asset or category of assets then the provision will be increased to represent lifetime credit losses. This provision is charged to the Comprehensive income and expenditure statement and reduces the carrying value of the financial assets on the balance sheet.

Loss provisions are not required for assets held at Fair Value through Profit and Loss (FVPL) because current market prices, as recorded in the accounts, reflect market expectations of credit risk.

Trade receivables, lease receivables and contract assets

Impairment provisions for trade receivables, lease receivables and contract assets follow the simplified method as set out in the CIPFA code, where lifetime expected credit losses are provided for. For trade receivables we make specific allowances for known assets facing increased credit risk and then makes further provision for receivables on a collective basis using historical patterns experienced by the authority.

The tables below show the categorisation of our financial assets and liabilities:

2017/18			SHORT-TERM	2018/19		
Investments £ 000	Cash & cash equivalents £ 000	Receivables & payables £ 000		Investments £ 000	Cash & cash equivalents £ 000	Receivables & payables £ 000
			Financial assets			
	18,619		Fair value through profit or loss		15,136	
35,662	6,926	14,314	Amortised cost	10,611	8,529	17,368
			Fair value through other comprehensive income - designated equity instruments			
			Fair value through other comprehensive income - other			
35,662	25,545	14,314	**Total financial assets**	10,611	23,665	17,368
			Non-financial assets			
35,662	25,545	14,314	**Total assets**	10,611	23,665	17,368
			Financial liabilities			
			Fair value through profit or loss			
	(820)	(6,202)	Amortised cost		(1,119)	(10,036)
-	(820)	(6,202)	**Total financial liabilities**	-	(1,119)	(10,036)
			Non-financial liabilities			
-	(820)	(6,202)	Total liabilities	-	(1,119)	(10,036)

2017/18		LONG-TERM	2018/19	
Investments £ 000	Receivables & payables £ 000		Investments £ 000	Receivables & payables £ 000
		Financial assets		
6,620		Fair value through profit or loss	6,722	
8,005	3,979	Amortised cost	8,008	4,202
		Fair value through other comprehensive income -		
		Fair value through other comprehensive income - other		
14,625	3,979	**Total financial assets**	14,730	4,202
		Non-financial assets		
14,625	3,979	**Total assets**	14,730	4,202
		Financial liabilities		
		Fair value through profit or loss		
	(1,936)	Amortised cost		(1,530)
-	(1,936)	**Total financial liabilities**	-	(1,530)
		Non-financial liabilities		
-	(1,936)	**Total liabilities**	-	(1,530)

The table below sets out income, expenses, gains and losses in the year

2017/18			2018/19	
Surplus or Deficit on the Provision of Services £ 000	Other Comprehensive Income and Expenditure £ 000	**INCOME, EXPENSE, GAINS AND LOSSES**	Surplus or Deficit on the Provision of Services £ 000	Other Comprehensive Income and Expenditure £ 000
		Net gains/Losses on:		
	(335)	Financial assets measured at fair value through profit or loss	(102)	
		Financial assets measured at amortised cost		(3)
		Investment in equity instruments designated at fair value through other comprehensive income		
		Financial assets measured at fair value through other comprehensive income		
		Financial liabilities measured at fair value through profit or loss		
		Financial liabilities measured at amortised cost		
-	(335)	**Total Net gain/losses**	(102)	(3)
		Interest & Investment revenue:		
(318)		Interest income from financial assets measured at amortised cost	(411)	
		Other financial assets measured at fair value through other comprehensive income		
(389)		Dividend income from assets measured at fair value through profit and loss	(409)	
(707)	-	**Total interest & Investment revenue**	(820)	-
19		**Interest expense**	26	
		Fee income		
		Financial assets or financial liabilities that are not at fair value through profit or loss		
		Trust and other fiduciary activities		
-	-	**Total fee income**	-	-
		Fee expense		
		Financial assets or financial liabilities that are not at		
		Trust and other fiduciary activities		
-	-	**Total fee expense**	-	-

The changes in the loss allowance for investments and trade receivables is set out in the table below. There have been no impairments or significant increases in risk for financial assets during the year.

	Investments				Debtors	
	12-month expected credit losses	Lifetime expected credit losses – not credit impaired	Lifetime expected credit losses – credit impaired	Purchased or originated credit impaired financial	Lifetime expected credit losses – simplified	Total
Opening balance as at 1 April 2017	-	-	-	-	385	385
Transfers:						
Individual financial assets transferred to 12-month expected credit losses						-
Individual financial assets transferred to lifetime expected credit losses						-
Individual financial assets transferred to lifetime expected credit losses credit impaired						-
New financial assets originated or purchased						-
Amounts written off					(354)	(354)
Financial assets that have been derecognised						-
Changes in model/risk parameters						-
Adjustment to loss allowance					517	517
As at 31 March 2018	-	-	-	-	548	548
Opening balance as at 1 April 2018	-	-	-	-	548	548
Transfers:						
Individual financial assets transferred to 12-month expected credit losses						-
Individual financial assets transferred to lifetime expected credit losses						-
Individual financial assets transferred to lifetime expected credit losses credit impaired						-
New financial assets originated or purchased						-
Amounts written off					(311)	(311)
Financial assets that have been derecognised						-
Changes in model/risk parameters						-
Adjustment to loss allowance					419	419
As at 31 March 2019	-	-	-	-	656	656

Fair value

The fair value is calculated by comparing investments made during the year to the interest rates available on 31 March 2019 for new investments that would end at the same time. The difference in value is because different market interest rates than would be available at the year-end date.

The table below sets out this difference between the reporting value and the fair value of the council's assets:

Fair Value	31 March 2018		31 March 2019	
	Reporting Value £ 000	Fair value £ 000	Reporting Value £ 000	Fair value £ 000
Financial assets				
Investments and cash	75,569	75,414	48,968	48,969
Cash	59	59	37	37
Leasing debtor				
Long-term receivables	3,977	3,977	4,202	4,202
Financial liabilities				
Cash	(820)	(820)	(1,119)	(1,119)
Borrowing				

The following table provides a breakdown of the valuation technique for our financial assets measured at fair value through profit and loss.

We disposed of the investment in the Royal London Fund during the financial year.

Money Market Funds have been excluded because there are regular changes in invested sums and due to MMF regulations the actual fair value price would always be £1 unless a fund was impaired.

Financial assets measured at fair value				
Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique to measure fair value	31st March 2018	31st March 2019
Local Authority Property Fund	Level 1	Unit Prices	6,620	6,723
Royal London Fund	Level 1	Unit Prices	4,997	
Total			11,617	6,723

The risks we face when we invest in financial instruments, and how to reduce those risks

The Council has money that it is not planning to spend straightaway, so it is invested to earn interest. When we invest millions of pounds, we must consider what could go wrong and how to avoid or minimise these dangers or risks. There are three main types of risk: credit risk, liquidity risk and market risk. This section explains what these risks are and how we manage them to try to avoid them or reduce the effect when things go wrong.

Our risk-management process looks at the unpredictability of financial markets and tries to minimise any adverse effects on the resources available to pay for services.

Credit risk: Treasury Investments

This is the danger that once we have invested money with another organisation they fail to pay interest or repay the original investment.

We will only invest in certain types of investment and place limits in the total we will invest with any one counter party or group. We estimate how safe an investment is depending on how likely it is that the organisation will be able to repay the money. How we measure this depends on the type of organisation but this includes credit ratings, CDS swap information and advice from the Council's treasury advisors.

We present reports to Council meetings at the beginning of every year and half way through it to agree who we can lend money to. The type of investment we choose can help to reduce the risk of failure. The table below gives the types and the maximum amounts that can be invested, as set out in the Council's Treasury Management Strategy (limits approved at February 2019 Full Council meeting).

The table below summarises the credit risk exposures of the Council's treasury investment portfolio by credit rating and remaining time to maturity:

2017/18		Credit Rating	2018/19	
Short term	Long term		Short term	Long term
£000's	£000's		£000's	£000's
2	3,005	AAA		3,011
		AA+		
		AA		
6,004		AA-	3,004	
		A+		
3,024		A	1	
		A-	486	
816		BBB+		
32,601	5,000	Unrated local authorities	15,552	5,055
		Unrated Building Societies		
		Unrated Housing Associations		
18,702	6,620	Credit Risk not applicable	15,136	6,723
61,148	14,625	Total	34,179	14,789

The table below details the counterparties approved in the Council's Treasury Management Strategy for 2018/19:

Investments	Minimum Credit Criteria	Max. Limit £m	Max. maturity period
NatWest /Royal Bank of Scotland.	BBB	£3m	Instant Access
Enhanced Money Market Funds (Variable Unit Price) Up to 5 funds	AAA	£6m each fund	2-5 day notice
CCLA Local Authority Property Fund	Unrated	£8m	n/a
Debt Management Agency Deposit Facility, Government Bills or Gilts	UK Government	No Limit	5 years
Local Authorities / Bank Deposits Collateralised (guaranteed against local authority loans)	UK Government	No Limit	5 years
UK Banks	A-	£3m each group	364 days
Building Societies	A-	£3m	364 days
Money Market Funds (per fund)	AAA	£6m each fund	Instant access
Non-UK Banks	AA-	£3m each	364 days
Non-UK Banks	A-	£3m each	100 days
Registered Social Landlord Loans (these deposits would be guaranteed on RSL assets or similar)	A-	£3m each	364 days
Covered Bonds (per bond)	AA-	£6m	3 years
Reverse Repurchase Agreements	AA-	£6m	364 days
Supranational Bonds (per institution)	AAA	£6m	3 years
Challenger Banks e.g. Aldermore, Metro etc	Unrated	Delegate to Treasury Mgt committee authority to determine criteria to invest up to £3m	
Mixed asset or bond funds or a second property fund	AA-	New addition to strategy - any new investment activity will be authorised by Cabinet	

The Council calculates expected credit losses with reference to historic default data, credit ratings and any collateral protecting an investment. 12 month expected credit losses are not material for the Council's investment portfolio. Losses will be allowed for against an investment that suffers a significant increase in credit risk, but none have been experienced in the year ending 31/03/2019.

Credit risk: trade receivables

Debtors are our customers for services which are not included in Council Tax and non-domestic rates payments. In the past, some customers have failed to pay us money they owe us, so credit risk applies to them. The level of past default is based on our provision for bad debts from our customers over the last three years. We have adjusted this to reflect the number of customers we think are unlikely to pay their debt. The nature of these debts varies, and this determines how we control and collect them. The debts are monitored so that at set trigger points, such as the age of the debt, or size of debt, we take specific action. Sometimes we have to accept that it would cost more to recover money than to lose it. However, because we are a public service we sometimes have to provide services even if the risk of the customer being unable to pay is higher than private companies would accept.

The age of our debt is shown in the following table (this does not include debts for council tax and NDR).

2017/18 £ 000	Age of debt	2018/19 £ 000
9,972	Less than three months	12,039
783	Three to six months	712
709	Six months to a year	1,268
2,850	More than a year	3,349
14,314		17,368

We monitor repayment of all debts rigorously.

Liquidity risk

This is the risk that we do not have enough cash in our bank accounts to pay our bills or staff. We control this risk by prioritising access to liquid cash in our investment strategy. In the event of unexpected shortages due to unforeseen expenses or failure of borrowers to repay us promptly, we have access to borrowing from other local authorities and the money markets. We have no long-term borrowings.

The table below shows the expected maturity profile for our financial assets:

2017/18 £ 000	Financial assets returned to the Council	2018/19 £ 000
41,110	Less than three months, including cash	34,238
10,029	Three to six months	-
10,009	Six months to a year	-
14,625	More than a year	14,730
75,773		48,968

Market risk: interest rates

This is the possibility that the value and amount of income we receive from our investments will fall because of changes in interest rates or market prices. The Council plans its investment to invest more at fixed rates when interest rates are falling and more at variable rates when interest rates are rising.

As a significant proportion of our investments are in bank and local authority deposits, their value does not change in our accounts. We must note in our accounts the effect, if there had been one, of a 1% change in interest rates on our variable investments in 2018/19. The effect of a 1% increase in interest rates would have resulted in an extra income of £314,000 (or £157,000 just on variable rate investments). If interest rates had fallen by 1%, the loss of interest would have been the same amount.

The table below sets out the impact on our accounts of a 1% rise in interest rates; covering both the interest gain and the impact on the value of our pooled funds.

2017/18 £ 000	Impact of 1% change in interest rates	2018/19 £ 000
217	Increase in interest receivable on variable rate investments	157
(47)	Decrease in fair value of investments held at fair value through profit and loss	(20)
170	Impact on comprehensive income and expenditure	138
(200)	Decrease in the fair value of investments held at amortised cost	(80)
(200)	Impact on other comprehensive income and expenditure	(80)

Market risk: price risk

A proportion of our investments are in pooled funds and so their value is determined by market prices at the reporting date. The Council's investment in money market funds are not materially exposed to price risk due to the controls on volatility in these funds.

However, the Council's CCLA property fund investment is subject to price changes arising from a change in the value of commercial property, although any losses would be unrealised unless the Council elected to sell the asset.

A 5% fall in commercial property prices at 31st March 2019 would result in a £336k (2018: £318k) charge to the Comprehensive income and expenditure statement, which would be reversed out unless the asset was sold.

The original CCLA investment of £5m means that an unrealised gain is currently held of £1.7m which helps protect capital values against future losses.

Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The changes the way we classify and measure our financial assets. The transitional provisions in IFRS 9 do not require us to restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the balance sheet are shown below:

	IAS 39 31/03/2018	Reclassification	Remeaurement	Impairment	IFRS 9 01/04/2018
Financial Assets					
Loans & Receivables / Amortised Cost	40,662	3,005	2		43,670
Available for sale / Fair Value through other comprehensive income	9,625	(9,625)	(2)		(2)
Fair Value through profit and loss		6,620			6,620
Total Investments	50,287	-	-	-	50,287
Cash and cash equivalents					-
Loans & Receivables / Amortised Cost	6,926				6,926
Available for sale / Fair Value through other comprehensive income	18,620	(18,620)			
Fair Value through profit and loss		18,620			18,620
Total Cash and cash equivalents	25,545	-	-	-	25,545
Debtors					-
Loans & Receivables / Amortised Cost	18,293				18,293
Available for sale / Fair Value through other comprehensive income					-
Fair Value through profit and loss					-
Total Debtors	18,293	-	-	-	18,293
Total Financial Assets	**94,126**	**-**	**-**	**-**	**94,126**
Financial Liabilities					
Cash overdrawn - amortised cost	(820)				(820)
Borrowing - amortised cost	-				-
Creditors - amortised cost	(8,138)				(8,138)
Total Financial Liabilities	**(8,958)**	**-**	**-**	**-**	**(8,958)**
Net Financial Assets	**85,168**	**-**	**-**	**-**	**85,168**

17 Major commitments under capital contracts

We were legally committed to the following scheme on the 31st March 2019;

Riverside Sports Centre Redevelopment £8.2m

18 Debtors

Accounting Policy

We reduce debtors for known uncollectable debts first, and then make a further reduction for other debts that we may not be able to collect.

2017/18 £ 000	Debtors	2018/19 £ 000
865	Government departments and NHS ***	1,573
4,004	Other local authorities ***	6,228
16,343	Other organisations and individuals	19,456
(1,901)	Debts we may not be able to collect	(1,924)
19,311		25,333

*** Balances with related parties

19 Cash and cash equivalents

Accounting Policy

Cash is represented by cash in hand and balances with banks where we can access the money within a day. Cash equivalents are investments that when made, last no longer than 100 days and where the amount we will receive is not subject to any material change in value.

2017/18 £ 000	Cash & cash equivalents	2018/19 £ 000
59	Cash held by officers	37
(820)	Bank current accounts	(1,119)
25,486	Cash equivalents (short-term deposits)	23,628
24,725		22,546

20 Creditors

2017/18 £ 000	Creditors	2018/19 £ 000
7,925	Government departments ***	7,046
5,707	Other local authorities ***	7,514
6,950	Sundry creditors	10,746
1,420	Receipts in advance	1,808
22,002		27,114

*** Balances with related parties

21 Provisions

Accounting policy

We put a certain amount of money aside to meet specific service payments we expect to make in the future, if we are not sure how much the payments will be or when we will have to pay them. The money in the provision is charged to the service when the provision is set up.

Provisions	NDR appeals £ 000
Balance at 1 April 2017	4,315
Transfers in	-
Transfers out	(506)
Balance at 31 March 2018	3,809
Transfers in	-
Transfers out	(121)
Balance at 31 March 2019	3,688
Explanation	The amount that may be repayable if appeals against NDR valuations are successful

22 Unusable reserves

The following table shows the transfers to and from these reserves. You can find an explanation of the headings at the bottom of the table.

Unusable Reserves	Revaluation reserve	Financial Instruments Adjustment account	Capital adjustment account	Deferred capital receipts	Available for sale financial instruments reserve	Collection fund adjustment account	Pension reserve (note 33)	Accumulating compensated absences adjustment account	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Balance at 1 April 2017	68,479		158,715	4	1,279	1,730	(120,409)	(430)	109,368
Change on the reserve during the year	(2,986)		11,873	(2)	335	(1,355)	15,231	(44)	23,052
Balance at 31 March 2018	65,493	-	170,588	2	1,614	375	(105,178)	(474)	132,420
Adjustment to Opening Balance		1,614			(1,614)				
Change on the reserve during the year	(6,041)	108	32,295	(2)		576	7,885	(15)	34,806
Balance at 31 March 2019	59,452	1,722	202,883	-	-	951	(97,293)	(489)	167,226
Explanation	The gains on revaluing our assets since 1 April 2007	The unrealised gains on financial instruments held at fair value through Profit and Loss, as a result of changes in market prices	Capital spending to be financed from future resources	The debt we are owed on our mortgage advances	This category no longer exists under IFRS9 compliant financial reporting	Adjusting for paid and accrued council tax and NNDR	Our liability to pay future pensions	The value of the leave that our employees have not taken at the end of the year	

Revaluation reserve

2017/18 £ 000	Revaluation Reserve	2018/19 £ 000
68,479	Opening balance	65,493
1,506	Revaluation of assets	1,624
(3,725)	Impairment losses	(5,745)
(8)	Write-out of revaluations of assets we have sold	(286)
(759)	Difference between fair value and historic cost	(1,634)
-	Depreciation and amortisation chargeable to the revaluation reserve	-
65,493	Closing Balance	59,452

We moved any revaluation gains before 1 April 2007, the date the reserve was created, to the Capital adjustment account.

Capital adjustment account

2017/18 £ 000	Capital Adjustment Account	2018/19 £ 000
158,715	Opening balance	170,588
(3,959)	Allowance for depreciation and amortisation	(7,012)
759	Less depreciation and amortisation charged to the revaluation reserve	1,634
(2,370)	Revenue expenditure funded from capital under statute	(4,875)
339	Impairments and amortisation charged to revenue	(2,200)
-	Transfer from revaluation reserve on disposals	-
176	Adjustment plus MRP split on final	-
16	Repaid Capital loan receipts	(27)
17,906	Application of receipts and contributions	47,895
(1,543)	Assets disposed of	(529)
549	Movements in the value of investment properties in the	(2,591)
-	Movements in the value of donated assets in the CI&ES	-
170,588	Closing balance	202,883

23 Cashflow

2017/18 £ 000	I&E to cash flow	2018/19 £ 000
	Revenue shortfall or (surplus)	
(371)	Movement on the General fund	408
226	Provision for bad debts	(23)
2,370	Revenue funded by capital under statute	4,875
(176)	Minimum revenue provision	
(435)	Asset replacement reserve	(15,026)
1	Housing Capital Receipts pool	1
-	Proceeds from asset disposals	(416)
(56)	GF - contribution (to)/from reserves	11,620
1,559		1,439
1,356	Our part of the collection fund	(577)
2,915		862
	Non-cash transactions	
550	Transfers to reserves	136
(2,491)	Net throughput on the collection fund	397
(1,941)		533
	Change in	
1	Stock	(12)
4,149	Debtors	6,268
58	Creditors	(5,112)
4,208		1,144
5,182	Net cash (inflow) or outflow from revenue activities	2,539

24 Expenditure and Income analysed by nature

The following table provides further analysis of our expenditure and income. We have restated some of the amounts for 2017/18. The detail for these restatements can be found in note 39.

2017/18 Restated £ 000	Expenditure and Income Analysed by Nature	2018/19 £ 000
	Expenditure	
36,332	Employee benefits expenses	38,299
25,151	Other services expenses	25,513
5,654	Depreciation, amortisation, impairment	14,087
19	Interest payments	26
2,391	Precepts and levies	2,461
1	Payments to Housing Capital Receipts Pool	2
3,148	Pension interest and return on investment	2,634
(18,525)	Remeasurement of the assets of the pension fund	(16,239)
(13,421)	Gain or loss on the disposal and revaluation of Assets	5,961
40,750	Total Expenditure	72,744
	Income	
(34,000)	Fees, charges and other services income	(34,145)
(707)	Interest and investment income	(820)
(14,289)	Income from Council Tax	(14,886)
(14,390)	Government grants and other contributions incl Business Rate income	(14,292)
(10,565)	Capital Grants and contributions	(17,976)
(73,951)	Total Income	(82,119)
(33,201)	Total expenditure and income	(9,375)

The following table shows income we received from contracts with service recipients.

2017/18 £ 000	Revenues from contracts with service recipients	2018/19 £ 000
(34,329)	Revenues from contracts with service recipients	(33,054)
262	Impairments of recievable or contract assets	234
(34,067)	Total included in Comprehensive Income and Expenditure Statement	(32,820)

25 Trading operations

We must prepare a statement that shows which of our operations work in a commercial environment and aim to cover their costs by charging other parts of the Council, other organisations or people. Any shortfall or surplus we make through trading is taken to the Comprehensive income and expenditure statement.

2017/18			Trading accounts not shown in Spending on current services	2018/19		
Gross spending £ 000	Income £ 000	Net spending £ 000		Gross spending £ 000	Income £ 000	Net spending £ 000
			Other operating expenditure			
2,768	(2,706)	62	Grounds maintenance	2,857	(2,717)	140
523	(464)	59	Vehicle maintenance	599	(497)	102
3,291	(3,170)	121		3,456	(3,214)	242
			Financing and investment			
352	(4,681)	(4,329)	Investment properties	264	(4,669)	(4,405)
352	(4,681)	(4,329)		264	(4,669)	(4,405)
3,643	(7,851)	(4,208)	**Total trading activity**	3,720	(7,883)	(4,163)

Our Grounds Maintenance trading operation provides maintenance for public open spaces and recreational grounds owned by the Council, as well as providing grounds maintenance services for external parties.

The Vehicle Maintenance trading operation maintains the Council owned waste and recycling fleet, and additionally provides MOT services and inspections for licenced taxi vehicles for external customers.

The Council owns several investments properties in its area, principally the High Chelmer and Meadows shopping centres, to generate rental income.

26 South Essex Parking Partnership (SEPP)

From 1 April 2011 we began administering SEPP on behalf of Essex County Council. SEPP covers the six councils in the south of Essex. Any surplus or deficit from the operation is ring-fenced in what it can be used for and is held separately from our own funds. Each council is entitled to one member on the managing joint committee, and all decisions are taken by majority vote. All on-street enforcement costs and income are incurred and received by Chelmsford City Council, and we maintain a separate account for each of the member authorities. Before 2011/12 each individual council incurred these costs and the income directly. The income and expenditure are shown below.

2017/18		Revenue expenditure	2018/19	
SEPP £ 000	Chelmsford £ 000		SEPP £ 000	Chelmsford £ 000
1,871	481	Expenditure	2,061	505
(2,406)	(961)	Income	(2,338)	(923)
(535)	(480)	**Net position**	(277)	(418)

27 Councillors' allowances

The table below gives details of the allowances we paid to Councillors and the Mayor during the year.

2017/18 £ 000	Councillors allowances	2018/19 £ 000
328	Basic allowance	333
168	Special responsibility allowance	160
5	Other expenses	4
15	Mayor and Deputy Mayor allowance	17
516	**Total we paid in the year**	514

You can find more information on the amounts paid on our website.

28 Employee pay

Accounting policy

Where we decide to terminate an officer's employment before their normal retirement age, or where the officer decides to accept voluntary redundancy, they may be entitled to a termination benefit. We charge these to the Comprehensive income and expenditure statement in the year that we become committed to the termination.

Under the Accounts and Audit Regulations 2015 we must show the number of our staff costing more than £50,000 a year. Cost includes salary, travel and living costs, but not the employer's pension contributions. Where appropriate, we have also included subsidies for leased cars and redundancy payments. The table below does not include chief officers' details, which are shown in the next table.

Employee pay band	Number of employees		Number who left in the year	
	2017/18	2018/19	2017/18	2018/19
£50,000–54,999	10	10	1	1
£55,000–59,999	9	9	1	-
£60,000–64,999	4	3	1	-
£65,000–69,999	2	4	1	-
£70,000–74,999	3	3	-	-
£75,000–79,999	1	3	-	-
£80,000-84,999	1	-	-	-
£85,000-89,999	1	1	1	-
£90,000-94,999	-	-	-	-
£95,000 – 99,999	-	-	-	-
£100,000 - 104,999	1	-	1	-
£105,000 – 109,999	1	-	1	-
£110,000 - 114,999	-	-	-	-
£115,000 – 119,999	-	-		-
£120,000 - 124,999	1	-	1	-

We are not allowed to give any further information that links officers' names to the employee pay band (except for that shown in the chief officers' table below).

We have included a breakdown of the cost of our chief officers below, together with their names, where their annualised, full-time total cost is above £150,000. The costs in this table include the employer's pension contributions.

Chief officers	Salary, fees and allow-ances	Bonuses	Expense allow-ances	Compen-sation for loss of employ-ment	Benefits in kind	Employer pension contri-butions ****	TOTAL
2017/18	£	£	£	£	£	£	£
Chief Executive (Mr N Eveleigh) Started 22 Feb 18	17,060				187	2,515	19,762
Chief Executive (Mr S Packham) Up to 24 Oct 17	83,898				2,881	11,265	98,044
Directors of:							
Corporate Services	122,534				2,250	18,042	142,826
Financial Services Changed position 22 Feb 18	105,767				7,035	16,163	128,965
Public Places	120,848				1,800	17,696	140,344
Community Services	116,592				7,880	18,042	142,514
Sustainable Communities	87,300				11,623	13,532	112,455

Chief officers	Salary, fees and allow-ances	Bonuses	Expense allow-ances	Compen-sation for loss of employ-ment	Benefits in kind ***	Employer pension contri-butions ****	TOTAL
2018/19	£	£	£	£	£	£	£
Chief Executive (Mr N Eveleigh)	167,704				2,343	24,712	194,759
Directors of:							
Corporate Services	124,728				2,343	18,403	145,474
Financial Services started 3/9/18	65,758				479	9,649	75,886
Public Places	122,841				1,874	18,050	142,765
Community Services (Ms A.Price) left 15/4/18	7,886			233,974	225	767	242,852
Sustainable Communities	89,046				15,043	13,802	117,891

The Director of Sustainable Communities post is part-time (75% of a full–time equivalent). The full-time cost of the post would be £152,174.

*** These amounts represent benefits that the employees receive on top of their salaries, for example contribution towards a healthcare plan and are therefore not paid to the employee.

**** These amounts are not paid to the employee. They are paid directly to the pension fund to provide a pension on retirement based on contribution rates set by the actuaries.

We terminated the employment of some of our employees as shown in the table below.

2017/18 £ 000	Termination benefits	2018/19 £ 000
	Termination benefits	
525	Redundancy costs	412
151	Additional pension costs	56
676	**Total spending**	468
18	No of employees whose employment was terminated	18

2017/18		Exit packages	2018/19	
Leavers Number	Cost £ 000		Leavers Number	Cost £ 000
8	74	£0 - £20,000	13	89
7	265	£20,001 - £60,000	3	107
4	345	£60,001 - £250,000	2	272
19	684	**Total**	18	468

We made five employees compulsorily redundant in 2018/19, and six in the previous year.

29 External audit costs

The table below gives details of the amounts we paid to our external auditors during the year.

2017/18 £ 000	External audit costs	2018/19 £ 000
	Fees we paid to the auditor	
88	Basic audit	69
	Other Audit Services	
88	**Total we paid in the year**	69

30 Grants

Accounting policy

If we receive a grant or contribution that does not have any conditions, or we have met the conditions, we credit the amount to the Comprehensive income and expenditure statement on the relevant service line. If we have not met the conditions, we show the amount as a creditor on the Balance sheet until the conditions are met.

If the grant is a capital grant that does not affect the balance on the General fund, we reverse the grant out of the Comprehensive income and expenditure statement in the Movement of reserves statement to the Capital grants unapplied account.

We receive grants that do not relate to specific services. These are shown in note 13. In addition to this, we received the following grants and contributions that are shown in specific services in the Comprehensive income and expenditure statement.

2017/18 £ 000	Grants and contributions	2018/19 £ 000
43,922	Housing benefits grants	42,614
3,201	Other grants and contributions	4,616
47,123		47,230

We also received a number of grants, contributions and donations that have conditions attached to them that may force us to return them to the donor. Once we have met these conditions we will recognise them as income. The amounts involved are shown in the tables below.

2017/18 £ 000	Capital grants received in advance	2018/19 £ 000
4,206	Opening balance	3,541
(665)	In-year movements	(692)
3,541		2,849

31 Related party transactions

We have to disclose material transactions with organisations or individuals that have the potential to control or influence us, or that we have the potential to control or influence. This disclosure allows readers of these accounts to assess whether we have been able to act independently, or to assess whether we have the ability to limit somebody else's ability to act independently of the Council. These are called related party transactions.

Central Government controls us and sets the legal framework that we operate in, provides grants and sets out how we deal with other agencies and organisations (eg Council Tax collection and Housing Benefits). The details of our dealings with Central Government are shown in notes 13, 18, 20, 30 and 38 and in the Cash Flow in section 6 and the Collection Fund in section 8.

Details of our transactions with the Essex pension fund administered by Essex County Council are shown in note 33.

We must also give details of any transactions we had during the year with our Councillors and chief officers, or their close families. With the exception of the following each Councillor and chief officer has stated that they did not have any such transactions during the year.

Some of our Members are also Parish Councillors. We receive funds for the Chelmsford Development fund from the Developers some of which we then pay over to other organisations when agreement conditions are met. During 2018/19 we paid from the Chelmsford Development fund the amounts to the following parishes Boreham, £10,803, Broomfield, £231,177, Chignal, £13,117, Danbury, £3,198, Galleywood, £6.196, Great Baddow, £20,977, Great & Little Leighs, £34,861, Great Waltham, £3,010, Highwood, £18,074, Little Waltham, £3,255, Pleshey, £1,561, Rettendon, £13,986, Roxwell, £3,410, Runwell, £25,242, South Hanningfield, £9,404, South Woodham Ferrers, £18,139, Springfield, £61,344, Stock, £15,517 West Hanningfield, £4,959 and Woodham Ferrers & Bicknacre, £5,490.

We give grants to the following groups and some of our Members sit on their Boards or are trustees, but do not have a controlling interest.

Chelmsford Age Concern, £5,000
Chelmsford Citizens Advice Bureau (CAB), £113,000
Chelmsford Council for Voluntary Services (CVS), £54,000
Chelmsford YMCA, £25,000

During 2018/19 we paid Event Sound and Light Limited £76,745 a Member's son is a partner in this company, and we also paid the Museum Association £1,218 a Councillor is a Board Representiative.

In addition, the following groups paid us rents: Chelmsford CAB £30,151 and Chelmsford CVS £11,814.

32 Leases

Accounting policies

Leases we get from other organisations

Leases are classified as finance leases where the risks and rewards attached to the asset are mostly transferred to us. All other leases are operational leases. Where a lease is for both land and buildings, we separate the two elements into different leases.

For finance leases we include the depreciated fair value of the asset in the Balance sheet, which is matched by a liability of the amount we have to pay the landlord. We are not allowed to charge the depreciation on the asset to council tax, so we reverse this out of the Comprehensive income and expenditure statement. The Comprehensive income and expenditure account is charged the cost of a finance lease as if it were a loan, that is the cost of interest and a minimum revenue provision.

The rentals paid under operating leases are charged directly to the appropriate service line in the Comprehensive income and expenditure statement.

Leases we give to other organisations

When we give a finance lease to an organisation or individual, we are handing over ownership of that asset, so we remove the asset's value from our Balance sheet. The value of the lease payments are then split using a calculation into interest paid to the Council and payment for the sale of the asset. A long-term debtor is created in our Balance sheet and when we receive a payment for the lease it reduces the value of the debtor and recognises a capital receipt. Interest income is then credited to the Comprehensive income and expenditure statement.

Where we grant an operational lease for land or equipment, we keep ownership of the asset. The income from the lease is credited to the Comprehensive income and expenditure statement.

The Council's other rental agreements are operational leases. Information about them is shown in the table below. Most of the income shown comes from shopping centres (High Chelmer and Meadows).

2017/18 £ 000	Operational Leases Income	2018/19 £ 000
362	Lease payments due in less than a year	384
487	Lease payments due from 1 to 5 years	1,331
3,697	Lease payments due in more than 5 years	3,799
4,546		5,514

Our spending on current services in the Comprehensive income and expenditure account includes the following lease payments.

2017/18 £ 000	Lease Payments for Current Services	2018/19 £ 000
315	Operating lease payment made	384
315		384

33 Pensions

Accounting Policy

Our employees have the right to join the Local Government Pension Scheme. The scheme provides defined benefits to its members (retirement lump sums and pensions) when they retire. Charges and balances included in the Comprehensive income and expenditure statement and the Balance sheet are based on actuarial assessments of the current costs of the pension scheme. For a full explanation of the rules, see the Pensions note in the notes to the main financial statements. However, statutory rules stop us charging these amounts to council tax. Instead, we have to charge the actual amounts we pay to the pension fund, which is a different figure to the actuarial valuations.

Our employees are entitled to belong to the Essex Pension Fund. The pension fund is governed and operated by Essex County Council within the national regulations governing all Local Government Pension Schemes (LGPS). The investment managers of the fund are appointed by Essex County Council.

Both employees and employers make contributions that are invested in a pension fund. These contributions are set at a level intended to balance the scheme's assets with its liabilities. However, there will be times when the fund has more or less assets compared to the amount predicted as being needed to meet the current and future commitments of members. The difference between the predicted level of investments and those needed will depend on investment returns and the level of unexpected payments made to members. When the fund does not have enough assets, the employer is responsible for making up the shortfall. If the fund has more assets than it needs, the employer may be able to make lower contributions. The main risks to the funding of the scheme are the assumptions on how long pensioners will live, statutory changes to the scheme, large changes in the number of employees in the scheme, changes to inflation and the returns achieved on the scheme's investments.

Members of the scheme are entitled to defined benefits when they retire under the terms of the scheme. This part of the scheme is funded through the contributions to the scheme. If members of the scheme retire early, the additional cost of that commitment is calculated and paid by the employer at the same time as the member retires.
The scheme takes into account the Public Pensions Service Act 2013. The Act provides for scheme regulations to be made within a common framework, and to link pensions to career average salaries, rather than final salaries.

The scheme's cost is not simply the payments made into the pension fund in a year but must also reflect the actuary's view of gains or losses resulting from changes in the fund's liabilities and investments. This amount is shown in the total spending on services in the Comprehensive income and expenditure statement. However, the costs we charge to council tax payers are based on the actual cash we pay the pension fund in the year, so the costs identified by the actuary are reversed out of the Comprehensive income and expenditure statement and replaced by the actual contributions we make to the scheme. The actual charge we made to the General fund, and so to council tax payers, is shown in the table below.

2017/18 £ 000	Charges to the Comprehensive income and expenditure account	2018/19 £ 000
	Spending on services	
	Service cost	
7,717	Current service cost	7,541
199	Previous service cost	1,984
-	(Gain)/loss from settlements	-
59	Administration expenses	75
	Other spending	
3,148	Net interest on the defined liability	2,634
11,123	Charge to the spending on current services in the comprehensive income and expenditure statement	12,234
	Other charges	
(10,751)	Remeasurement of the pension liability	(5,943)
(7,774)	Return on scheme assets (excluding interest)	(10,296)
(18,525)	Other charges to the comprehensive income and expenditure statement	(16,239)
(7,402)	Total charges to the comprehensive income and expenditure statement	(4,005)
7,829	Employer's contributions charged to the General fund	3,880

In addition to the gains and losses we have included in the Comprehensive income and expenditure statement, we have included a remeasurement surplus identified by the actuaries of £16.2m in 2018/19 (a surplus of £18.5m in 2017/18).

31 March 2018 £ 000	Movements on pension fund assets and liabilities	31 March 2019 £ 000
	Scheme liabilities	
290,267	Value at 1 April	288,871
7,717	Current service cost	7,541
1,325	Member contributions	1,375
7,754	Interest costs	7,277
	Remeasurement	
-	Scheme members	-
(10,751)	Financial returns	(5,943)
199	Past service (gains) or costs	1,984
(7,640)	Benefits paid	(8,535)
-	Liabilities extinguished on settlements	-
288,871	Value at 31 March	292,570
	Scheme assets	
169,858	Value at 1 April	183,693
4,606	Interest	4,643
	Remeasurement	
7,774	Return on assets (excluding interest)	10,296
-	Other	-
-	Changes in foreign exchange rates	-
(59)	Administration expenses	(75)
7,829	Employer contributions	3,880
1,325	Employee contributions	1,375
(7,640)	Benefits paid	(8,535)
-	Settlement prices received/ (paid)	-
183,693	Value at 31 March	195,277
105,178	Net pension liability	97,293

All valuations are in accordance with the requirements of the IAS19 standard. The actuaries set the expected rate of return on scheme assets by looking at the rate of return on assets that are the same type as those held by the fund. The expected returns on fixed-interest investments are based on returns at the Balance sheet date. Expected returns on stocks and shares are based on long-term returns expected in the markets.

The Pensions reserve absorbs the timing differences in the funding of pensions in accordance with accounting conventions and the statutory provisions. We account for the cost of pensions in the Comprehensive income and expenditure statement as the benefits are earned by the employees. However, the statutory provisions require us to charge amounts to council tax as they are actually paid to the pension fund. The balance on the pension reserve shows a large shortfall between the benefits accrued by the employees and the resource set aside to meet these liabilities. The statutory provisions will ensure that funding will have been set aside by the time benefits are paid.

Pension fund balances	2013/14 £ 000	2014/15 £ 000	2015/16 £ 000	2016/17 £ 000	2017/18 £ 000	2018/19 £ 000
Present value of scheme liabilities	(204,878)	(237,842)	(235,624)	(290,267)	(288,871)	(292,570)
Fair value of assets	126,054	145,141	145,063	169,858	183,693	195,277
Surplus or (deficit) on the pension fund	(78,824)	(92,701)	(90,561)	(120,409)	(105,178)	(97,293)

The liabilities show our underlying long-term commitments to pay pensions. The net liability of £97m has a large effect on our net worth, resulting in an overall balance of £206.5. However, the formal rules for funding the pension-fund deficit mean the Council's financial position remains healthy. The fund tries to keep employers' contribution rate as constant as possible. The pension fund deficit will be met by contributions over 22 years. We expect to pay £3.2m to the fund next year.
The actuaries have made an estimate of the pensions that will have to be paid in future years based on their assumptions, for example, about life expectancy and salary levels. The pension fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, and are based on the latest full valuation in 2016. The next full valuation will be in 2019.

The main assumptions used in the valuation of the fund are shown in the table below.

2017/18 %	Assumptions used in the valuations of the fund	2018/19 %
	Years we expect to pay current pensioners	
22.2	Men	**21.3**
24.7	Women	**23.6**
	Years we expect to pay pensioners retiring in 20 years	
24.4	Men	**22.9**
27.0	Women	**25.4**
3.4	Rate of inflation – RPI	**3.4**
2.4	– CPI	**2.4**
3.9	Rate of increase in salaries	**3.9**
2.4	Rate of increase in pensions	**2.4**
2.6	Discount rate	**2.4**
50	Percentage of employees choosing to take a lump-sum payment	**50**
10	Percentage of employees paying a 50% contribution for 50% pension	**10**

In valuing the pension fund, the actuary will, for example, make assumptions about investment returns, and the rates of increase in pensions, salaries and inflation. If these vary they will affect the value of the pension fund shown in the accounts. The table below shows the effect on the value of the pension fund if the above assumptions change.

	Increase in assumption £'000	Decrease in assumption £'000
Longevity (increase or decrease by 1 year)	10,765	(10,379)
Rate of increase in salaries (increase or decrease by 0.1%)	523	(519)
Rate of increase in pensions, or inflation (increase or decrease by 0.1%)	4,713	(4,630)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(5,144)	5,241

The weighted average duration of the pension obligation for scheme members is 18 years in 2018/19 (18 years 2017/18).

The scheme's assets can be put into the following types:

31 March 2018 £ 000	Scheme assets	31 March 2019 £ 000
6,317	**Cash and cash equivalents**	5,143
	Stocks and shares (by type)	
	UK investments	8,782
111,444	Overseas investments	103,818
111,444		112,600
	Bonds (by sector)	
6,824	UK Corporate	11,413
12,220	UK Government	10,364
19,044		21,777
	Property (by type)	
6,302	Listed	6,438
11,122	Unlisted	10,925
17,424		17,363
8,445	**Private equity**	8,977
	Other investment funds	
8,435	Infrastructure	9,814
3,117	Timber	5,889
2,934	Illiquied and Private Debt	3,337
7,450	Other Managed Funds	10,377
21,936		29,417
(917)	**Derivatives**	
183,693	Total	195,277

31 March 2018 £ 000	Stocks and Shares	31 March 2019 £ 000
	Stocks and shares (by company size)	
111,444	Listed	112,600
-	Unlisted	-
111,444		112,600

The liabilities of the pension fund arise largely in the long term as pensions become payable. Broadly speaking, the investments of the fund are made to secure long term gains and reduce volatility in the fund returns. Investments are managed with a view to meeting future pension liabilities. The statement of the fund's Investment Principles and the Annual Report can be obtained from:

Essex County Council, County Hall, Chelmsford, Essex, CM1 1JZ

34 Contingent liabilities

Accounting Policy

A contingent liability arises where an event gives rise to a possible obligation that will only be confirmed by a possible future event outside our control. A contingent liability can also arise where we would need to raise a provision but we cannot determine the amount of that provision. Contingent liabilities are not recorded in the Balance sheet but are instead recognised in a note to the accounts.

There is an outstanding claim made by the NHS trusts for mandatory relief on their Business Rates payable. We do not know at this stage if we will have to make any refunds.

We do not know how much we may have to pay on any of the contingent liabilities or when we may have to pay.

35 Contingent assets

Accounting Policy

A contingent asset arises where an event gives rise to a possible asset that will only be confirmed by a possible future event outside our control. Contingent assets are not recorded in the Balance sheet but are instead recognised in a note to the accounts.

We have four appeals outstanding with HMRC over payments of VAT and we will also be claiming interest. We await the outcome of these claims.

36 Exceptional items

We do not have any such items.

37 Community Infrastructure Levy (CIL)

We started receiving CIL payments from 1 April 2014. We have billed £9,338k which was credited to the Capital Grants Unapplied account. The levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities to help deliver infrastructure to support the development of their area.

38 Government and non-government grants

The Council recognises grants as income in the Revenue account when any conditions to the grant have been met. If the grant has no conditions, it is recognised in the Revenue account straight away.

We record grants that have passed through the Revenue account on the Balance sheet as Capital grants unapplied, until they are spent. We record grants where the conditions have not been met as Capital grants received in advance, until we meet the conditions or spend the money. The table below shows the main items received to date and not spent.

2017/18 £ 000	Grants	2018/19 £ 000
	Grant received in advance	
3,541	Money received as part of planning agreements	2,851
	Capital grants unapplied	
2,377	Money received as part of planning agreements	4,395
5,231	Growth Fund grant	-
1,679	Government grants	774
2,665	Empty Homes grant	2,560
13,666	Community Infrastructure Levy	19,808
284	Other	277
25,902		27,814
29,443	Total	30,665

39 Restatements

Accounting Policy

Where our accounting policies change, or the rules we use to prepare these accounts change, or we have made a material error in a previous year's set of accounts, we show any changes to last year's figures in the Restatements section.

Following amendments to accounting standard IAS1 presentation of Financial Statement, we are now required to change the presentational format of Comprehensive Income and Expenditure statement and Expenditure and Funding Analysis table to reflect the management reporting format. These changes do not result in a change to the totals.

We have included £2,628k for internal trading charges in the Other services expenses and Fees and Charges income, to reflect these charges consistently with the Comprehensive Income and Expenditure statement.

Notes to the main financial statements	2017/18 £'000	Amendment £'000	2017/18 Restated amount £'000
Note 24. Expenditure and Income Analysed by Nature			
Expenditure			
Employee benefits expenses	36,332		36,332
Other services expenses	22,523	2,628	25,151
Depreciation, amortisation, impairment	5,654		5,654
Interest payments	19		19
Precepts and levies	2,391		2,391
Payments to Housing Capital Receipts Pool	1		1
Pension interest and return on investment	3,148		3,148
Remeasurement of the assets of the pension fund	(18,525)		(18,525)
Gain or loss on the disposal and revaluation of Assets	(13,421)		(13,421)
Total Expenditure	38,122	2,628	40,750
Income			-
Fees, charges and other services income	(31,372)	(2,628)	(34,000)
Interest and investment income	(707)		(707)
Income from Council Tax	(14,289)		(14,289)
Government grants and other contributions incl			
Business Rate income	(14,390)		(14,390)
Capital Grants and contributions	(10,565)		(10,565)
Total Income	(71,323)	(2,628)	(73,951)
Total expenditure and income	(33,201)	-	(33,201)

8 - Collection fund

This section summarises how the money we collected through the collection fund is distributed between the precepting authorities.

2017/18			Collection Fund	Notes	2018/19		
Council Tax £ 000	Non-Domestic Rates £ 000	Total £ 000			Council Tax £ 000	Non-Domestic Rates £ 000	Total £ 000
			Income				
(104,558)		(104,558)	Council tax	1	(111,221)		(111,221)
			Transfers from the General fund				
	(80,224)	(80,224)	Non-domestic rates	2		(81,631)	(81,631)
	4,420	4,420	Transitional protection			1,828	1,828
(104,558)	(75,804)	(180,362)			(111,221)	(79,803)	(191,024)
			Spending				
			Council Tax precepts and demands				
74,937		74,937	Essex County Council		80,018		80,018
14,225		14,225	Chelmsford City Council		14,845		14,845
10,113		10,113	Essex Police Authority		11,070		11,070
4,445		4,445	Essex Fire Authority		4,609		4,609
			Non-domestic rates precepts and demands				
	38,307	38,307	Central Government			38,995	38,995
	30,646	30,646	Chelmsford City Council			31,196	31,196
	6,895	6,895	Essex County Council			7,019	7,019
	766	766	Essex Fire Authority			780	780
			Subsidy paid towards the costs of collecting				
	217	217	National non-domestic rates			218	218
			Increase or (decrease) in our provision for amounts that we may not be able to collect				
(88)		(88)	Council tax		113		113
	44	44	Non-domestic rates			76	76
			Amounts written off				
465		465	Council tax		253		253
	287	287	Non-domestic rates			960	960
	(1,265)	(1,265)	Provision for appeals			(303)	(303)
			Distribution of previous year's Council Tax surplus or (shortfall)				
977		977	Essex County Council		730		730
184		184	Chelmsford City Council		139		139
131		131	Essex Police Authority		99		99
59		59	Essex Fire Authority		43		43
			Distribution of previous year's Non-domestic rates surplus or (shortfall)				
	1,497	1,497	Central Government			(412)	(412)
	1,198	1,198	Chelmsford City Council			(329)	(329)
	270	270	Essex County Council			(74)	(74)
	30	30	Essex Fire Authority			(8)	(8)
105,448	78,892	184,340			111,919	78,118	190,037
			Movements on the Collection Fund				
890	3,088	3,978	(Surplus) or shortfall for the year		698	(1,685)	(987)
(1,505)	(3,811)	(5,316)	(Surplus) or shortfall at start of the year	3	(615)	(723)	(1,338)
(615)	(723)	(1,338)	(Surplus) or shortfall at end of the year	3	83	(2,408)	(2,325)

Accounting Policy

The Collection Fund is a statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates (NDR).

We recognise in our Comprehensive Income and Expenditure Statement our share of the NDR and Council Tax transaction on accrual basis, with the timing difference being adjusted through Council Tax and NDR adjustment account, reported on in the Movement in Reserves Statement.

Notes to the collection fund

1 Council tax

Council tax income comes from charges we make depending on the value of homes. Each home is put into one of eight valuation bands using their value on 1 April 1991. We work out each charge by estimating the amount of income each of the preceptors on the collection fund needs for the coming year and dividing this amount by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion of the band D charge. In 2018/19, the council tax base was 65,496 (in 2017/18 it was 64,396). The basic amount of council tax for a property in band D was £1,611 (£1,611 in 2017/18). This is multiplied by the appropriate proportion for the particular band to give the actual amount due for that band.

Council tax bills were based on the following proportions for bands A to H.

Council tax band	Total number of properties	Number of chargeable properties	Proportion of Band D charge	Number of Band D equivalent properties
A	4,508	3,598	6 / 9	2,399
B	10,281	8,617	7 / 9	6,702
C	22,699	20,534	8 / 9	18,252
D	16,929	11,345	9 / 9	11,345
E	10,394	9,799	11 / 9	11,977
F	5,664	5,447	13 / 9	7,868
G	3,895	3,764	15 / 9	6,274
H	372	339	18 / 9	679
Total	74,742	63,443		65,496

2 Non-domestic rates (NDR)

NDR is a national charge. The Government sets an amount for each pound of rateable value – 48.0p in 2018/19 (47.9p in 2017/18). Depending on the effects of any changes, local businesses pay rates that are worked out by multiplying their rateable value by that amount. We are responsible for collecting the rates due in our area and pay these into the Collection fund. We share the money collected between the Government, Essex County Council and the Essex Fire Authority.

On 31 March 2019, our NDR income after relief totalled £81,394,374 based on the total non-domestic rateable value for our area of £192,889,242.

3 Contributions to the collection fund – surpluses and shortfalls

The balance on the Collection Fund is made up of the following and is allocated to the preceptors on the fund as shown in the table below.

2017/18			Contributions to the collection fund - surpluses and shortfalls	2018/19		
Council Tax £ 000	Non-Domestic Rates £ 000	Total £ 000		Council Tax £ 000	Non-Domestic Rates £ 000	Total £ 000
	(362)	(362)	Central Government		(1,204)	(1,204)
(84)	(289)	(373)	Chelmsford City Council	11	(963)	(952)
(444)	(65)	(509)	Essex County Council	61	(217)	(156)
(60)		(60)	Essex Police Authority	8		8
(27)	(7)	(34)	Essex Fire Authority	3	(24)	(21)
(615)	(723)	(1,338)		83	(2,408)	(2,325)

Depending on whether there is a surplus or shortfall on the collection fund for the county, police, and fire authorities, the balance we owe them (or they owe us) will be shown as a creditor or debtor in the Balance sheet. Our part of the balance is shown as an earmarked reserve.

4 Non-domestic rate appeals

There are several outstanding appeals. We have estimated the effect of these outstanding appeals and adjusted the provision for the likely amount that we will have to repay to non-domestic ratepayers. The cost of the provision has been charged to the Collection fund and is shared between the preceptors as shown in the table below.

Non-domestic rate appeals	Share %	Provision £ 000
Central Government	50	(152)
Chelmsford City Council	40	(121)
Essex County Council	9	(27)
Essex Fire Authority	1	(3)
	100	(303)

5 Non-domestic rate pooling

On 1 April 2018, Chelmsford joined a Non-domestic rating pool with 14 other authorities for the 2018/19 financial year. We did this to increase our Non-domestic rating income over that which we would have received if we were not in a Pool.

6 Business Improvement District

From 1 April 2018, a Business Improvement District (BID) arrangement has been operating within the Chelmsford area where local business pay additional levy on top of their non-domestic rates to generate additional income to be invested on improvements to the area. The Council act's as an agent, collecting the BID charges on behalf of the BID body. This income is not shown in our Comprehensive Income and Expenditure account as it is not our money. We only show expenditure and income relating to cost of administrating the scheme and income from the BID agency towards these costs.

9 - Independent auditors' report

We will insert here the Independent auditor's report following the conclusion of the independent audit.

10 - Glossary

This section explains the technical terms that have been used throughout this document.

Actuary
An expert on rates of death and insurance statistics who assesses whether we have enough money in our pension fund.

Amortisation
A reduction in the value of an intangible asset over time, for example due to wear and tear or the asset becoming obsolete.

Audit Committee
A committee of nine members of the Council who consider financial matters and reports from Internal Audit, and approve and monitor our code of corporate governance, and risk management.

Balance sheet
A statement of all our assets, liabilities and balances at the end of the financial year.

Cabinet
The Cabinet is made up of ten members of the Council (including the Leader), who are responsible for making most of the essential decisions about running the Council. Each member of the Cabinet is responsible for a specific service.

Capital financing costs
These are costs, such as interest, which we charge because we have spent money on fixed assets.

Capital receipt
Income from selling assets that have a long-term value.

Capital spending
Spending on assets that have a lasting value, for example, land and buildings.

Cash-flow statement
This is a statement that shows the changes in our cash and bank balances during the year. It also shows the changes in our other assets, liabilities and other accounts shown on our Balance sheet.

Collection fund
A fund we use to show what happens to the council tax and NDR income.

Community assets
Assets we do not plan to sell and which have no definite useful life. Examples of community assets are parks and historic buildings.

Comprehensive income and expenditure statement
The account that reports the income and spending on our services.

Corporate governance
The way we decide our future direction, processes and controls.

Councillor
An elected Member of the Council.

Creditors
Money we owe for work, goods or services that have not been paid for by the end of the financial year.

Current assets
These are the short-term assets we have at the date of our Balance sheet, which we can use in the following year.

Current liabilities
These are the short-term liabilities we owe at the date of our Balance sheet, which we will pay in the following year.

Curtailments
The cost of the extra pension or lump sum an employee receives if their retirement benefits are increased to above the basic pension-scheme benefit.

Debtors
Money that is owed to us, but is not paid by the end of the financial year.

Deferred contributions
Amounts paid to us for future activities.

Depreciation
The reduction in the value of a tangible asset over time, due to wear and tear.

Earmarked reserves
Money we set aside for a specific purpose.

Fair value
The value of the asset on the open market.

Green flag
An award that recognises how good our parks are.

Gross spending
The total cost of providing a service.

Gross up
Changing a cost that is made up of two parts, into its separate parts. In this case, increasing the pension contributions to the full cost of pensions (for IAS19 purposes), and then reducing the cost later in the accounts for the money paid to the pension fund.

IAS19
A statement of recommended accounting practice telling us how we have to account for pensions.

Impairment
The loss in value of an asset caused by something happening to make it less useful.

Infrastructure
Assets we cannot sell, so only have a nominal value.

Intangible assets
Assets we plan to own for more than one year, but which are not physical assets like a building or a lorry; for example, computer software licences.

Leases
A way of paying for vehicles, plant and equipment by spreading payments over the asset's life. We do not become the legal owners of the asset. Leases can either be operational leases, where the risks of ownership rest with the owner of the asset and the asset does not appear on our Balance sheet, or finance leases, where the asset is included on our Balance sheet.

LCTS (Localised Council Tax Support Scheme)
The means tested scheme that replaced Council tax benefit, and reduces the Council tax bill of those who qualify.

LGPS (Local Government Pension Scheme)
The fund that pays and manages our staff pensions.

Liabilities
Our debts and responsibilities.

Liquid resources
Money we have invested but which we can draw on quickly.

Management Team
A meeting of the Chief Executive and the Directors.

Member
In papers about the Council, this usually means an elected Member of the Council, ie a Councillor.

Minimum revenue provision
The amount we have to set aside, out of our revenue, to repay loans.

NDR – Non-domestic rates
A charge that all businesses must pay for their premises. It is worked out by multiplying a property's rateable value by a nationally set multiplier. Non-domestic rates are paid into a pool, which the Government controls. This money is then shared between local authorities depending on the population in their area.

Net book value
This is the original value of the asset, less the depreciation up to the current date.

Net spending
This is the cost of providing a service after we have taken into account income from government grants and our own fees and charges.

Nominal value
Where an asset cannot be sold, it is given a very low value in the Balance sheet to recognise that it has no resale value.

Non-distributed costs
We must make an extra payment to Essex County Council to maintain the value of the pension fund. Under the accounting rules, we do not get this cost back from our services.

Non-operational assets
Any asset that is not an operational asset, or an asset that we do not need any more, for example, depots we no longer use.

Operational assets
Assets that we use in our day-to-day activities for delivering our services to the public, for example, the town hall.

Parish Council
An organisation that delivers some services within the Parish boundary, rather than across the City as a whole.

Performance indicators
A way of measuring our performance by comparing it to how we performed in the past, or to how other organisations have performed.

Precept
A demand made by Essex County Council, the Police and Crime Commissioner for Essex, Essex Fire Authority, and Town and Parish Councils for money they want us to collect for them.

Provision
Money set aside to meet specific service liabilities at the date of the accounts, and to meet spending.

Realised gain
The extra money we receive over the value shown in the accounts when we sell the asset.

Registered social landlord
An organisation delivering subsidised housing to the public that is registered with the Housing Corporation.

Repurchase of borrowing
Repaying a loan from a lender before it is due. We will usually do this if it means we can pay less interest.

Reserve
Savings we have built up from surpluses.

Restatement
We normally show the amounts that were in last year's accounts as the same figure, but where there is a change in the accountancy rules, we have to change last year's figure to meet the current rules.

Revenue contribution to capital outlay (RCCO)
Capital spending that is directly paid for from revenue.

Revenue spending
Spending on the day-to-day running of services – mainly salaries, running expenses of building and equipment, and debt charges. These costs are met from the council tax, government grants and our own fees and charges.

Reverse out
We have to prepare the accounts in a certain way to comply with the law. This means we have to put amounts in the accounts that we do not have to raise council tax for. These amounts are taken out - that is reversed out - to get the amount we have to charge to council tax.

Surplus
At the end of the year, if an account such as the Comprehensive income and expenditure account shows that we have received more income than we have spent, that account is known as being 'in surplus'.

Tangible assets
Assets we plan to own or use for more than one year.

Tax base
The number of houses we can charge our council tax on.

Trading undertakings
Part of our activities where the service could also be provided by others outside the Council.

11 - Our structure chart as at 31March 2019

Chelmsford City Council

AUDIT AND RISK COMMITTEE 25 SEPTEMBER 2019 AGENDA ITEM 7

Subject	RISK MANAGEMENT REPORT (SEPTEMBER 2019)
Report by	PROCUREMENT AND RISK SERVICES MANAGER

Enquiries contact:

Alison Chessell, Procurement and Risk Services Manager

alison.chessell@chelmsford.gov.uk

Purpose

This report summarises the progress made to date in refreshing the Council's risk management framework, presents the Risk Management Strategy for 2019-20, and provides a summary of the Council's Principal Risks.

Recommendation(s)

1.	Audit and Risk Committee are requested to approve the Risk Management Strategy for 2019/20
2.	Audit and Risk Committee are requested to note the Principal Risk Report as at 31 August 2019

Corporate Implications

Legal:	• The Council has a legal duty to ensure that it has a sound system of internal control, which includes effective arrangements for the management of risk (Regulation 3 (Part 2) of the Audit and Accounts Regulations 2015). • Compliance risks are considered as a separate category within the Principal Risk Register to focus attention on Council compliance with laws and regulations. Legal impacts of other risks are considered within the Principal Risk Register, as appropriate.
Financial:	Challenges to the Council's financial position are reflected in the Principal Risk Register. The financial impacts of other risks are considered within the Principal Risk Register, as appropriate.

Personnel:	The Council's cultural change initiative is reflected in the Principal Risk Register.
Risk Management:	The role of the risk management function is to assist the Council to identify, understand and manage its risks (and opportunities). An effective risk management framework should: provide risk information to support decision-making and resource allocation; improve compliance with policies, procedures, laws and regulations and stakeholder expectations; and provide assurance to internal and external stakeholders that the Council is well-managed.
Equalities and Diversity:	None
Health and Safety:	Health & safety risk is reflected in the Principal Risk Register.
IT:	Cyber security and the Council's digital strategy programme are both reflected in the Principal Risk Register.
Other:	Where noted above, items reflected in the Principal Risk Register demonstrate Management Team's commitment to proactively manage these risks on behalf of the Council and its stakeholders.

Consultees	Management Team Director of Financial Services Audit Services Manager

Policies and Strategies

The report takes into account the following policies and strategies of the Council:

- Our Chelmsford, Our Plan (draft)

1. Overview

1.1 It is the Council's policy to proactively identify, understand and manage the risks inherent in our services and associated with our plans and strategies, so as to:

- encourage responsible, informed risk taking
- reduce exposure to a tolerable level using a justifiable level of resources

1.2 An effective risk management framework should:

- provide risk information to support decision-making and resource allocation
- improve compliance with policies, procedures, laws and regulations and stakeholder expectations; and
- provide assurance to internal and external stakeholders that the Council is well-managed.

1.3 The role of the risk management function is to assist the Council to identify, understand and manage its risks (and opportunities).

Summary of recent progress

1.4 Risk Services has been tasked with refreshing and relaunching the Council's risk management framework. Activities to date have included:

- development of the new Risk Management Strategy (see below)
- development of new risk criteria for scoring and prioritising risks
- compilation of the Council's first Principal Risk Register, including facilitated risk identification with Management Team and consultation with Service Managers
- developing a bespoke reporting format for new and emerging Brexit risks
- comprehensive review and cleansing of data held within Pentana Risk, the Council's risk and performance management system
- piloting project and compliance risk registers with the Council's new risk criteria
- alignment with Internal Audit activities through the Council's risk criteria and the Risk-Internal Audit Protocol
- design and implementation of a bespoke solution to communicate Internal Audit results through Pentana Risk
- revitalising the tracking of Corporate Health & Safety and Fire Risk Actions with a view to improving compliance and developing risk indicators from the resulting data

1.5 Further activity planned to the end of 2019/20 includes:

- refinement of the Council's Principal Risk reporting format, including the use of risk indicators
- fundamental re-design of Pentana Risk permissions to improve consistency of use
- re-launch of the risk module on Pentana Risk with appropriate user training
- further development of subsidiary risk registers for high priority areas, including fraud and health & safety
- continued reporting on potential impacts of the UK's Exit from the European Union
- encouraging local development of risk registers, where considered to add value
- alignment with the Council's business planning and performance management arrangements as they develop, including revisiting the Council's strategic risks

2. <u>Risk Management Strategy 2019-20</u>

2.1 The purpose of the Council's Risk Management Strategy is to:

- define the Council's policy on risk
- explain what the Council's risk management framework is seeking to achieve
- clarify roles and responsibilities
- set expectations for risk reporting
- determine priorities for the financial year to 31 March 2020
- outline plans for future years

2.2 The draft Strategy, initially agreed by Management Team on 10 April 2019, and now comprehensively revised to take account of recent changes at the Council, can be found in **Appendix 1** for Member consideration and approval.

2.3 The Strategy will be reviewed annually in March and form the basis of six-monthly progress reporting.

3. <u>Principal Risk Report as at 31 August 2019</u>

3.1 The Principal Risk Report is central to the revised risk management framework. Principal Risks are those risks which require regular oversight from Management Team and may include:

- strategic risks arising from the Corporate Plan and/or external factors

- operational, compliance and project risks which, due to their nature or severity, require oversight at senior level.

3.2 Management Team receive detailed quarterly reports on the Council's Principal Risks to inform decision making and ensure that, where necessary, prompt and effective action can be taken to further mitigate risks that the Council is not prepared to tolerate.

3.3 Risks are prioritised using the Council's new risk criteria, as agreed by Management Team in April 2019. As Management Team become more familiar with using these criteria, they will be further refined and will eventually contribute towards formally defining the Council's risk appetite. This in turn, should bring greater consistency to the Council's decisions to tolerate or treat identified risks.

3.4 A summary of the Council's Principal Risks can be found in **Appendix 2**, comprising:

- A summary table of principal risk entries, providing essential information on ratings. In subsequent reports, trends since the previous quarter will also appear here.
- A 'heat map' plotting all current risk scores on a single matrix
- Further explanation of the Council's impact ratings

3.5 The aim of this approach is to present the results of risk assessment to Members, rather than the mechanics, and, in doing so, provide assurance to Members that the Council's risk management framework is now in operation.

3.6 The risks presented were first identified by the Chief Executive and Management Team on 11 June 2019, and subsequently analysed by the Risk Team in conjunction with relevant Directors and Service Managers. The outcome of this exercise was moderated by Management Team collectively on 11 September 2019 and is now presented to Members for their consideration.

3.7 Risk indicators are also being trialled for certain risks, where relevant risk information is readily available. Risk indicators, and reporting of these, will be developed in parallel with the Council's performance management framework and will be used to inform risk scoring going forward.

3.8 Much of the detailed information contained within the Principal Risk Register itself is operational and may, in some cases, be sensitive. Audit and Risk Committee is, therefore, invited to request further detail on risks of particular interest or concern to them for circulation after the meeting.

3.9 Detailed risk information on a particular area may also be presented, on request, at a future meeting of the Committee, perhaps with the relevant Director or Service Manager present to answer any specific questions on existing or planned mitigation.

4. Conclusion

4.1 Members are invited to acknowledge the progress made to date while understanding that significant further work is necessary for the risk management framework to become fully embedded within the Council.

List of Appendices

Appendix 1 – Risk Management Strategy 2019-20

Appendix 2 – Principal Risk Report as at 31 August 2019

Background Papers

Nil

Appendix 1

Risk Management Strategy

Background

ISO 31000:2018 defines risk as “the effect of uncertainty on objectives”; in other words, an uncertainty that matters because it may affect what the Council is trying to achieve.

This effect may be positive (which may result in Council’s objectives being met sooner than expected or even exceeded) or negative (which may result in delays to achieving the Council’s objectives, objectives being only partly met, or the Council being unable to meet them at all).

An effective risk management framework should:

- Assist the Council to identify, understand and manage risks to its objectives
- Provide risk information to support decision-making and resource allocation
- Improve compliance with policies, procedures, laws and regulations and stakeholder expectations
- Provide assurance to internal and external stakeholders that the Council is well-managed

The Council has certain legal responsibilities to identify and manage its risks effectively. For example, the Accounts and Audit Regulations 2015 require the Council to “…ensure that it has a sound system of internal control which [...] includes effective arrangements for the management of risk”.

CIPFA’s Delivering Good Governance in Local Government (2016) also considers risk management to be an essential part of good governance, stating that this should include:

- Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision-making
- Implementing robust and integrated risk management arrangements and ensuring that they are working effectively
- Ensuring that responsibilities for managing individual risks are clearly allocated

Risk policy statement

Risk management is central to the Council’s values of **Collaborative, Accountability** and **Creativity**.

It is the Council’s policy to proactively identify, understand and manage the risks inherent in our services and associated with our plans and strategies, so as to:

- encourage responsible, informed risk taking
- reduce exposure to a tolerable level using a justifiable level of resources

A transparent approach to risk management can provide valuable assurance to Management Team and Members. It is the Council’s policy, therefore, to ensure regular monitoring and reporting of its Principal Risks, which are defined as:

- strategic risks arising from the Corporate Plan and/or external factors
- operational, compliance and project risks which, due to their nature or severity, require oversight at senior level

The Council will consider, initially, whether risks are tolerable on a case-by-case basis, before looking to formally define the Council's risk appetite after the first year of operation. Where risks are not considered to be tolerable, individual risk owners will be required to carry out risk improvement actions, the outcomes of which will also be reported.

The Council will initially focus on negative effects ('threats') to Council objectives but may consider positive effects ('opportunities') through the risk management framework in future years, if this is felt to add value.

Relevant risks of all types shall be logged and monitored using Pentana Risk, the Council's risk and performance management system, administered by the Risk Team.

Under the Risk-Internal Audit Protocol, the Council's Principal Risks will also inform the Council's risk-based Internal Audit Plan and individual Internal Audit assignments.

Nick Eveleigh, Chief Executive, 10th April 2019

Priorities for 2019-20

The Risk Team sits within Procurement and Risk Services and comprises the Risk Manager (0.6 FTE assigned to Risk), overseen by the Procurement and Risk Services Manager, and with ad hoc administrative support from the Procurement Assistant.

The main priority for the financial year 2019-20 is to refresh and relaunch the Council's risk management framework. This is being delivered through three workstreams covering:

- **Risk framework** – developing the strategy and protocols, including revising the Council's risk criteria (for scoring and prioritising risk)
- **Risk assessment** – risk identification, risk analysis, risk scoring and prioritisation and risk reporting
- **System development** – Risk Team training, data cleansing, user consultation, system usage re-design and re-launch

A further portion of the Risk Manager's time (0.2 FTE) is to be assigned to performance management, ensuring that risk management is aligned to the Council's business planning and performance management arrangements as these develop.

The following table sets out the Council's five strategic aims for the new risk management framework and outlines key activities to be undertaken during 2019-20:

Our strategic aims Our risk management framework will be:		Our plans for 2019-20
Proportionate	Risk management is an essential part of general management; therefore, measures to identify, treat, monitor and report on risks should be proportionate to the risks faced by the Council.	• Principal Risks will be prioritised, with the most important strategic, operational, project and compliance risks presented in a single document. • The Council will adapt suitable elements of ISO 31000:2018 to develop its own approach.
Aligned	Risk management cannot take place in isolation and must be aligned with strategic planning to be effective.	• The risk framework will be aligned to the Corporate Plan, and, if deemed appropriate, business planning and performance management in due course. • Risk criteria will align with Internal Audit.
Comprehensive	Arrangements should capture the broad spectrum of risks faced by the Council, but be flexible enough to capture strategic, operational, project and compliance risks efficiently, without leading to 'risk overkill'.	• Subsidiary risk registers will be developed, where they add value. • Project risk management best practice will be shared. • Key Risk Indicators will be developed to inform risk scoring. • Directorate/Service risks will be captured as business planning and performance management develops.
Embedded	Arrangements should be clearly communicated, integrated into existing management structures and activities, and enforced.	• The Risk Team will facilitate risk identification. • Quarterly updates will be provided to Management Team. • Audit and Risk Committee will provide oversight. • Training and written guidance will be developed.
Dynamic	Risk information must be current to enable timely and effective decision-making by management and Members.	• Escalation will ensure that the most relevant risks are considered quarterly. • Narrative updates will reflect the latest management initiatives to address each risk. • New and emerging risks will be captured.

Risk management roles and responsibilities

Recording and reporting risk

The Principal Risk Register is maintained centrally, in consultation with Directors and Service Managers, and reported quarterly to Management Team. In due course, these reports may be supplemented by other risk information which will inform decision-making on individual risks.

Management Team will communicate risk information to Cabinet Members through the portfolio holder relationship to inform strategic decision-making.

Audit and Risk Committee will receive the Council's Risk Management Strategy annually, along with six-monthly reports summarising the Council's Principal Risks and the activity of the risk management function. More detailed risk information will be available on request.

Subsidiary risk registers will be developed and maintained locally **where they are considered to add value**. Facilitated by the Risk Team, these will made accessible to relevant Directors and Service Managers through Pentana Risk. Content from these may escalated to the Principal Risk Register, as appropriate. Subsidiary risk registers may cover:

- Activities within an organisational unit (e.g. Directorate, Service or Team)
- Specific projects (e.g. Digital Strategy Programme)
- Specific areas of compliance (e.g. Health & Safety, Property Risk)
- Specific areas of emerging risk (e.g. exiting the European Union)
- Complex or technical areas which require more detailed consideration (e.g. Cyber Security)

Risk management protocols

Further guidance on risk management procedures is available to staff and Members via the Pentana Risk pages of the Council's intranet. This guidance includes:

- detail of the risk management process linking to ISO 31000: 2018
- the Council's method for risk scoring and prioritisation
- further detail on methods of risk treatment ('tolerate, transfer, treat or terminate')
- usage conventions and 'How To' guides for Pentana Risk

Other protocols are being developed according to need. For example, the Council's Risk-Internal Audit Protocol has been put in place to ensure that the work of Risk and Internal Audit is closely aligned, exchange of risk information is timely, and any messages to management and Members are consistent.

Future plans

Further activities planned for 2020-21 and beyond include:

- reviewing the Council's risk criteria after the first year of operation to ensure that they remain fit-for-purpose
- formally recording the Council's risk appetite to improve consistency in the way that risks are treated
- ongoing refinement of the Principal Risk reporting process, including formalisation of the process to identify new and emerging risks
- ongoing development of subsidiary registers
- formal assessment of the Council's risk culture, using this as a reference point to track progress in embedding the risk management framework
- explore benchmarking with other Councils to assess the performance of the Council's risk management function
- ongoing development of Pentana Risk, including staff training and awareness, along with any future replacement system which may form part of the OneCouncil Enterprise Resource Planning (ERP) project
- further integration with the Council's business planning and performance management arrangements
- consultation on the potential benefits and practicalities of opportunity management

V2.0	*Procurement and Risk Services*	*September 2019*
	Next review due:	*March 2020*

Appendix 2 – Principal Risk Report as at 31 August 2019 – Executive Summary

Ref	Risk Title	Risk Type	Corporate Priority	Risk Lead(s)	Rank order	Current Risk Rating	Short Description
001	Cyber Security	Operations	Better Connected	MT/CC	**1**	**Very High**	A successful cyberattack could result in severe disruption to core services and/or data theft, with financial, legal and reputational impacts for the Council, and potentially significant harm caused to residents.
014	Serious Health and Safety Incident	Compliance	Safer	PP	**1**	**Very High**	A serious health and safety incident could result in death or serious injury, regulatory investigation and associated financial, legal and reputational consequences.
006	Homelessness	Operations	Fairer	FS	**2**	**High**	If the Council is unable to meet its statutory obligations to the homeless effectively, this may cause further hardship to service users, with associated financial, legal and reputational consequences.
018	Control Environment	Compliance	All priorities	MT	**2**	**High**	If the Council does not implement control improvements identified by independent assurance providers promptly and in full, weaknesses will persist in some areas. An adverse Internal Audit opinion may result.
013	Beaulieu Station	Projects	Greener	MT/SC	**3**	**High**	While Housing Infrastructure Funding has been secured from Government (August 2019), the project is complex, and the external delivery partners must be able to deliver the project by the time specified under the terms of this funding.
011	Chelmsford North-East Bypass	Projects	Greener	MT/SC	**3**	**High**	While Housing Infrastructure Funding has been secured from Government (August 2019), the project is complex, and the external delivery partners must be able to deliver the project by the time specified under the terms of this funding.
009	Digital Strategy Programme	Projects	Better Connected	MT/CE	**3**	**High**	If the Digital Strategy Programme does not, after significant investment, improve the effectiveness and efficiency of service delivery, the Council could fail to deliver core services to customers.
016	Information Governance	Compliance	Better Connected	CC	**3**	**High**	A significant data breach and/or other instance of non-compliance with data protection legislation may cause harm to data subjects and/or lead to regulatory enforcement, with financial and reputational consequences.
004	Emergency Planning Response	Operations	Safer	PP	**3**	**High**	An inadequate emergency response (as Category 1 responder under the Civil Contingencies Act) may lead or contribute to hardship, serious injury or loss of life among residents and visitors to the area.
005	Serious Fraudulent Activity	Operations	Fairer	FS	**3**	**High**	Successful fraud attempts may result in financial losses which individually, or cumulatively, could impact on service delivery, as well as cause reputational damage to the Council.
002	'No Deal' UK Exit	Operations	All priorities	MT/PP	**4**	**High**	‘No Deal’ may create financial turmoil, disrupt supplies to the Council and residents, create legal uncertainty for service delivery/data access, and encourage civil disorder and opportunist crime.

Appendix 2 – Principal Risk Report as at 31 August 2019 – Executive Summary

Ref	Risk Title	Risk Type	Corporate Priority	Risk Lead(s)	Rank order	Current Risk Rating	Short Description
015	Safeguarding Incident	Compliance	Safer	PP	**5**	**Medium**	If a safeguarding incident occurs which, through action or omission by the Council, might otherwise have been prevented, this could result in serious harm to the victim, loss of trust in the Council as community leader, and associated financial and regulatory consequences.
019	Income and financial position	Strategic	Fairer	MT	**5**	**Medium**	If the sustainability of the Council's financial position is challenged, major projects may be delayed, discretionary services may be rationalised and, ultimately, statutory duties may not be met, to the detriment of service users.
003	Business Continuity Response	Operations	Safer	PP	**6**	**Medium**	Extended disruption to core services will inconvenience service users, may cause hardship to some, may be more costly to recover from, and could undermine the Council's statutory emergency response (#004).
012	Chelmer Waterside Development	Projects	Greener	MT/SC	**6**	**Medium**	If site development constraints are not removed with available funding, housing/other development potential may not be realised, at financial and reputational cost to the Council and opportunity cost to the city.
017	Procurement Strategy	Compliance	Fairer	FS	**6**	**Medium**	Procurement activity which is non-compliant, poor value for money and/or inappropriately administered centrally or at local level may result in legal challenge, financial loss and/or reputational damage
010	Finance System Replacement	Projects	Fairer	MT	**6**	**Medium**	If the new finance system is significantly delayed, the existing system could fail resulting in significant disruption to core services.
007	Cultural Change	Strategic	All priorities	MT/CE	**7**	**Medium**	If cultural change is not embedded, an opportunity will be missed to further improve the working effectiveness of the Council and optimise service delivery, which may result in dissatisfaction amongst staff, Members and service users

Key to Risk Lead(s)

CE	Chief Executive
MT	Management Team (Chief Executive and Directors)
FS	Director of Financial Services
CC	Director of Connected Chelmsford
SC	Director of Sustainable Communities
PP	Director of Public Places

Appendix 2 – Principal Risk Report as at 31 August 2019 – Executive Summary

Principal Risk Heat Map – Current risk ratings (with existing controls)

POTENTIAL **IMPACT** ON COUNCIL OBJECTIVES	Very unlikely < 10%	Unlikely 10% - 30%	Possible 30% - 50%	Likely 50% - 70%	Very likely > 70%
Severe	Finance System	Beaulieu Station NE Bypass Digital Strategy Info Governance	Cyber H&S		
Major		Financial position	Emergency Planning Fraud	Control Environment Homelessness	
Moderate		Cultural Change	Safeguarding Business Continuity Waterside Procurement	'No deal' UK Exit	
Minor					

LIKELIHOOD OF OCCURRENCE OVER LIFE OF COUNCIL OBJECTIVES (UP TO 3 YEARS)

Appendix 2 – Principal Risk Report as at 31 August 2019 – Executive Summary

Key to Risk Heat Map – Impact ratings

	FINANCIAL	OPERATIONS	PEOPLE	REPUTATION	LEGAL & REGULATORY	PROJECTS	AUDIT
SEVERE	Severe financial loss (>£1 million *)	Cessation of core activities.	Life-threatening or multiple serious injuries (to staff or service users) or prolonged work place stress. Severe impact on morale and service performance. Mass strike actions etc.	Critical impact on the reputation or brand of the organisation which could threaten future viability. Intense political and media scrutiny i.e. national front-page headlines, TV.	Possible criminal, or high-profile civil action against the Council, Members or officers. Statutory intervention triggered with impact across the whole Council. Critical breach in laws and regulations that could result in severe fines or consequences.	Failure of major projects and/or politically unacceptable increase on project budget/cost. Elected Members are required to intervene.	Critical Priority
MAJOR	Major financial loss. Service budgets exceeded (£200k to £1 million*)	Major disruption of core activities. Some services compromised. Management Team action required to overcome medium-term difficulties.	Serious injuries or stressful experience (for staff member or service user) requiring medical attention/ many workdays lost. Major impact on morale and performance of staff.	Major impact on the reputation or brand of the organisation. Unfavourable media coverage. Noticeable impact on public opinion.	Major breach in laws and regulations resulting in major fines and consequences. Scrutiny required by external agencies.	Key targets missed. Major increase on project budget/ cost. Major reduction to project scope or quality.	High Priority
MODERATE	Moderate financial loss. Handled within the team (£50k to £200k*)	Significant short-term disruption of non-core activities. Standing Orders occasionally not complied with, or services do not fully meet needs. Service Manager action will be required.	Injuries (to staff member or service user) or stress levels requiring some medical treatment, potentially some work days lost. Some impact on morale and performance or staff.	Moderate impact on the reputation or brand of the organisation. Limited unfavourable media coverage.	Moderate breach in laws and regulations resulting in fines and consequences. Scrutiny required by internal committees or internal audit to prevent escalation.	Delays may impact project scope or quality (or overall project must be re-scheduled). Small increase on project budget/cost. Handled within the project team.	Medium Priority
MINOR	Minor financial loss (< £50k*)	Minor errors in systems/ operations or processes requiring Service Manager or Team Leader action. Little or no impact on service users.	Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale.	Minor impact on the reputation of the organisation.	Minor breach in laws and regulations with limited consequences.	Minor delay without impact on overall schedule. Minimal effect on project budget/cost or quality.	Low Priority

Note (*): Financial criteria (in particular) are a guide only and may be overridden by other concerns. For example, a significant loss on a small, but high-profile project may be 'minor' financially according to this scale but may have a major reputational impact on the Council. Equally, a reasoned and justifiable £2million overspend on a major capital project may not be considered critical to the Council, provided that the project is successful and is delivered on time. These initial criteria are based on existing financial limits and the level of scrutiny decisions receive (Service Manager, Director, Cabinet, Full Council) and will periodically reviewed to ensure that they are fit for purpose.

Chelmsford City Council

AUDIT AND RISK COMMITTEE **25 September 2019** AGENDA ITEM 8

Subject	TEMPORARY ACCOMMODATION: USE AND COSTS
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Paul Gayler – Strategic Housing Services Manager
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01245 606375

Purpose

This report provides more detailed information, including a report outlining the need, type and varied costs of temporary accommodation used to meet the Council's duties to those who are homeless, having been requested at a previous meeting of this Committee

Recommendation(s)

That the report be noted.

Corporate Implications	
Legal:	The Council has a duty under sections 188 and 193 of the Housing Act 1996 to provide temporary accommodation for certain categories of homeless households. There are also requirements that stipulate what should be considered as suitable when providing accommodation for this purpose.
Financial:	The rising need and cost of temporary accommodation is a priority for the Council, in some cases options for mitigating revenue costs require capital investment which may also be required for tackling the shortfall in the supply of affordable housing.
Personnel:	The Council's Housing Service has been restructured to include posts that are employed for the management of some of the temporary accommodation.
Risk Management:	It is an absolute duty to secure accommodation for some groups who are homeless, all local housing authorities need to be satisfied that they can meet both current and future levels of need.

Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N)	Provision of temporary accommodation needs to anticipate the range of need and characteristics of anyone who may become homeless, including those with protected characteristics.
Health and Safety:	The Council has duties as a landlord for maintaining property and complying with relevant legislation. It is also responsible for promoting this with others who are landlords and their agents.
IT:	The Housing Service has a proprietary IT system for managing agreements and the collection of rent.
Other:	None

Consultees	None

Policies and Strategies

The report takes into account the following policies and strategies of the Council:

Homelessness Review and Strategy – current and draft
Tenancy Strategy 2018
Housing Allocation policy 2018

1. Introduction

1.1 At a previous meeting of this Committee members were interested in understanding more about the purpose of temporary accommodation, the reasons for variation in type and costs and progress in reducing both the level of need and cost.

1.2 To help explain this, a report has been provided as Appendix One, which explains the purpose of temporary accommodation and links to the recent Review of Homelessness, summarising the key factors that have led to the rising cost, use and need of temporary accommodation over the last decade. This provides context to help understand the problems and give an indication of possible solutions that will help provide sustainable and cost-effective options for the future.

2. Report on Temporary Accommodation – Appendix One

2.1 Purpose of temporary accommodation: conventionally this used to be for those households who appeared to be homeless and entitled to assistance but needed immediate accommodation pending further enquiries. Over the last decade, a number of authorities, especially those in areas of higher housing demand and need, have found that the majority now are families who have been assessed, are in need of suitable and settled accommodation but have to wait much longer than before for this to become available. This is certainly the main use and need for temporary accommodation in Chelmsford.

2.2 Type of temporary accommodation: the variation on the type of accommodation is in part historic, reflecting different approaches and initiatives from different periods over the last decade, along with changing local housing market conditions. With the exception of B&B and hostel accommodation, all other accommodation provided is self-contained. Most of the Private Sector Leased (PSL), nightly let, Council-retained and housing association properties have been used previously as general needs family homes.

2.3 Demand for temporary accommodation: this has been the most complex issue to review and understand, identifying the reasons for a change in need that appears to be out of line with national and regional trends outside of London. The pattern is not so different though for many London Boroughs. Analysis of decision making by the Council's Housing Service from 2010 shows that the increase in the number of households being accepted is due to an increase in the proportion of the local population becoming homeless, rather than a higher proportion being rejected as entitled to accommodation in the past. The supply of affordable homes and supported housing to meet this need during the second half of the decade has reduced in some years and only been maintained at other times, failing to keep pace with rising levels of need, making it inevitable that there would be a shortfall with an impact on the need for temporary accommodation. Currently the trend is stabilised and sometimes slightly reduced through prevention of homelessness. Current supply, whether through new development or from within the existing stock does not reflect proportionately the need of those in most urgent housing need, including those in temporary accommodation. This means more families may be at risk of needing temporary accommodation in the future and longer stays for those currently in temporary accommodation.

2.4 Cost: this varies depending on the type of temporary accommodation and as with other types of housing, there is a clear difference between those that are funded through revenue or capital. The cost-efficiency of retained or leased properties, or modular units depends on condition (need for refurbishment) and housing management on-costs including accurate profiling and managing of voids. This is why the costs are roughly comparable with privately owned and managed nightly-lets.

3. Conclusion

3.1 The review concludes with a number of priorities that are currently being worked on, along with links to other similar projects at a county and regional level. implementation of the Homelessness Reduction Act. This will be developed further through the new Homelessness and Rough Sleepers Strategy. These are outlined in Section 5 of Appendix One, ranging from reducing homelessness and the need for temporary accommodation in the first place through to reducing the cost where possible and improving the supply of affordable homes so that they are better aligned with the needs of households who are becoming homeless. The role of the Homelessness Strategy and Affordable Homes Working Groups will be important in achieving some of these aims.

3.2 The main cause and solution is linked to the need for affordable housing in Chelmsford. Prevention of homelessness is the best starting point and good progress is being made with the restructure of the Council's Strategic Housing Service.

3.3 Improving the supply of affordable housing is now being developed by the Affordable Housing Working Group and the need of those in temporary accommodation is an important indication of need and will be an element of this.

3.4 Following a recent internal audit of temporary accommodation, the Housing Service is now working on an action plan based on this, including exploring ways to achieve better value for money and maintain standards.

3.5 Based upon benchmarking, taking into account the difference in levels of homelessness in urban and rural districts, a level of about 200 households in temporary accommodation would be a reasonable comparison and something to work towards as a cost-effective and sustainable supply. Reducing below this level would bring the Council below national levels, improve housing options for local families and further reduce financial costs to the Council.

List of Appendices

Appendix One: Review of Temporary Accommodation

Background Papers

Nil

Temporary Accommodation: Purpose, Type, Demand and Cost

1. Purpose

There are two reasons why temporary accommodation is used for homelessness households:

- Pending investigations – under s188 Housing Act. In cases where a household has nowhere but the Council has insufficient information to make a full decision, temporary accommodation has to be provided if there is good reason to believe the applicant is both homeless and likely to be in 'priority need' for example with dependent children or vulnerable due to illness or fleeing the risk of violence. Most Councils would want to avoid the risk of granting a more secure tenancy in case, having carried out further investigation it is found that the applicant is not entitled to an ongoing duty to be housed.
- Awaiting discharge of the main duty to accommodate – s193 Housing Act. In cases where, after completing investigation, there is a duty to secure settled accommodation (for 12 months or more), it is increasingly likely that there will be a delay between the time when the decision is made and when suitable, settled housing becomes available. Councils have therefore to continue to provide temporary accommodation for this waiting period.

There has always been a need for temporary accommodation pending investigations (s188), often using local hotels and other sources of B&B provision. For some years now, the maximum period a council can place a household in any temporary accommodation that isn't fully self-contained (with no shared facilities) is six weeks after which time they must be moved into more conventional housing but still under a temporary agreement to occupy.

As need for affordable housing began to outstrip supply in many parts of the south and east of England, especially London, a growing proportion of households in temporary accommodation has changed from those who were being investigated under s188 to those who are owed a duty to be housed under s193 but are waiting for a suitable offer. In Chelmsford and many other districts where there is a significant number of households in temporary accommodation, it is this group that is the majority. In smaller and often more rural areas, the majority may still be households in B&B under s188.

The duty to provide temporary accommodation is absolute and can not be offset against issues such as not having anything available locally (so a placement may have to be found outside of the district), or the cost being more than the applicant can afford (so the council may have to contribute towards the cost).

From April 2018, the Homelessness Reduction Act requires all local housing authorities to actively work to prevent homelessness (help people retain their accommodation) or relieve homelessness (by helping them find alternative accommodation) before considering whether or not they have a main duty to accommodate under s193. The more cases of homelessness that can be prevented or relieved, the fewer that need temporary accommodation. The Council's Housing Service has been able to improve both levels of prevention and relief of homelessness over this period.

2. Type of Temporary Accommodation

The type of properties and way they are managed will reflect a combination of local housing market conditions in an area, the approach that the local authority in that area has taken to meeting this need and whether or not the council has its own housing stock. For example, Chelmsford is a good example of mixed provision, ranging from use of properties owned by the Council, through other properties provided by housing associations, to privately owned and managed housing stock.

In all cases, there will be either a licence agreement or similar, rather than an assured short-hold tenancy agreement, with the ability to end at short notice if for example there is no continuing duty to accommodate or the household needs to move on to accept an offer under s193 of settled accommodation.

The fact that temporary accommodation has a much higher turnover means that there are more frequent breaks in occupation, void periods, loss of income and other risks for providers so this is often offset by a higher charge. Six months in temporary accommodation will often be more expensive than the cost of renting a comparable property under a conventional tenancy agreement.

Temporary accommodation used by Chelmsford City Council (July 2019) includes:

B&B – conventional single rooms with shared facilities, provided by private providers, some specialising in providing temporary accommodation for households referred by local housing authorities and other organisations such as social care. This can only be for up to six weeks and would only be used for households with children for a very short period if at all. Currently 6 providers.

Nightly Lets – these are self-contained, privately owned and rented properties, let through local agents who specialise in meeting the need for temporary accommodation in response to the six-week limit for B&B that was introduced a few years ago. Currently 92 properties.

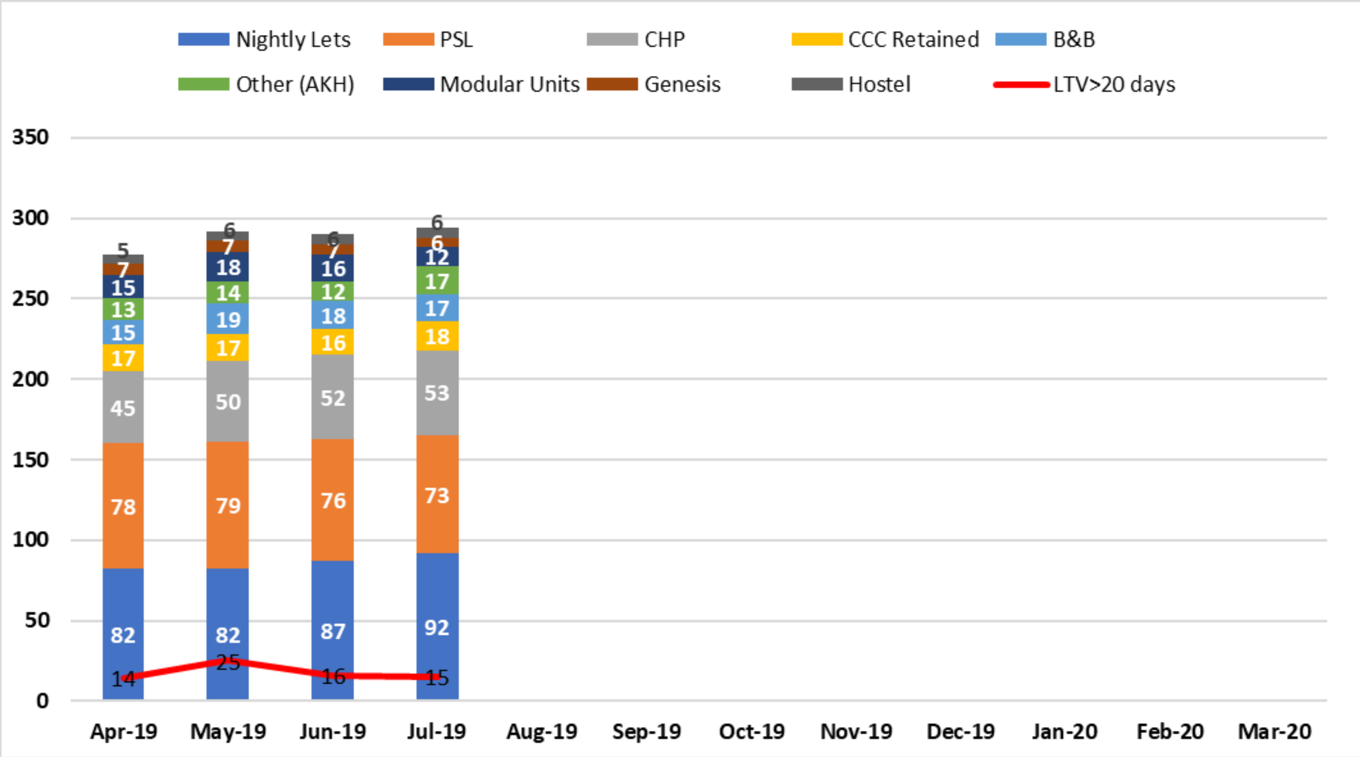
PSL (Private Sector Leased) – these are privately owned properties, leased by the Council under the Homes 2 Lease scheme, rented mainly to those owed a duty under s193 and managed under agreement by CHP. There are also 7 PSL homes leased and managed by Notting Hill Genesis. Currently 87 properties in use.

Council retained properties – including modular units, properties which are owned by the Council, also managed under agreement by CHP but as with the PSL homes, the rent accounts are managed by the Council. 36 properties.

Registered Provider (housing association) properties – these are properties which local housing associations (CHP and Peabody) have agreed to make available as temporary accommodation for the Council to nominate households to. 70 properties.

Hostel – this is a 6 bedroom property owned and managed by the Council with shared facilities.

Table 1: Types of Temporary Accommodation in Use



3. Demand for Temporary Accommodation.

The Council's Homelessness Review (2018/19) shows there to be both a higher than average level of households accepted as homeless and use of temporary accommodation, as shown in the Tables 2 and 3 below. Not surprisingly the increase in one reflects the increase in the other, although when comparing other districts this is not always the case and the rise both regionally and nationally in the use of temporary accommodation has risen far more than levels of homelessness.

Table 2: Proportion of Households in Chelmsford in Temporary Accommodation

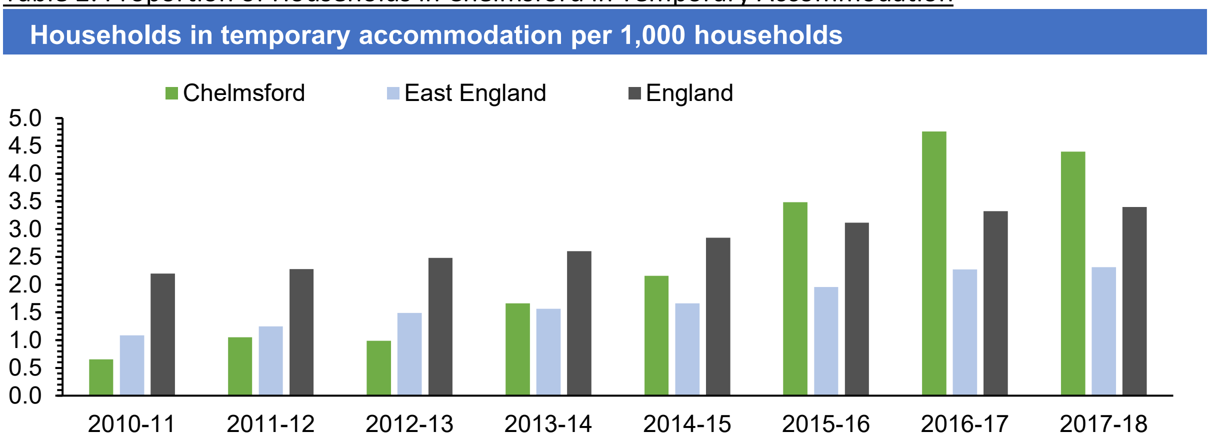
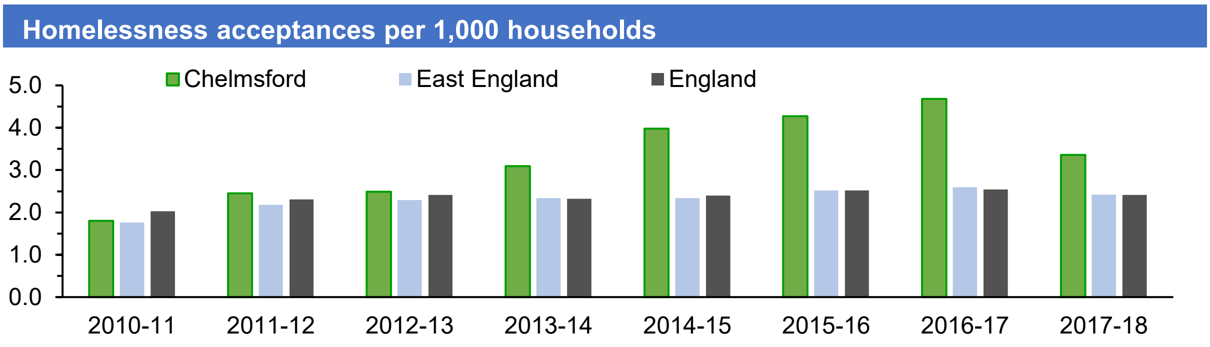
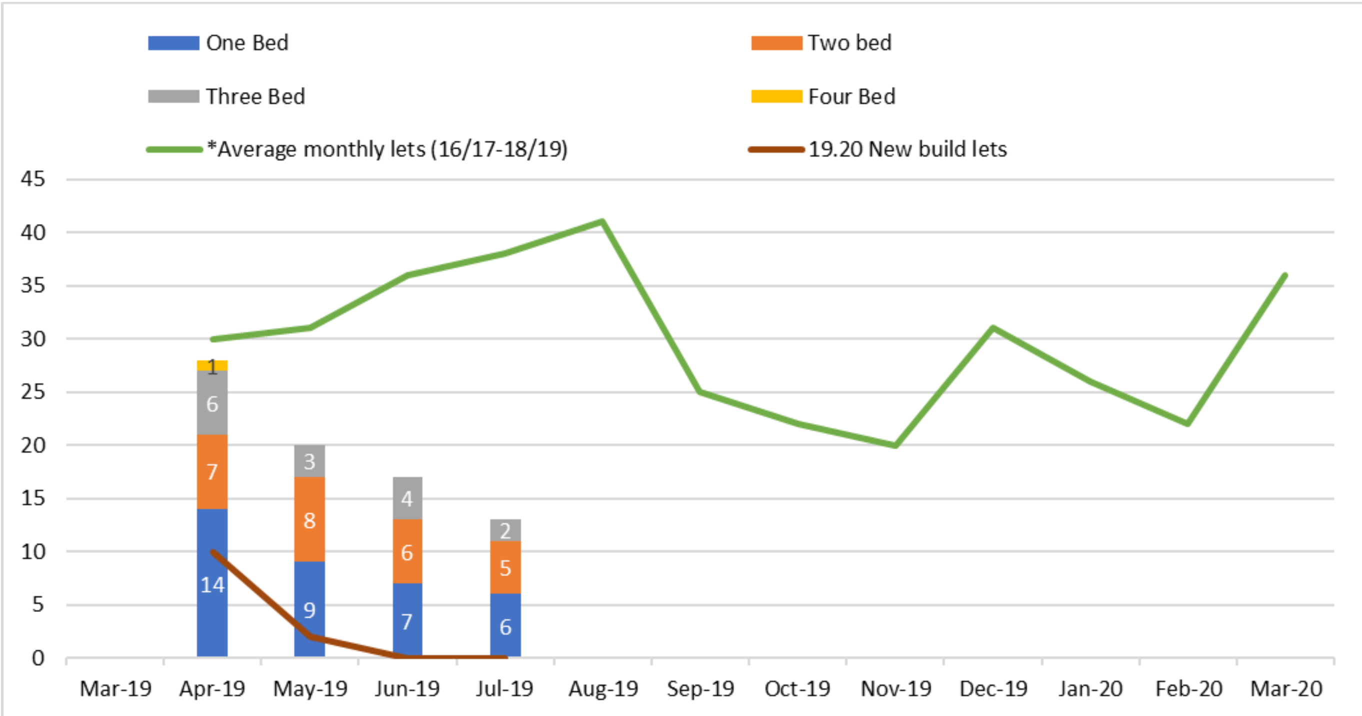


Table 3: Proportion of Households Accepted as Homeless in Chelmsford



This change for Chelmsford began in 2014, possibly due to a combination of factors including a sudden reduction of 25% in the number of homes available to let through the Housing Register, from an average of around 400 homes to 283 in 2015/16. Although supply has improved in following years it is still below the average level from the start of the decade. Table 4 below shows very clearly how this remains an issue.

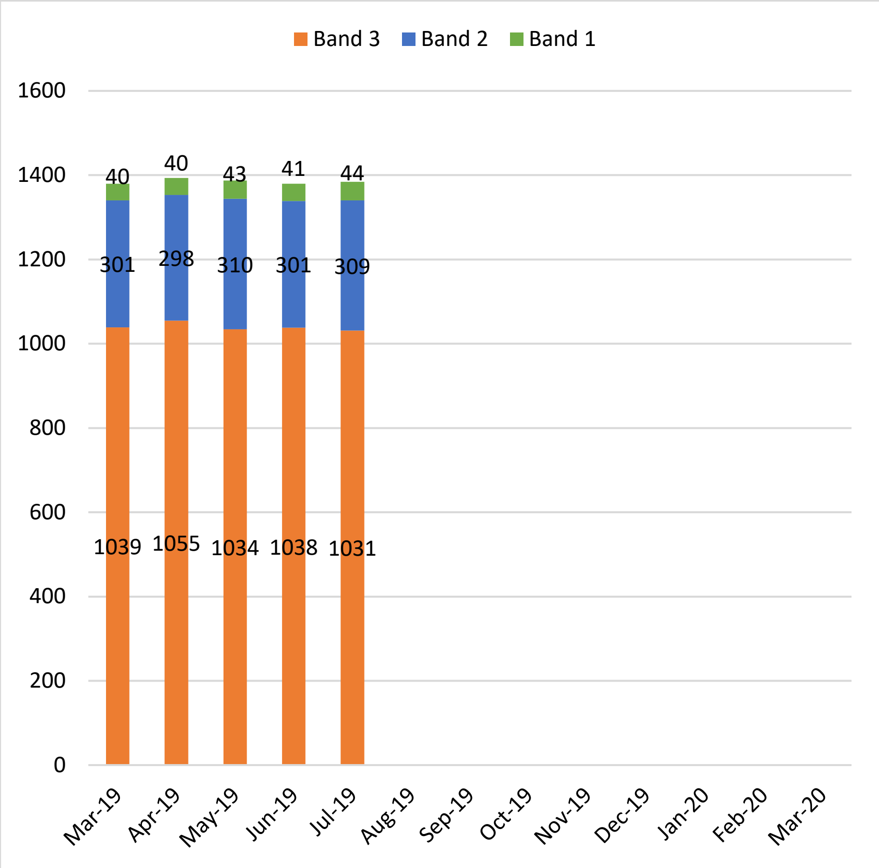
Table 4: Supply of Homes Through the Housing Register Q1 2019/20



*Note this does not include lettings of sheltered or age-restricted homes which are rarely suitable for meeting the need of those who are homeless or in temporary accommodation.

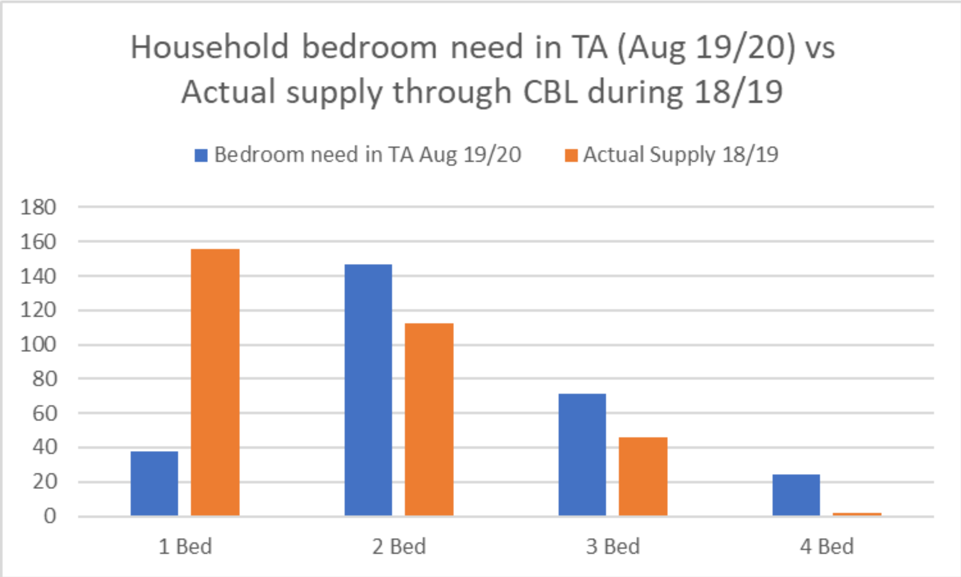
The supply of homes, both from within existing stock and as new-build, broadly reflects the overall need for housing according to the Council's Housing Register. The Housing Register is based upon a much wider group of households, placed into 'bands' according to the level of housing need. The table below shows the number of applicants in bands 1 to 3, Band 1 being those who are looking to downsize (and free up a larger home), Band 2 will be the majority of those who are homeless including those in temporary accommodation, and Band 3 will mainly be those who are housed but living in homes that do not meet their need, for example because they are over-crowded. Taking into account the average number of lettings is 300 to 350 a year, Table 5 below shows that almost all general needs lettings are required to meet the housing need of those in Band 2 who are homeless.

Table 5: Housing Register Applicants Bands 1 to 3 (Jul 19)



Households in temporary accommodation vary in size and other variations of housing need, such as the requirement for level-access or adaptations. The majority of homes becoming available through the Housing Register are smaller properties, one- and then two-bedroom. This supply may broadly reflect the overall housing need of all Housing Register applicants including older people and age-restricted accommodation but it does not reflect very well what is required to meet the most urgent need. Those who are homeless, in temporary accommodation and in need of a one-bedroom property may find that they have their need for housing met within the year but for all other households in temporary accommodation there is a shortfall between need and supply, which becomes proportionately greater the larger the household, with 24 households in June 2019 requiring a four-bedroom home and only three to four properties of this size becoming available to let each year.

Table 6: Temporary Accommodation Household Size Compared with Supply From Housing Register / Choice Based Lettings (CBL)



Pressure on the need for housing from those in the highest Bands means that the supply for those who are overcrowded becomes very limited and we believe that this explains the reason for a slight but steady reduction in supply from the existing stock as families are less able to move and the 'churn' from what should be the main supply of affordable homes slows down. Unfortunately, the higher proportion of smaller properties may help meet the need of some but is quite ineffective in stimulating this turnover.

Over the last decade there has also been a reduction in the level of supported housing that the Council can access, particularly for those who become homeless because of domestic abuse (one the main causes of homelessness in Chelmsford), young people and those who need low-level support to help manage mental health. Roughly 20% (50 to 60 households) of those in temporary accommodation would be suitable and may need supported accommodation which is no longer available.

The other change over this period has been the increase in the supply and cost of renting from private landlords. Until about five or six years ago it was quite common for households at risk of becoming homeless to be helped by supporting them to find privately rented accommodation, this is still possible for some who are working albeit with some financial assistance but is now extremely difficult for any family that is on a very low income or reliant of benefits. To compound this, the termination of private tenancies has now become the main cause of homelessness in Chelmsford, so what was once a source of supply has now become a main cause of need.

The main reason for the increase in the number of cases accepted as homeless from 2013/14 onwards compared to previous years is due to the increase in households presenting as homeless. This increase seems to have been triggered by a combination of rising homelessness (affordability) and reducing supply from the private due to cost and the social sector due to an imbalance and reduced churn.

The introduction of the Homelessness Reduction Act and the restructuring of the Council's Housing Service in response to this has helped reverse this trend, with over 90 cases of homelessness prevented or relieved in the first quarter of this year compared to less than 20 the year before. With time in temporary accommodation being more than a year for most households, it inevitably takes longer for this to be reflected in the overall number of households in temporary accommodation and is also dependent on supply. Even with this higher level of prevention of homelessness, the reduction in the need for temporary accommodation will at best be gradual and remain vulnerable to other factors until the problem of supply is resolved.

Table 7: Prevention of Homelessness 2018/19

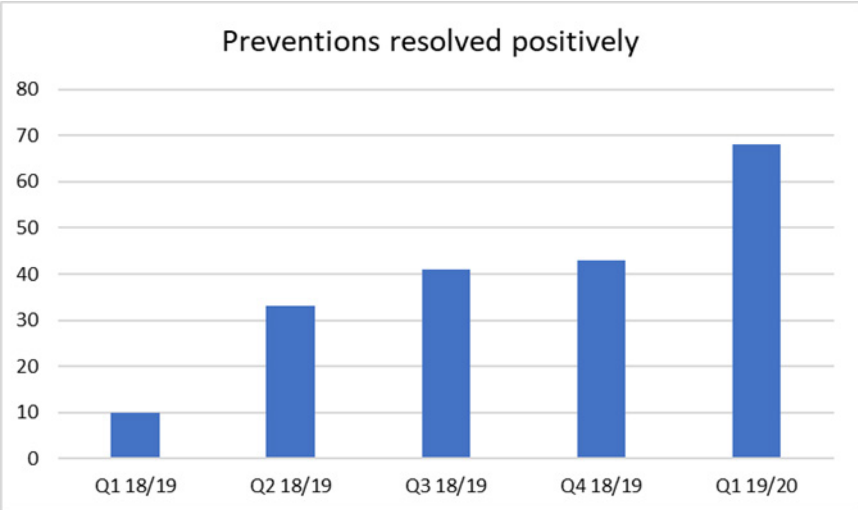
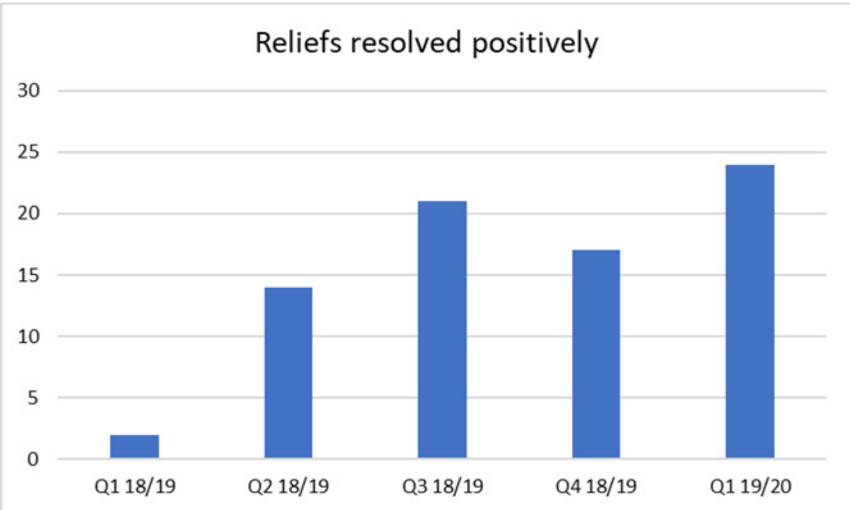


Table 8: Relief of Homelessness 2018/19



During the first quarter 2019/20 7 households were found not to be in priority need, 5 were intentionally homeless, 4 were not homeless and 1 lost contact so no continuing duty existed.

4. Cost

Each type of temporary accommodation has its own cost, reflecting the differing arrangements for management and maintenance.

Those that are privately owned and managed will be based to some extent on local open-market rent levels, as the majority of those in housing need are on low incomes and will only be able to pay up to the level they can claim as Housing Benefit / Local Housing Allowance, there will often be a shortfall between the rent that has to be paid to the provider and what can be recovered from the tenant. The Council also incurs a subsidy loss from the amount paid as Housing Benefit and what can be recovered from central government. Both the cost and level of temporary accommodation therefore creates a 'subsidy loss' to the Council.

Table 9: Cost of Temporary Accommodation by Type

Type of Temporary Accommodation	Monthly Cost	Comment
B&B	£644.11	This is the most expensive form of temporary accommodation, especially taking into account the majority of placements will be for single people / couples.
Nightly Lets	£479.55	This is the second most expensive option for days used but does not incur any cost to the Council when not being used, nor does the Council have any responsibility for repairs or voids.
Anne Knight House	£562.78	This includes a charge for providing support.
Retained	(£24.99) two-bed (137.99) three-bed	Income will vary depending on repairs and voids which have a greater impact on small sample
PSL	£546.60 one-bed £519.75 two-bed £847.85 three-bed £1,129.13 four-bed	This is the total cost including management fee, voids, and repairs. Where these can be managed, the cost may be less than some nightly lets
Modular units	(£85.32) one-bed (£161.79) two-bed	Note that there is no indication yet as to likely future repair and maintenance costs.
RP (CHP)	£54.45	

There is a clear distinction between those that are funded through revenue and those (retained and modular units) that have been subsidised through capital.

Following the internal audit of the Housing Service's approach to securing and managing temporary accommodation, further improvements are planned for the procurement of nightly lets and B&B. The recent renewed contract with CHP for the management of PSL, retained and modular unit properties has also led to some improvements and cost reductions. The Service also constantly monitors length of stay and monthly costs on a case-by-case basis and has redeployed staff to make further improvements.

5. Priorities

Addressing the problems of risk of homelessness and the lack of supply is the only way to deliver a sustainable solution that will reduce the use of temporary accommodation.

Reduce use
Continue to increase prevention and relief of homelessness – as this will help reduce the number of households needing temporary accommodation.

Increase the provision of family-sized affordable homes – both as new build in addition to supply delivered through the Local Plan and also through working with local housing associations to see if there are opportunities to help improve supply from within the existing stock.

Identify opportunities for increasing the provision of supported housing – especially for those groups for whom the only immediate option at the moment is temporary accommodation.

Identify options and opportunities to help households move on from temporary accommodation in addition to existing supply of homes through the Housing Register – to reduce levels of occupancy and develop other options.

In the shorter term, steps can also be taken to reduce the cost.

Reduce cost
Introduce procurement based on existing SLAs with private providers to see if possible to achieve better value for money – potentially reducing costs.

Consult with providers on alternative options for providing more cost-effective temporary accommodation – to reduce cost

Continue to monitor and improve the management costs of providing temporary accommodation.

AUDIT AND RISK COMMITTEE
25th September 2019

AGENDA ITEM 9

Subject	FOLLOW UP OF INTERNAL AUDIT EXTERNAL QUALITY ASSESSMENT
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Elizabeth Brooks, Audit Services Manager
elizabeth.brooks@chelmsford.gov.uk

Purpose

This report summarises the actions taken by Internal Audit since its External Quality Assessment originally undertaken by Gateway Assurance in July 2018.

Recommendation(s)

1. Audit & Risk Committee are requested to note the content of the report.

Corporate Implications

Legal:	The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015).
Financial:	n/a
Personnel:	n/a
Risk Management:	The internal audit activity adds value to the organisation and its stakeholders when it considers strategies, objectives and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.
Equalities and Diversity: (For new or revised policies or procedures has an equalities impact assessment been carried out? Y/N)	n/a

Health and Safety:	n/a
IT:	n/a
Other:	n/a

Consultees	Risk Manager; Management Team

Policies and Strategies

The report takes into account the following policies and strategies of the Council: n/a

1. Introduction

1.1 The Public Sector Internal Audit Standards (PSIAS) requires an External Quality Assessment (EQA) to be carried out at least once every five years by a qualified independent assessor from outside the organisation.

1.2 The aim of the EQA is not just to measure compliance with the PSIAS but also to drive continuous improvement, value and effectiveness of internal audit.

1.3 Chelmsford City Council received an EQA carried out by Gateway Assurance in July 2018. The outcome was presented to Audit Committee in September 2018.

1.4 It was confirmed that Internal Audit complies with the expectations of PSIAS, however, further recommendations to drive continuous improvement, value and effectiveness of internal audit were also provided by the assessor.

1.5 Although there is no specific requirement by the Standards to formally carry out a follow up of these recommendations, it was considered to be good practice to carry out a self-assessment one year on, to demonstrate the actions taken by Internal Audit since the EQA.

2. Conclusion

2.1 The outcome of this self-assessment is attached for Audit and Risk Committee.

2.2 Thirteen recommendations (one high, six medium and six low priority) were originally made. Of these, five (two medium, three low priority) were not agreed by the Audit Services Manager.

2.3 Of the remaining eight recommendations, five (one high, two medium and three low priority) have been implemented, one medium priority has been partially implemented, and the remaining medium priority has been superseded.

2.4 The partially implemented recommendation relates to aligning the audit plan to the Council's Corporate Plan and Principal Risk Register. Due to the timing of the issue of the Corporate Plan and the Principal Risk Register, it was not possible to align the 2019/20 audit plan to these key concepts. However, for 2020/21 Audit planning, it will be possible to explicitly align the plan to both documents. Assurance Mapping is still a long-term goal and is dependent on the embedding of the risk framework going forward.

List of Appendices

- EQA Follow Up Self-Assessment

Background Papers

Nil

EQA Follow Up Self-Assessment– August 2019
Report by Elizabeth Brooks, Audit Services Manager

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
1	**Annual Report** The CAE produces an Annual Internal Audit report which summarises the year's work and includes analysis of performance. The opinion should reflect a format that takes account of all information and sources of assurance available to the CAE and therefore: '*must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board'.* The Internal Audit Charter reflects this guidance and states in section 3 (p3) that: *"Deliver an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control."* The CAE Annual Audit Report qualifies this opinion by referring to "*on balance, whilst these factors must be*	The internal audit plan should be constructed to provide an explicit link to risk and the other assurances available, so that the CAE is able to provide wider assurance to the Council in support of the governance statement. Best practice is that the Annual Report should also contain reference to all significant risks (standard 2060) and therefore co-ordination with and an understanding of issues being raised by the range of assurance sources available is essential in order to meet this broader scope. An example of the words which may be used has been provided.	●	**Implemented** The annual opinion provided in the Internal Audit Annual Report 2018/19 was based on a full year risk-based and PSIAS compliant audit delivery and service. Therefore, it was possible to have confidence in providing the opinion, the wording of which met the example provided by the assessor.

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
	taken in to account when placing reliance on the opinion below, based solely on the audit work undertaken for the year ended 31st March 2018, it is the Chief Assurance Executive's opinion that the adequacy and effectiveness of the Council's arrangements is …"			
2	**Internal Audit Planning** Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends at present on an analytical assessment devised by internal audit with inclusion of a factor relating to management concern; rather than reflecting wider risk issues at a strategic and operational level being faced by the Council and documented within its risk management process. The Council's risk management system is currently being refined alongside development of the new Corporate Plan with a view to establishing a more comprehensive itemisation of risks at both strategic and operational levels with the aim of embedding an appropriate risk culture. The team should eventually aim for there to be a direct and identified link between the risk management system, the internal audit plan content discussed with Management and the Audit Committee and as a result the	a) Audit Plans should be constructed through using an audit needs assessment process which achieves the objectives of the service as set out in the Internal Audit Charter. The IA team are aware that the audit planning process should be designed to reflect the assurance needs of the Council through transparent alignment with the Council wide approach to risk management. The formation of a direct link with the Council's risk register and the key mitigating controls, supported by documented discussions with Chief Officers and other managers would provide an effective risk-based basis for future internal audit plans and create increased understanding and ability of members of the Audit Committee to contribute to the assurance agenda. It would be beneficial to secure early improvements in the maturity of the	●	**Partially Implemented** The Council has been undertaking a risk project since January 2019, with one of its aims being the creation of a set of Principal Risks for the Council. Due to the timing of the Corporate Plan and the Principal Risk Register, it was not possible to align the 2019/20 audit plan to these key concepts, however, as with the 2018/19 audit plan, the 2019/20 audit plan was based on a detailed risk assessment which provided consistent and robust scoring, and transparently shows that the highest risk areas were included in the plan (or provides reasons why they were not). Whilst additional risk information would have been helpful in this process (see below), this is still a thorough, independent and objective and evidence-based risk-based approach to audit planning, and it was agreed with Senior Managers, Management Team, Chief Executive, Chair of Audit Committee and the Risk Team, that it covered the highest risks facing the organisation For 2020/21 Audit planning, it will be possible to explicitly align the plan to the Corporate Plan and Principal Risk Register. Individual audit scopes continue to be discussed with Senior Managers to ensure that the most important risks are being

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
	risk-based reasoning for inclusion of the assignment in the audit plan. The plan approved should focus on the perceived needs of all parties for independent assurance regarding key policies, procedures, controls and assurances upon which the Council relies. In turn this in time should drive preparation of the terms of reference for each assignment which currently provide for inclusion of this analysis. The focus for assignments can therefore be shown to directly relate to the value of the 'control risk' identified by management and as a result an opinion based upon the robustness of the controls and assurances available to management and the Council can be provided.	Council's risk management frameworks in order to support this initiative. b) The internal audit planning process should identify and document other sources of assurance that are available and upon which the Council can place reliance, and which may if available be formally recorded within the annual CAE report and subsequently the Governance Statement.		covered by the audit review. Assurance Mapping is still a long-term goal and is dependent on the embedding of the risk framework going forward.
3.	**Audit Manual** The internal audit manual represents a comprehensive record of the practices to be followed by internal audit staff and aligns with the PSIAS. The significant emphasis of the PSIAS reflects the use of a risk-based approach to internal audit work and in this respect, it is felt that greater alignment with the risk management policies and appetite of the Council would be beneficial.	The internal audit manual should eventually be updated to reflect greater alignment with the risk management policies of the Council. Consideration should be given to amending the internal audit methodology by: • Increasing the focus of each audit through identifying and agreeing with management the key risks to which the area under review is exposed and which expose the Council to significant risk as defined within the Council risk definitions; these should	●	**Implemented** Following the development of the Council's Risk Management Framework during 2019, it is now possible to align the work of Internal Audit and Risk, and this is now reflected in the Internal Audit Methodology. Our protocol now reflects the engagement of Risk at both terms of reference and reporting stage, to ensure that identified key risks are included in our scope and emerging risks from audit findings are captured by the risk framework and provide independent assurance on control activities being undertaken. There is also clear alignment between the Council's risk

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
		be those reflected in the Councils risk management process. • Ultimately identifying, evaluating and testing only the key controls and sources of assurance that demonstrate that each residual risk is as stated within the Council risk management process.		definitions and internal audit risk ratings. Demonstrating residual risk will occur in due course as the risk framework embeds in the Council and the risk culture matures. At this stage, our reporting template will be updated to compare our assessment of each risk reviewed against the assessment in the Council's risk registers.
4.	**Supervision** Demonstration of effective supervision is necessary in order to both ensure the quality of the review and provide appropriate instruction to staff regarding the delivery of the internal audit methodology. Whilst it is recognised that the staff do consult each other regarding progress on work, some of which is evidenced within email trails - a common, formal and consistent process should exist in order to demonstrate supervision as each audit progresses.	The service should provide a documented trail of supervision at key stages throughout the audit process and cross reference to discussions and correspondence by email. It is thought that a record of key interventions by the nominated supervisor could be included as review points within the Risk Matrix template as a diary of progress.	●	**Original Recommendation Not Agreed** Supervision is already documented at key points – through review of TOR, RCM and draft report. All email conversations are filed to provide a clear audit trail of these discussions. Given it is a such a small team and conversations regarding audits are continuous, anything over and above this would not be proportionate.
5.	**Audit Opinions - Overall opinions** These are currently based upon the cumulative assessment of the value of the recommendations made and represent a logical means of arriving at an overall opinion. The process is transparent, ensures continuity and reflects good practice within	The grading of reports should be based upon the level of risk exposure identified within the review and reflect the highest ranked recommendation being reported upon. Best practice would reflect:	●	**Superseded** Our original response in 2018 was that the finding states our current assessment approach is logical, transparent and reflects good practice, and therefore, making assurance levels less refined/broader in definition undermines the process. However, it was agreed that the proposed wording for

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
	the sector. Despite this we would make the following observations: 1.No system can be totally flawed, and a rating of limited assurance is regarded as a suitable indication of the risk. 2.The overall opinion would be best aligned with scoring in the Council risk management system. Where, if a catastrophic issue is identified as per the Council definitions then a limited assurance report should be automatic. Wider best practice provides for three levels of opinion being substantial, adequate (reasonable) or limited as this provides a clear indication to stakeholders of the level of assurance that can be gained. This opinion can then be aligned directly with the nature of the risks being identified and the grading of those recommendations being made.	• Where a fundamental risk (red) is identified that limited assurance is given. • Where significant risks (amber) are identified then adequate assurance is given, and • Where 'merits attention' (green) risks are identified these are not referred to in the report and substantial assurance is given.		recommendation levels: fundamental, significant and merits attention would be considered for audit reports in 2019/20. In practice, the change of wording was found to negatively alter the tone of the reports and was not considered to be conducive to our new 'trusted advisor' audit approach. Research into audit reports across other Councils and sectors found critical, high, medium and low is the preferred and predominantly used categorisation. In addition, the use of high, medium and low now fully aligns with the Council's risk management approach. Therefore, following discussion with key officers, Chief Executive and the Chair of the Audit Committee, it has been agreed that the categories will remain as critical, high, medium and low. A key which explains these categories is attached to every audit report.
6.	**Audit Opinions - Recommendations** These are currently developed and assessed by each internal auditor, prior to release of the draft report against four levels of classification –critical, high, medium and low. (page 29 of IAM) These definitions differ to the risk gradings shown in the Council Risk Management system.	a) Risk definitions used by internal audit should be developed to reflect the risk appetite within the Council, and the definitions of impact and likelihood used by the Council within the risk management system. Explanation of the use of these gradings if included in all reports will assist in embedding risk within the Council. It is recognised best practice to use three levels of recommendation with terminology	●	**Implemented** Following the development of the Council's Risk Management Framework during 2019, it is now possible to align the risk definitions used by Internal Audit and the Council's proposed risk appetite/likelihood and impact and our reports reflect these definitions. Critical, High, Medium and Low have been agreed as the common methodology to suit all purposes. The original recommendation relating to removing the 'low'

<table>
<tr><th>Ref</th><th>EQA Matters Arising</th><th>EQA Assessor Recommendations</th><th>EQA Assessor Grading</th><th>Follow Up Status – August 2019
(Self-Assessment by Audit Services Manager)</th></tr>
<tr><td></td><td></td><td>such as High, Medium and Low or Fundamental, Significant and Merits Attention and support this with RAG rated colours linked to the Council's risk management system. There may however be a need to agree common terminology that suits all purposes.

Although we commend the approach used by internal audit to grade recommendations, the use of four levels tends to overcomplicate the process.

b) Consideration should be given to removing the need to include 'low' rated recommendations in formal audit reports; alternatively reflecting on these in discussion at the closure meeting and confirmed in a side letter or email to the manager.</td><td></td><td>rated recommendations was not agreed as trivial/advisory points are already excluded from reports and communicated verbally at exit meetings. Carefully selected low priority recommendations are only included where felt to add value. They also provide balance to a report. Focus 'on what really matters' is also reflected at follow up stage.</td></tr>
<tr><td>7.</td><td>Assignment Planning

Terms of reference state a date for intended completion of the assignment. Whilst it is recognised that there are occasions when auditee/auditor availability prevents early closure, setting of maximum time frames by which draft and final reports should be completed assists in timely completion of reports to meet management expectations.

The current position in terms of completion of audits is indicative of the staffing issues that have been faced with slow progress to-</td><td>a) Audits should be planned and supervised within an agreed timeframe that is specific to each assignment, in order to ensure that recommendations are timely.
b) Reporting deadlines should be imposed for the time allowed following completion of fieldwork for draft and final reports to be received by management.
c) The CAE should consider how to address the issues that emerge from the delayed start to 2018/19 audits and delays in appointing a third member of staff in order</td><td>●</td><td>Original Recommendation Not Agreed

Recommendation a) and b) were already in place and our KPI Targets for delivery in 2018/19 were met, with one exception (not due to staffing).

<table><tr><th>KPI</th><th>Target</th><th>Result 2018/19</th><th>Comments</th></tr><tr><td>Audit Plan delivered to Draft Report</td><td>90%</td><td>94%</td><td>Internal Audit missed the 100% target by one final report which was</td></tr></table></td></tr>
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Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
	date on the 2018/19 plan, as time has needed to be spent completing 2017/18 reviews which have been delayed due to staff absence and discussion with management.	to complete sufficient assignments in 2018/19 upon which to base an annual opinion. This may involve prioritisation of reviews that focus on key risks to which the Council recognises that it is exposed.		Stage by 31st March: | | | not issued by 30th April due to wider discussion required to agree actions. Audit Plan delivered to final report stage by 30th April: | 100% | 94% |
8	**Resources** The CAE was appointed in November 2017 and has undertaken an initial Quality Assurance Improvement (QAIP) exercise; which has established a series of KPI's against which the internal audit team's performance will be assessed in future. The Annual CAE Internal Audit report for 2017/18 provides an analysis of how future reporting will be structured. The essential features of QAIP reflect both a historic perspective and a forward-thinking action list to address issues that have been identified. A key issue facing the internal audit service at present is the recruitment of a new team member which if not resolved will have significant implications for delivery of the internal audit plan as currently approved.	The External Quality Assessment will provide a position statement regarding the current strength of the internal audit team arising from which an action plan should be developed to monitor progress against intended development needs.		**Implemented** The new audit team has been in place since January 2019 and development needs are monitored through 1:1s and team meetings, with training available as requested.
9	**Training matrix** The CAE has a training matrix listing the experience and qualifications held by team members. The analysis is at present based	The training matrix should be supported by formal evidence or justifications for the assessment of competency and used to		**Original Recommendation Not Agreed** A robust recruitment procedure which obtains proof of essential qualifications and formally tests competence through interview questions and a formal test, as well as

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
	on personal assessment rather than evidenced by details regarding where experience has been gained and updated in view of changing circumstances such as GDPR.	inform future QAIP assessments and training needs.		management supervision, which this would duplicate. Even with a full team, this would not feel proportionate to the risk, given the wide range of other mitigating actions
10.	**Audit Management** The internal audit plan for 2018/19 includes 140 days (out of 635) as management time. It is understood that this includes time spent by the CAE on supervision, review and authorisation of reports.	Time spent on assignments should be recorded against each audit thereby providing a better indication of the productive time spent on assignments and a fairer indication of both time spent on assurance work as opposed to that relating to on-costs.	●	**Implemented** HIA timesheet demonstrates time spent on direct audit days and indirect audit days.
11.	**Evidence** Some inconsistencies were identified during the file review with regard to the structure of folders and the filing/cross referencing of working papers and evidence. Notwithstanding, this point the extent of documentation which is available to support findings is of a high standard.	As new staff are appointed, Internal Audit staff should be reminded of the approved basis for construction of working files and the cross referencing of supporting documentation as this supports the efficiency of the review and supervision process.	●	**Original Recommendation Not Agreed** The only discrepancy was one additional column which had been inserted to facilitate hyperlinks. The addition of this column does not undermine the fact that working papers are consistent and facilitate transparent review.
12.	**End of fieldwork meetings** The IAM states that an end of fieldwork meeting should be held with clients. –there is no formal template currently used to administer this process. A further meeting is then offered when the draft audit report is issued.	The CAE should consider whether introducing a standard template for management of the end of fieldwork meetings which would record points of discussion and management reactions. An exit meeting template would support and evidence the findings of the audit, act as a basis for supervision at this stage and represent a basis for compilation of the draft reports.	●	**Implemented** An EOF Meeting Template and protocol has now been established as outlined in the methodology.

Ref	EQA Matters Arising	EQA Assessor Recommendations	EQA Assessor Grading	Follow Up Status – August 2019 (Self-Assessment by Audit Services Manager)
13.	**Follow –up of recommendations** The IAM contains instructions regarding follow up on a timely basis and reflects the use of diaries to follow up recommendations when due.	The CAE should consider whether follow up of all recommendations is required as opposed to providing focus on those of a significant nature as they become due.	●	**Original Recommendation Not Agreed** The Audit Service Manager has made a deliberate choice in the new follow up approach to provide a more robust assessment of the Council's management of residual risk.

Chelmsford City Council

AUDIT & RISK COMMITTEE 25th September 2019 AGENDA ITEM 10

Subject	AUDIT & RISK COMMITTEE WORK PROGRAMME
Report by	DIRECTOR OF FINANCIAL SERVICES

Enquiries contact: Elizabeth Brooks, Audit Services Manager

elizabeth.brooks@chelmsford.gov.uk

Purpose

This report updates the rolling programme of work for this Committee.

Recommendation(s)

- That the rolling programme of work for the Committee is agreed.

Corporate Implications	
Legal:	The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015) and supported by: • the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) • updates to the PSIAS in 2016 and 2017 • the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)
Financial:	N/a
Personnel:	N/a
Risk Management:	The role of the Audit & Risk Committee in relation to risk management covers: assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks; keeping up to date with the risk profile and the effectiveness of risk management actions and; monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management.
Equalities and Diversity: (For new or revised policis or procedures has an equalities impact assessment been carried out? Y/N)	N/a
Health and Safety:	N/a

IT:	N/a
Other:	N/a

Consultees	N/a

Policies and Strategies N/a

1. Introduction

1.1 The Audit & Risk Committee works to a standard programme of work, aligned to its Terms of Reference, to ensure that its work is spread evenly across meetings, as far as possible, and to ensure that core reports are produced at the appropriate time within the Council's reporting timetable. The Terms of Reference, as agreed at the meeting of the Committee in June 2019, are attached at Appendix 1 for reference.

1.2 It is also important that Members of the Audit & Risk Committee have the appropriate skills and knowledge to discharge their duties and to support this, the Council provides training on key topics falling within the Committee's Terms of Reference. As recorded in the minutes of the Committee's meeting of 18th June 2019, Members requested a new approach to delivery of this training, with the Committee receiving briefings on specific areas of its work before meetings at which those topics are to be discussed. The Rolling Work Programme shown under section 2 of this report now includes the proposed training sessions for consideration.

2. Rolling Programme of Work

2.1 Many of the reports submitted to this Committee are presented on a cyclical basis and can be timetabled for particular meetings. However, from time to time additional reports are requested which are presented to future meetings. The proposed rolling programme of work for this Committee for the next series of meetings is shown on the following page.

18th December 2019

Training Topic	**Fraud Investigation**
External Audit Annual Audit Letter	BDO
Certification of Claims Returns	
Internal Audit Interim Report 2019/20	Audit Services Manager
Anti-Fraud and Investigations Annual Report 2019	Procurement and Risk Services Manager
Audit & Risk Committee Work Programme	Audit Services Manager

18th March 2020

Training Topic	**Internal Audit Annual Plan**
External Audit Annual Audit Plan 2019/20	BDO
Internal Audit Plan 2020/21	Audit Services Manager
Internal Audit Charter 2020	
Risk Management Update	Procurement and Risk Services Manager
Approval of Accounting Policies	Accountancy Services Manager
Audit & Risk Committee Work Programme	Audit Services Manager

June 2020
(Joint meeting with Governance Committee)

Training Topic	**Annual Governance Statement**
Review of the Local Code of Corporate Governance	Legal and Democratic Services Manager
Annual Governance Statement	Legal and Democratic Services Manager/ Director of Financial Services

(Audit & Risk Committee)

Training Topic	**Internal Audit Opinion**
External Audit Annual Audit Progress Report	BDO
Revenue (Outturn)	Accountancy Services Manager
Capital Monitoring (Outturn)	
Internal Audit Annual Report 2019/20	Audit Services Manager
Audit & Risk Committee Annual Report 2019/20	
Review of the Audit & Risk Committee's Terms of Reference	
Audit & Risk Committee Work Programme	Audit Services Manager

July 2020

External Audit Presentation	**BDO**
Sign-off 2019/20 Accounts	Director of Financial Services
International Standard on Auditing (ISA) 260 - requires the Council's External Auditors to report to those charged with governance those relevant matters arising from the audit prior to issuing the Statement of Accounts	BDO

September 2020

Training Topic	**TBC**
External Audit Annual Audit Letter	BDO
Risk Management Update	Procurement and Risk Services Manager
Audit & Risk Committee Work Programme	Audit Services Manager

2.2 As referred to in paragraph 1.2, the Rolling Programme now contains suggested training topics ahead of each Committee session. Other changes to the Work Programme are the inclusion of an Annual Audit Progress Report, in June, from the Council's external auditor, BDO LLP, and a reduced frequency of revenue and capital monitoring reports to the Committee.

2.3 The first of these changes is in response to the delays experienced during the 2018/19 external audit process and provides the Committee with an opportunity to review the progress of the audit.

2.4 The second change arises from aligning the Committee's work programme more closely with its Terms of Reference and ensuring that there is no duplication between the work of Cabinet, the Audit and Risk Committee and the Overview and Scrutiny Committee. The Committee's Terms of Reference provides in its Statement of Purpose that it "provides independent review of Chelmsford City Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes." Furthermore, the Terms of Reference set out the Committee's duties in relation to financial reporting arrangements, for review of the Annual Statement of Accounts and consideration of the external auditor's report. This element of the Committee's work is covered by the reporting of Revenue and Capital outturn in June and consideration of the Statement of Accounts and external auditor's report in July. It is also supported by the more frequent provision of Risk Management information, which will afford the Committee the ability to request additional, ad hoc reporting where it considers an item is of such risk (whether financial or otherwise) that it requires more in-depth consideration.

2.5 Financial monitoring will continue to be received by Cabinet, who as the Executive function, will be able to agree any actions to control spending in a timely manner; while Overview and Scrutiny Committee are to consider their future work programme at their meeting of 30th September, which is proposed to include mid-year financial monitoring as part of a suite of performance monitoring. These measures enhance the scrutiny of both internal and external financial reporting, whilst allowing the Audit and Risk Committee to focus on delivery of its core objectives.

3 Conclusion

3.1 The Rolling Programme of Work set out in this report reflects the Committee's Terms of Reference while allowing flexibility to focus on high risk areas and the effective management of controls. The effectiveness of the Committee is supported by the rolling training programme which can also be adapted to meet the needs of the Committee. The proposed work programme is recommended for approval.

List of Appendices
Appendix 1 – Terms of Reference

Background Papers
Nil

Audit Committee
Terms of Reference

Statement of Purpose

1. Our Audit Committee is a key component of Chelmsford City Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
2. The purpose of our Audit Committee is to provide independent assurance to the Members (and others charged with governance in Chelmsford City Council e.g. Governance Committee) of the adequacy of the risk management framework and the internal control environment. It provides independent review of Chelmsford City Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees Internal Audit and External Audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, Risk and Control

3. To review the Council's corporate governance arrangements against the 'Good Governance Framework' including the ethical framework and consider the Local Code of Governance.
4. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
5. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
6. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
7. To monitor the effective development and operation of risk management in the Council.
8. To monitor progress in addressing risk-related issues reported to the Audit Committee.
9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
10. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.

11. To monitor the counter-fraud strategy, actions and resources.
12. To review the governance and assurance arrangements for significant partnerships or collaborations

Internal Audit

13. To approve the Internal Audit Charter.
14. To review proposals made in relation to the appointment of external providers of Internal Audit services and to make recommendations.
15. To approve the risk-based Internal Audit plan, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
16. To approve significant interim changes to the risk-based Internal Audit plan and resource requirements.
17. To make appropriate enquiries of both management and the Audit Services Manager to determine if there are any inappropriate scope or resource limitations.
18. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Audit Services Manager. To approve and periodically review safeguards to limit such impairments.
19. To consider reports from the Audit Services Manager on Internal Audit's performance during the year, including the performance of external providers of Internal Audit services. These will include:
    a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work
    b) Regular reports on the results of the Quality Assurance and Improvement Programme
    c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether non-conformance is significant enough that it must be included in the Annual Governance Statement.
20. To consider the Audit Services Manager's annual report:
    a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
    b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the Audit Committee in reviewing the Annual Governance Statement.
21. To consider summaries of specific Internal Audit reports as requested.
22. To receive reports outlining the action taken where the Audit Services Manager has concluded that management has accepted a level of risk that may be

unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

23. To contribute to the Quality Assurance and Improvement Programme and in particular to the external quality assessment of Internal Audit that takes place at least once every five years.
24. To consider a report on the effectiveness of Internal Audit to support the Annual Governance Statement as required to do so by the Account and Audit Regulations (Regulation 6) which requires an annual review of the effectiveness of the Council's system of Internal Audit. The findings of the review of the effectiveness must be considered as part of the Audit Committee's view of the system of internal control.
25. To provide free and unfettered access to the Audit Committee Chair for the Audit Services Manager, including the opportunity for a private meeting with the Audit Committee.

External Audit

26. To support the independence of External Audit through consideration of the External Auditor's annual assessment of its independence and review of any issues raised by the PSAA.
27. To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
28. To consider specific reports as agreed with the External Auditor
29. To comment on the scope and depth of External Audit work and to ensure it gives value for money
30. To commission work from Internal and External Audit.
31. To advise and recommend on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

Financial Reporting

32. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Council.
33. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability Arrangements

34. To report to those charged with governance on the Audit Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangement, and internal and External Audit functions.

35. To report to Full Council on a regular basis the Audit Committee's performance in relation to the terms of reference and effectiveness of the Audit Committee in meeting its purpose.
36. To publish an annual report on the work of the Audit Committee.